



# PEFA

## Public Expenditure and Financial Accountability

### Federal Democratic Republic of Ethiopia (The City of Addis Ababa)



### Performance Assessment Report

Final Report

December 2, 2019

Funded by



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Public Expenditure and Financial Accountability (PEFA) Assessment

Federal Democratic Republic of Ethiopia  
(The City of Addis Ababa)

Final Report – December 2, 2019

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat  
December 3, 2019

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## Acronyms and abbreviations

AARA	Addis Ababa Revenue Authority
AATAC	Addis Ababa Tax Appeal Commission
AAWSA	Addis Ababa Water and Sewerage Authority
ACOAG	Addis City Office of Auditor General
AFIS	Automated Fingerprint Identification System
AFS	Annual Financial Statement
BCC	Budget Call Circular
BI	Budget Institutions
BoE	Bureau of Education
BoFED	Bureau of Finance and Economic Development
BoH	Bureau of Health
CBE	Commercial Bank of Ethiopia
CDC	U.S. Center for Disease Control and Prevention
CoA	Chart of Accounts
COFOG	Classification of Functions of Government
COPCD	Channel One Programs Coordination Directorate
CPF	Card Production Facility
CPMED	Capital Project Monitoring and Evaluation Directorate
CPO	Certified Payment Order
DFID	U.K. Department for International Development
DHIS	District Health Information Software
DP	Development Partner
EBU	Extra-budgetary Unit
EMCP	Expenditure Management and Control Program
ERCA	Ethiopian Revenue and Customs Authority
ESDP	Education Sector Development Plan
EU	European Union
FASP	Finance Administration Support Process
FTA	Financial Transparency and Accountability
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GEWE	Gender Equality and Women Empowerment
GFS	Government Finance Statistics
GRB	Gender Responsive Budgeting
GRPFM	Gender Responsive Public Financial Management
GTP	Growth and Transformation Plan
HCMIS	Health Commodity Management Information System
HIMS	Health Information Management System
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HR	Human Resources
HRSP	Human Resource Support Process

HSTP	Health Sector Transformation Plan
IASD	Internal Auditor Support Directorate
IBEX	Integrated Budget and Expenditures
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
ILIC	Integrated Land Information Center
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
ISSAI	International Standard on Supreme Audit Institution
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MoE	Ministry of Education
MoF	Ministry of Finance
MoR	Ministry of Revenue
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MTF	Medium-Term Framework
NBE	National Bank of Ethiopia
OECD	Organisation for Economic Co-operation and Development
ORAG	Office of the Regional Auditor General
OT	Oversight Team
PAC	Public Accounts Committee
PAYE	Pay as You Earn
PBB	Program Based Budgeting
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PHCU	Primary Health Care Unit
PI	Performance Indicator
PIM	Public Investment Management
PPA	Public Procurement and Property Administration Authority
PPACP	Procurement and Property Administration Core Process
PPP	Public-Private Partnership
PPPDS	Public Procurement and Property Disposal Service
PSR	Pupil to Class Room Ratio
SAI	Supreme Audit Institution
SDG	Sustainable Development Goal
SIGTAS	Standard Integrated Government Tax Administration System
SNG	Subnational Government
SNNPR	Southern Nations Nationalities and Peoples Region
SoE	State-owned Enterprises
TIN	Taxpayer Identification Number

TTL	Task Team Leader
TVET	Technical and Vocational Education and Training
UNICEF	United Nations Children's Fund
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
USAID	US Agency for International Development
VAT	Value Added Tax
ZBA	Zero Balance Account



### **Fiscal year**

Ethiopian Fiscal Year (EFY): July 8–July 7

EFY 2008, 2009, 2010 = Gregorian FY2015/2016, 2016/2017, 2017/2018 (July 1–June 30)

In this document, the term FY refers to the Gregorian fiscal year, unless described as EFY.

### **Currency unit = Ethiopian Birr (ETB)**

US\$1 = ETB 29.120 (as of June 14, 2019)

## Executive summary

1. The objective of the Public Expenditure and Financial Accountability (PEFA) Assessments is to review the current performance of the public financial management (PFM) systems, processes, and institutions of the Federal Government of Ethiopia. The assessment is aimed at assisting the government in identifying PFM weaknesses that may inhibit effective delivery of services to its citizens and the realization of its development objectives in general. Furthermore, the findings of the PEFA assessment will assist the government in refining the PFM reform strategy that it has already developed and provide the basis for a coherent PFM reform program that can be supported by development partners (DPs) and through the government's own initiatives.
2. The assessment covers the city of Addis Ababa, which is separate and independent from the federal government and qualifies as subnational government (SNG) in the PEFA methodology context. The assessment covered city government budgeted units, extra-budgetary units, the Office of Auditor General of the City Government, and the parliament. Civil society organizations were also contacted to solicit their views on the general PFM environment, especially on issues relating to procurement and taxation. The list of stakeholders met is presented in Annex 3B.
3. The fiscal years for the assessments are EC 2008, 2009, and 2010 (Gregorian Calendar FY2015/2016, 2016/2017, and 2017/2018). The period covered for each of the 94 dimensions (summarized into 31 performance indicators [PIs]) depends on the dimension in accordance with the PEFA measurement framework. Some dimensions were assessed at the time of assessment (December 2018 and February 2019) during the first and second field missions, respectively. Other dimensions were assessed at the relevant period, which is the last completed fiscal year FY2017/2018, or FY2018/2019 for the last budget submitted to the parliament.
4. The assessment management framework, oversight, and quality assurance are summarized in Box 1.1. The assessment was funded by the World Bank, Irish Aid, U.K. Department for International Development (DFID), European Union (EU), United Nations Children's Fund (UNICEF), and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It was managed by the World Bank.

### Impact of PFM systems on the main budgetary and fiscal outcomes

#### *Aggregate fiscal discipline*

5. Aggregate expenditure and revenue outturn for the three years under review were below budget (PI-1 to PI-3). Both functional and economic resource allocation are weak (PI-2). While by function, this is mainly due to salary expenditures and vehicle purchases that were not included in the original budget, with the economic classification, the originally budgeted resources appear to be reassigned to other sectors not within the original government priorities. Such reallocations are not in line with the original budget and indicate that there are gaps in the budget planning process and/or in the control of the budget execution process. In any case, this negatively affects efficient fiscal discipline and service delivery. Contingency expenditure is 7 percent on average over the three years, which is way above the average of 3 percent considered as good practice.
6. Variation in the budget composition indicates inability to spend the budget according to plan (the originally approved budget). The same pattern is true for revenue as well, with low tax collection and outturn below target. In addition, there are concerns with the high level of the stock of expenditure arrears and the annual frequency of reconciliation of expenditure arrears.

7. The fiscal discipline is nonetheless limited by the lack of monitoring of fiscal risk (PI-10). There is no debt and no need to develop a debt management strategy.

8. The total amount of revenue arrears is relatively limited (PI-19), and internal controls of budget execution (PI-23 to PI-25) are well functioning, even though best practices of risk-based internal audit are not being used. The procurement domain (PI-24) performs poorly. All in all, the performance in these indicators fairly contributes to the attainment of aggregate fiscal discipline.

### *Strategic allocation of resources*

9. The five indicators concerned with policy-based fiscal strategy and budgeting (PI-14 to PI-18) did not receive good overall ratings, which demonstrates that the process to allocate budgetary resources is not in accordance with city government strategic objectives or, alternatively, that development strategies are not well articulated.

10. The multiyear focus in fiscal planning is only annual. Consequently, the new indicators that relate to this budgetary outcome, such as macroeconomic and fiscal forecasting (PI-14) and fiscal strategy (PI-15), score low because the medium-term economic forecasts prepared for informing the budget planning processes are not considered reliable. The city government does not prepare a fiscal strategy to set a framework against which fiscal impact can be assessed.

11. Other indicators that contribute to the strategic allocation of resources function relatively better though still with certain weaknesses, notably, the comprehensiveness of budget documentation and its classification in accordance with international standards. The indicators related to revenue collection (PI-19 and PI-20) are also performing relatively well with the exception that there is no monthly assessment of arrears in the revenue collections and the risk-based approach on revenue risk management is still underdeveloped. Moreover, public investment management (PI-11) does not sufficiently reflect generally accepted good practice of public consultation. Although there is economic analysis and costing of project investment, the selection of investment to a high extent is based on political considerations. Such practice biases the distribution of public funds in favor of the perceived social and economic goals.

### *Efficient use of resources for service delivery*

12. In this respect, the PFM system in the Addis Ababa City does not work particularly well. This is demonstrated by the low score for the processes that plan services in public investment management (PI-11) and in medium-term expenditure budgeting (PI-16), as well as a budget preparation process (PI-17) that provides ceilings for budget estimates to the budget entities that have not been preapproved by the cabinet. Though the system of allocating transfers (PI-7) is good and determined by a transparent and rule-based system, there are delays in the actual transfer of funds.

13. As a result, the rating related to the specific service delivery performance indicator (PI-8), which can demonstrate the efficiency with which services are delivered, is not performing well. The same applies to public asset management (PI-12), which does not allow enough transparency on what is effectively maintained by the Addis Ababa city government.

14. Nevertheless, the mechanisms in place to reduce possible leakages in the system, such as internal control and audit (PI-25 and PI-26) are generally good in spite of the absence of payroll audits. Financial data integrity demonstrates good accounting controls (PI-27). However, the public procurement function is still undeveloped and not transparent enough (PI-24).

15. Last, oversight arrangements for external audit and legislative scrutiny of audit reports (PI-30 and PI-31) are still not considered effective. There is low coverage of external audit, poor response to

audit recommendations, and insufficient independence of the external audit function. The penalizing feature in the process of legislative scrutiny of the annual audit report is the lack of transparency (PI-31.4) that undermines the accountability role of the oversight function.

### Performance changes since the last assessment

16. On the basis of the 2011 method, between the 2015 and the 2018 assessments, almost equal PIs deteriorated (7) when compared to improved in performance (6) as shown in Table 0.1. The majority of indicators (14) or 50 percent have remained unvaried and 2 are not comparable. Annex 4 gives the details of performance change.

**Table 0.1: Changes in the ratings since 2015 using the 2011 framework**

Deteriorations in ratings and performance		No change		Improvements in ratings and performance	
Indicators	Number	Indicators	Number	Indicators	Number
PI-2, PI-11, PI-12, PI-13, PI-17, PI-18, PI-19,	7	PI-1, PI-3, PI-4, PI-5, PI-7, PI-8, PI-9, PI-10, PI-14, PI-15, PI-16, , PI-20, PI-23, PI-27	14	PI-6, PI-21, PI-24, PI-25, PI-26, PI-28	6
<b>Not comparable</b>					
Indicators	Number				
PI-22	1				

17. As there is no change in the performance between 2015 and 2018 for most of the indicators, and the number of areas of improved performance is nearly the same as the areas of deterioration, the overall performance of the PFM system has fundamentally remained unchanged.

### Aggregate fiscal discipline

18. Aggregate fiscal discipline remains generally the same because there is no improvement in the overall budget credibility and budget execution processes with the exception of (a) increment of actual expenditure charged to the contingency vote in 2018, (b) budget documentation covering more information, (c) deteriorated performance in providing ceilings to budget entities that have been approved by the cabinet, (d) suspension of payroll audits since 2015, (e) improved rate of management response to internal audit, and (f) improved quality of the in-year budget reports allowing direct comparison to the original budget.

### Strategic resource allocation

19. The strategic allocation of resources has not significantly improved because it did not benefit from the deployment of strategic multiyear programming tools as well as macro-budget forecasts in the previous assessment, which is a new area of assessment in the 2016 PEFA framework. The observable changes identified are (a) transparency improvement in the rules of horizontal allocation of transfers, (b) deterioration in performance in the effectiveness in collection of tax payments due to increased revenue, and (c) improved frequency of revenue collection with daily transfers from the Central Bank of Ethiopia.

### Efficient use of resources for service delivery

20. The performance of public services is not better managed, monitored, and controlled than during the previous assessment.

### Overview of ongoing and planned PFM reforms and main weaknesses identified

21. The city government's PFM reform is largely dependent on the federal government's overall reform strategy. It, therefore, cannot initiate its own PFM reforms. Presently, there is no major ongoing PFM reform initiative at the city administration level, except for (a) taking part in Integrated Financial Management Information System (IFMIS) training with World Bank support, in preparation for the rollout of IFMIS to all city and regional administrations and (b) training to city administrators on program-based budgeting (PBB), as the federal government has started the piloting and implementation of PBB.

**Table 0.2: Overall summary of PFM Performance Scores**

PFM PI		Scoring Method	Dimension Ratings				Overall Rating
			i	ii	iii	iv	
HLG-1	Transfers from a higher-level government	M1	NA	NA	NA		NA
<b>Pillar I: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	M1	D				D
PI-2	Expenditure composition outturn	M1	D	D	C		D+
PI-3	Revenue outturn	M2	D	D			D
<b>Pillar II. Transparency of public finances</b>							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	C				C
PI-6	City government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	A	B			B+
PI-8	Performance information for service delivery	M2	D	D	D	C	D
PI-9	Public access to key fiscal information	M1	D				D
<b>Pillar III. Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	C	C	C	C
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	D	D	D		D
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	B		C+
PI-15	Fiscal strategy	M2	D	D	NA		D
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	A	D+
PI-17	Budget preparation process	M2	C	B	D		C
PI-18	Legislative scrutiny of budgets	M1	C	D	B	B	D+
<b>Pillar V. Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	B	C	B	A	B
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	B	B	C	C+
PI-22	Expenditure arrears	M1	C	C			C
PI-23	Payroll controls	M1	B	A	B	D	D+
PI-24	Procurement	M2	B	B	D	D	C
PI-25	Internal controls on non-salary expenditure	M2	A	B	A		A
PI-26	Internal audit	M1	A	C	C	D*	D+
<b>Pillar VI. Accounting and Reporting</b>							
PI-27	Financial data integrity	M2	B	NA	C	B	B

PFM PI		Scoring Method	Dimension Ratings				Overall Rating
			i	ii	iii	iv	
PI-28	In-year budget reports	M1	B	D	C		<b>D+</b>
PI-29	Annual financial reports	M1	C	B	C		<b>C+</b>
<b>Pillar VII. External Scrutiny and Audit</b>							
PI-30	External audit	M1	D	C	B	D	<b>D+</b>
PI-31	Legislative scrutiny of audit reports	M2	A	B	C	D	<b>C+</b>

## 1. Introduction

### 1.1 Background

1. On August 6, 2018,<sup>1</sup> development partners (DPs) received an official request from the Ministry of Finance (MoF) to conduct Public Expenditure and Financial Accountability (PEFA) assessments for the federal government and selected regional governments and the city of Addis Ababa. It was, therefore, the desire of the government to measure public financial management (PFM) progress since the 2015 assessment. Based on this request, the DPs agreed to provide technical and financial support for the assessment. For the city of Addis Ababa, the assessments have been undertaken in 2010 and 2015; this assessment is the third one.

### 1.2 Rationale and purpose

#### *Overall objectives*

2. The objective of the PEFA assessments is to review the current performance of the PFM systems, processes, and institutions of the city of Addis Ababa using the new 2016 PEFA framework and the 2016 Supplementary Guidelines on subnational government (SNG) assessments and to track progress using the 2011 PEFA framework since the last PEFA assessment, which was in 2015.

#### *Specific objectives*

3. The assessments are aimed at assisting the government in identifying PFM weaknesses that may inhibit effective delivery of services to its citizens and the realization of its development objectives in general. Furthermore, the findings of the PEFA assessments will assist the government in refining the PFM Strategy that it has already developed and provide the basis for a coherent PFM reform program that can be supported by DPs, as well as through the government's own initiatives.

### 1.3 Assessment management, oversight, and quality assurance

4. Box 1.1 summarizes the assessment management, oversight, and quality assurance. The assessment was funded by the World Bank, Irish Aid, U.K. Department for International Development (DFID), European Union (EU), United Nations Children's Fund (UNICEF), and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It was managed by the World Bank. The task team leader (TTL) was Rafika Chaouali (Lead Financial Management Specialist, Governance, World Bank), and Meron Tadesse Techane (Senior Financial Management Specialist, Governance, World Bank) provided overall and continued guidance. Finot Getachew Wondimagegnehu and Abiy Demissie Belay of the World Bank also provided administrative and technical support to the assessment team.

5. A Government PEFA Task Force was set up to monitor the assessments and provide guidance throughout the process. The task force is led by the MoF Expenditure Management and Control Program (EMCP), which is responsible for the government PFM reforms and strategy, and comprises a focused group of high-level representatives such as the Channel One Programs Coordination Directorate (COPCD); central accounts of the government; budgeting and gender directorates of the MoF; the Office of Auditor General; Ethiopia Revenue and Customs Authority (ERCA), now Ministry of Revenue; the Public Accounts Committee (PAC) Secretariat; selected line ministries; and selected state-owned enterprises (SoEs), although the participation of some was very much limited. Key donors of the task force include the World Bank, DFID, EU, Irish Aid, UNICEF, and UN Women. A focal person,

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<sup>1</sup> MoF letter reference number G/E/113/930.

Mr. Demissu Lemma Wondemgezahu, Director of EMCP, MoF, was responsible for arranging and coordinating meetings and data gathering as well as the overall assessment implementation.

### PEFA Check

6. The quality assurance framework has been reinforced as of January 1, 2018 (see PEFA Secretariat Note: PEFA Check: Quality endorsement of PEFA assessments from January 1, 2018, [www.pefa.org](http://www.pefa.org)). The quality assurance process of this report is shown in Table 1.1.

#### Box 1.1: Assessment management and quality assurance arrangements

<b>PEFA Assessment Management Organization</b>	
<ul style="list-style-type: none"> <li>• Oversight Team (OT) - See table below.</li> <li>• Assessment Manager: Demissu Lemma. Wondemgezahu, Director, MoF EMCP</li> <li>• Assessment Team Leader: Elena Morachiello</li> <li>• Assessment Team: Charles Hegbor (international consultant), Getnet Haile (local consultant), and Samuel Gebremedhin (local consultant). Elisaveta Teneva (international consultant) participated in the elaboration and drafting of the service delivery assessment, in the finalization of the draft PEFA Assessment and comments integration. Fekadu Berhe (local consultant) and Tafesse Freminatos (local consultant) took part in the mission and in the first draft of the report, but not in developing the Gender Responsive Budgeting (GRB) and service delivery annexes, or in the report review in line with the PEFA Check requirements.</li> <li>• PEFA Secretariat</li> <li>• Peer Reviewers (World Bank, EU, DFID, and the Irish Aid)</li> </ul>	
<b>Composition of the OT</b>	<b>Members of the OT</b>
<b>Chairperson</b>	<ul style="list-style-type: none"> <li>• State Minister, MoF</li> </ul>
<b>MoF and Economic Development</b>	<ul style="list-style-type: none"> <li>• Budget Director</li> <li>• Director, EMCP</li> <li>• Director, Treasury</li> <li>• Director, Budget</li> <li>• Director, Debt Management</li> <li>• Director, Inspectorate Directorate</li> </ul>
<b>Office of Federal Auditor General (OFAG)</b>	<ul style="list-style-type: none"> <li>• Federal Auditor General</li> </ul>
<b>Ministry of Revenue (formerly, ERCA)</b>	<ul style="list-style-type: none"> <li>• Commissioner General</li> </ul>
<b>Parliament</b>	<ul style="list-style-type: none"> <li>• Clerk of Parliament</li> </ul>
<b>Public Procurement Authority</b>	<ul style="list-style-type: none"> <li>• Director General</li> </ul>
<b>DPs</b>	<ul style="list-style-type: none"> <li>• World Bank</li> <li>• EU</li> <li>• DFID</li> <li>• Irish Aid</li> <li>• UN Women</li> <li>• UNICEF</li> </ul>



**Review of concept note and/or terms of reference**

- Date of reviewed draft concept note by the PEFA Secretariat: November 13, 2018
- **Other invited reviewers who submitted written comments:** Eric Brintet (lead financial management specialist, GGOLF, World Bank); Emmanuel Cu villier (senior public sector specialist, GGOMN, Word Bank); Clara Molera Gui (governance, Delegation of the European Union to the EU); Misrak Tamiru (Women’s Economic Empowerment program specialist, UN Women); and from the PEFA Secretariat

**Review of the assessment report**

- Peer reviewers: Jonathan Atkinson (DFID) and World Bank staff.
- PEFA Secretariat’s review - Holy Tiana Rame, date of first review: August 6, 2019; date of second review: August 18, 2019; date of third review: November 8, 2019
- City Government of Addis Ababa - comments in writing and at least a couple of meetings to clarify and discuss issues in the assessment and in the methodology

**1.4 Assessment methodology**

7. The assessment applied the PEFA 2016 methodology in addition to the 2016 Supplementary Guidelines for SNG assessments, with seven key pillars of performance, which are a prerequisite to an open, well-functioning, and orderly PFM system to achieve government objectives. The assessment covered budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, as well as external scrutiny and audit. Meetings were held with key government officials and agencies, civil society organizations, and DPs (refer to the list of people met in Annex 3B). The assessment reviewed and analyzed official government data.

8. As required by the PEFA guidelines on tracking performance changes, the 2011 framework was used to ascertain PFM progress since the last assessment in 2015. The results of this analysis are reported in Annex 4.

**Assessment coverage and timing**

9. The city of Addis Ababa PEFA assessment covered budget institutions (education, health, roads, and housing), Office of the Regional Auditor General (ORAG), and the city council. The fiscal years of the assessment are EFY 2008, 2009, and 2010 and Gregorian Calendar FY2015/2016, 2016/2017, and 2017/2018. The last budget submitted to the city council is the EC 2011 Budget or Gregorian FY 2018/2019 Budget.

**Field work**

10. The field work began on November 19, 2018, with a kick-off meeting held at the MoF with the OT, key government officials, and DPs. A two-and-a-half day (December 3–5, 2018) PEFA training workshop was conducted at the Hilton Hotel, Addis Ababa. Officials from the PEFA Secretariat conducted the training; government officials from the federal, city, and regional governments took part in the training. The half day was used as a high-level stakeholder meeting to elaborate on the PEFA methodology for directors of the MoF and selected key line ministries such as education and health. Discussions were held to clarify certain aspects of the process, such as peer review process and the PEFA Check.

11. The larger conference and training event that lasted two days saw a total of 110–115 participants, of which were 5 from Southern Nations Nationalities and Peoples Region (SNNPR), 4 from

Harari Region, 8 from Somali Region, 3 from Gambella Region, 7 from Amhara Region, 5 from Tigray Region, 4 from Afar Region, and 3 from Benishangul Gumuz Region. The remaining were from Oromia Region, the city of Addis Ababa, the federal government, DFID, EU, Irish, UNICEF, UN Women, and World Bank. Although the other PEFA assessments that will be conducted in 2018 and 2019 besides the federal government will be Addis Ababa City, Tigray, Amhara, Oromia, Somali, and SNNPR, other regions attended to familiarize themselves with the new 2016 methodology in view of possible future assessments.

12. On December 6, 2018, a meeting was organized between officials from the PEFA Secretariat, the assessment team, and key stakeholders in the service delivery sector (education and health) and GRB, to discuss the methodology for the inclusion of some selected indicators as pilots.

13. The meetings for the Addis Ababa City assessment took place between December 10 and December 21, 2018, and between February 11 and 19, 2019. Additional issues were raised at the end of April 2019. The cutoff date for this assessment is April 2019. The mission team met with, among others, the following units: the Addis Ababa Bureau of Finance and Economic Development (BoFED), Addis Ababa City Planning Commission, Addis Ababa City Public Procurement Authority, Addis Ababa City Office of Auditor General (ACOAG), Addis Ababa City Public Procurement and Property Disposal Service (PPPDS), Addis Ababa Education Bureau and Health Bureau, the revenue authority, and Addis Ababa City Roads Authority (see Annex 3B for the list of people interviewed).

14. Among the documents obtained from the units are (a) the Medium-term Fiscal Framework (MTFF) and Medium-Term Expenditure Framework (MTEF), (b) the Budget Call Circular (BCC) and the budget calendar, (c) data on 7 SoEs obtained from the ACOAG for FY2017/2018, (d) annual financial statements (AFSs) from 10 sub-city administrations plus dates of submission of AFSs to BoFED, (e) project documents on the 10 largest investments for FY2017/2018, (f) progress and project completion reports from the Planning Directorate of BoFED, (g) Performance Audit Report from the Addis Ababa City Auditor General, (h) consolidated AFSs for 2017/2018, and (i) individual fixed assets register - decentralized (see Annex 3A for list of sources).

#### *Pilots: GRB and service delivery*

15. Two pilots are also included: (a) GRB and (b) service delivery in the health and education sectors.

#### *The gender module*

16. The PEFA gender module is a set of supplementary questions built on the PEFA framework to collect information on Gender Responsive Public Financial Management (GRPFM) practices. The questions have been designed to cover all stages of the budget cycle: policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit, including governments' efforts to make information on fiscal performance publicly available and strengthen management of assets and liabilities.

17. The PEFA gender module is intended to be conducted on a voluntary basis. A decision to carry out a PEFA gender module will be solely at the discretion of country authorities. The findings of a GRPFM assessment will be quality reviewed by the PEFA Secretariat in a similar vein to all PEFA assessment reports.

18. The PEFA gender module was designed by the PEFA Secretariat as a response to requests that have been received from groups and individuals involved in PFM and GRB reforms. A process of public consultation carried out to assess the new PEFA framework identified gender responsiveness as a gap

in existing PFM diagnostic tools that needed to be addressed. Stakeholders felt that PEFA was the appropriate tool for collecting information on countries' GRB practices given its position as the most widely used framework for assessing PFM performance.

19. The PEFA gender module builds on the work of other relevant stakeholders involved in GRB. This includes UN Women that has devoted significant resources to support gender equality and women's rights through GRB. The country-specific results of the PEFA gender module are intended to be complementary and linked to the collection of information, anchored by UN Women, on GRB as part of Sustainable Development Goal (SDG) Indicator 5.c.1. The indicator links the policy and legal requirements for gender equality with the resources allocated for their implementation. The PEFA gender module also builds on the work of numerous individuals involved in GRB in recent decades, as well as institutions that aim to promote its importance. These include, among others, the Organisation for Economic Co-operation and Development (OECD) analysis of GRB practices in OECD countries and the IMF's Fiscal Affairs Department's analysis of practices in G7 countries. More information is provided in the PEFA Secretariat Note - PEFA Gender Module: Draft for Public Consultation available on the PEFA Secretariat website.

20. Though a more advanced draft for the suggested set of indicators to be applied was circulated in February by the PEFA Secretariat (the indicator set is presented in the abovementioned note), a more synthetic list of pillars, indicators, and questions to be applied to the Ethiopia federal government assessment was agreed with the PEFA Secretariat at the start of the field work for the PEFA assessment of the federal government. The list is included in Table 1.1. UN Women has provided support to the team for the GRB component. The detail findings are presented under Annex 8.

**Table 1.1: Applied pillars for gender-disaggregated information**

No.	Pillar	Disaggregation of data required
1	Under Pillar II - Transparency of public finances, Indicator 9 - Public access to fiscal information	Segregated data reports from the Financial Transparency and Accountability (FTA) on access to information to women. Information, if any, on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed.
2	Under Pillar IV - Policy-based fiscal strategy and budgeting, Indicator 15.2 - Fiscal strategy adoption, and 17.2 - Guidance on budget preparation	Does a published fiscal strategy exist that includes quantitative fiscal goals and qualitative objectives from gender equality and women empowerment (GEWE)? Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting? Does the guidance on budget preparation request for breakdown of outputs/activities and their budgets by gender and to what extent is it complied with? Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives instructions from the MoF? Do implementing entities prepare their annual action plan and budget report according to the guidance provided on gender segregation? Integrated and reflected gender equality and equity government commitments on a budget speech.
3	Under the same pillar (that is, Pillar IV), Indicator 18 - Legislative scrutiny of budgets, dimension 18.1 - Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender? To what extent the women, children, and youth standing committees in parliaments and regional councils are involved in analyzing the budget from a gender perspective? To what extent are their feedbacks considered in the revision of draft plans and budget?
4	Under Pillar VII - External scrutiny and audit, Indicator 30 - External	Are gender-based performance audits conducted? If yes, for which sectors were they conducted and how were the findings used to strengthen programs of sectors?

No.	Pillar	Disaggregation of data required
	audit, dimension 30.1 - Audit coverage and standards	

### Service delivery

21. The initial scope for the service delivery pilot work, discussed and agreed with the PEFA Secretariat, was consequently expanded to assess the indicators as listed in Table 1.2 in the health and education sectors. The approach employed for the expanded scope has been discussed and agreed with the World Bank task team.

22. The PEFA framework has been applied to review the PFM processes with implication to service delivery units in health and education sectors at city government of Addis Ababa level. The scope of the service delivery assessment is focused on the financial operations of the health and education sectors (schools and health centers) and the related oversight and accountability institutions (bureaus and external audit). The Service Delivery Module (see Annex 7) presents facts relevant for the frontline service delivery units by PEFA performance indicator (PI) and draws conclusions by PEFA pillar.

**Table 1.2: Service delivery indicators**

Ethiopia PEFA Addis Ababa City Assessment 2018 Module for service delivery in health and education	
<b>Indicator</b>	
<b>HLG - Transfers from higher-level government</b>	
<b>Pillar I: Budget reliability</b>	
PI-1 Aggregate expenditure outturn	
PI-2 Expenditure composition outturn	
<b>Pillar II: Transparency of public finances</b>	
PI-6 Central government operations outside financial reports	
PI-7 Transfers to subnational governments	
PI-8 Performance information for service delivery	
PI-9 Public access to fiscal information	
<b>Pillar III: Management of assets and liabilities</b>	
PI-11 Public investment management	
PI-12.2 Public asset management	
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>	
PI-16.2 and PI-16.3 Medium-term perspective in expenditure budgeting	
PI-17 Budget preparation process	
<b>Pillar V: Predictability and control in budget execution</b>	
PI-21.3 Predictability of in-year resource allocation	
PI-22 Expenditure arrears	
PI-23.4 Payroll controls	
PI-24.1 and PI-24.2 Procurement	
PI-25 Internal controls on non-salary expenditure	
PI-26 Internal audit	
<b>Pillar VI: Accounting and reporting</b>	
PI-29 Annual financial reports	
<b>Pillar VII: External scrutiny and audit</b>	
PI-30 External audit	

## 2. City government background Information

### 2.1 City government economic situation

23. The following paragraph outlines the city government's economic context with fiscal performance indicators.

#### *City government context*

24. Addis Ababa is located in the central highlands of Ethiopia between 8° 48' and 9° 6' North latitudes and 38° 38' and 38° 54' East longitudes. It is situated at the western margin of the Great East African Rift Valley at 2,100–3,000 m altitude, and it is the third highest capital city in the world with a subtropical highland climate. It is the political and cultural center of Ethiopia, and the African Union and the Economic Commission for Africa are based in Addis Ababa. Nowadays, it is also serving as a center for many international organizations and is becoming a city of the African nations with regard to economic, social, and political life. The land area of Addis Ababa is 540 km<sup>2</sup> and is surrounded by Oromia special zones. The total population of Addis Ababa is estimated to be 3.6 million according to the projection of the Central Statistics Agency as of GC 2017

#### *Key aspects of the city government's economic and fiscal reforms*

25. With the rapid increase of the population of the Addis Ababa city, the need for water supply, housing, infrastructure, transport, and good governance has been increased. The first Growth and Transformation Plan (GTP I) has been implemented to achieve the objective of increasing the welfare of the citizens and reducing the level of unemployment. The second Growth and Transformation Plan (GTP II) has been prepared and implementation has started on the objective of the city reaching middle income city status as of FY2025.

26. The gross domestic product (GDP) of the city government has shown an increase from ETB 85.1 billion in FY2011 to ETB 164.77 billion in FY2017. The per capita income has also reached US\$2,086 in the budget year of 2016/2017.

27. The contribution of the economic sectors for the development was (a) agriculture contributing ETB 1.73 billion, (b) industry - ETB 33.24 billion, and (c) the service sector - ETB 122.04 billion in the FY 2016/2017. In addition, the GDP of the city government has shown an increase of 11.19 percent in the same year. In the last seven years, the sectors that have contributed to the economic development of the city were the service sector with a lion's share of 78.4 percent, industry of 20.43 percent, and others related to agriculture of 1.16 percent. Due to the climate change, drought, and unstable condition surrounding the city, the government inflation was at two-digit stage in the EFY 2010, which was 13.7 percent, and this was greater than that of EFY 2009, which had been 6.1 percent.

28. The city government is a self-financed entity, which does not receive a subsidy from the federal government except from the Federal Road Fund as a specific grant for maintenance and construction of roads. The revenue collected from taxes has reached ETB 33.07 billion in FY2017/2018 from ETB 26 billion in FY2014/2015. It is believed that the income generated from the economy is not producing the appropriate tax revenue due to the lack of proper tax administration and other reasons such as tax evasions. The revenue contribution to GDP of the city government is still 14.26 percent.

29. Significant achievements have been made in Addis Ababa in the education and health sectors in recent years. At present, the numbers of preprimary schools are 1,168; primary schools stand at 806, and secondary schools are 217. The gross enrolment ratio as of 2017/2018 for preprimary, primary, and secondary schools has reached 91.93, 135.4, and 117.24, respectively. For the health

sector, most health clinics are privately owned. At present, there are 67 government health centers, six hospitals, and two health posts. The under-five mortality rate has reduced to 28 deaths per 1,000 live births in 2016/2017. Mortality rate of mothers has been reduced to 412 deaths per 100,000 live births. Access to safe water stood at 91.35 percent in FY2016/2017, and life expectancy is currently 67 years.

30. Unemployment has been reduced from 22.9 percent in 2014/2015 to 14.55 percent in FY2016/2017. Poverty has reduced to 18.9 percent from 29.6 percent in FY2016/2017.

31. The development goals and objectives of the city emphasize the generation of employment opportunities by promoting private investment and the growth of micro- and small-scale enterprises, the construction of residential housing, improvement of waste management, and reduction of Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome (HIV/AIDS).

### Key economic indicators

32. Table 2.1 shows the selected economic and financial indicators.

**Table 2.1: Selected economic and financial indicators (% , unless otherwise indicated)**

Indicators	2015/2016 % of GDP	2016/2017 % of GDP	2017/2018 % of GDP
<b>Total revenue</b>	<b>18.93</b>	<b>18.68</b>	<b>20.53</b>
Own revenue	17.96	18.00	20.07
Grant from Road Fund	0.34	0.34	0.23
External grants	0.63	0.34	0.23
<b>Total expenditure</b>	<b>15.77</b>	<b>17.47</b>	<b>18.21</b>
Noninterest recurrent expenditure	7.47	8.11	9.40
Capital expenditure	8.30	9.36	8.81
Interest expenditure	—	—	—
<i>Aggregate surplus (including grants )</i>	<i>3.16</i>	<i>1.21</i>	<i>2.32</i>
<i>GDP (ETB, billions)</i>	<i>141.01</i>	<i>157.03</i>	<i>164.77</i>

Source: Addis Ababa BoFED Accounts and Treasury Directorates.

## 2.2 Fiscal and budgetary trends

### Fiscal performance

33. Addis Ababa City has been registering continuous growth for the past fifteen years, and the growth performance of the past seven years has been remarkable. GDP has grown from ETB 85.1 billion in 2010/2011 to ETB 164.77 billion in 2016/2017, and the city has been growing for the past fifteen years on average by 13.88 percent. This growth has contributed to reduction of poverty significantly. The city poverty level has reduced to 18.9 percent in 2015 from 36.1 percent in 2000. Addis Ababa City Administration has registered budget surplus for the three consecutive fiscal years, and the expenditure of the city is financed through own revenue mainly from tax collection. The contribution of tax revenue percentage to GDP showed an average of 14.11 percent for FY2014/2015 to FY2016/2017, showing a similar trend each year.

**Table 2.2: Aggregate fiscal data - Addis Ababa city government budget outcomes FY2015/2016–2017/2018**

Indicator	2015/2016	2016/2017	2017/2018
Total revenue	26,069	28,820	33,445

Indicator	2015/2016	2016/2017	2017/2018
Own revenue	25,187	28,281	33,073
Grants	882	539	372
Total expenditure	22,010	27,430	30,013
Aggregate surplus	4,059	1,390	3,432

Source: Addis Ababa BoFED.

### Allocation of resources

34. The Addis Ababa city government is dedicating a high share of its budget to pro-poor programs and investments. This is demonstrated by the reorientation of expenditure from recurrent to capital. The major expenditures of the Addis Ababa city government include expenditure on road, education, health, and water. This is demonstrated in the Tables 2.3 and 2.4.

**Table 2.3: Budget allocation by function - actual expenditure by functional classification as % of total expenditure FY2015/2016–2017/2018**

Indicators	2015/2016	2016/2017	2017/2018
Road	0.22	0.16	0.14
Education	0.12	0.17	0.13
Water	0.11	0.17	0.09
Health	0.07	0.07	0.08
Mayor	0.05	0.04	0.04
Land	0.05	0.01	0.03
Police	0.05	0.04	0.04
Housing	0.04	0.03	0.03
Revenue authority	0.03	0.02	0.03
Sanitation Office	0.02	0.02	0.03
Anbesa Bus	0.02	0.01	0.01
Sheger Bus	0.0004	0.00	0.00
Others	0.22	0.26	0.33

Source: BoFED Accounts Directorate.

**Table 2.4: Budget allocation by economic classification - actual budgetary allocations by economic classification (as % of total expenditure)**

Particulars	2015/2016	2016/2017	2017/2018
Current expenditure	12,060	15,874	19,393
Wages and salaries	7,923	8,086	10,366
Goods and services	4,057	5,160	5,878
Others	80	2,628	3,149
Capital expenditure	9,950	11,556	10,620
Total expenditure	22,010	27,430	30,013

Source: BoFED Accounts Directorate.

## 2.3 Legal and regulatory arrangements for PFM

### Legal and regulatory arrangements for decentralization

35. The Constitution of the Federal Democratic Republic of Ethiopia Proclamation No. 1/1995 stipulated the establishment of a federal democratic state structure with a parliamentary form of



government. The Federal Democratic Republic of Ethiopia comprises the federal government and the state members.

36. Addis Ababa is one of the eleven state members of the federal government established under the Constitution. The Constitution in Article 49, among others, stipulates that Addis Ababa shall be the capital city of the federal state, the residents of Addis Ababa shall have a full measure of self-government, and the administration of Addis Ababa shall be responsible to the federal government.

37. The leading law for the Addis Ababa city administration is the Federal Proclamation No. 361/2003 'Addis Ababa City Government Revised Charter Proclamation'. This proclamation itself is based on Articles 49(1) and 55(1) of the Constitution of the Federal Democratic Republic of Ethiopia. The proclamation (the Charter) in its provision elaborates on the structure of the city government organs of power as follows:

- (a) The city government organs of power are the following:
  - (i) City council
  - (ii) Mayor
  - (iii) City cabinet
  - (iv) City judicial organs
  - (v) (v) Office of the City Chief Auditor
- (b) Sub-city organs of power are the following:
  - (i) Sub-city council
  - (ii) Sub-city chief executive
  - (iii) Sub-city standing committee
- (c) Ketena (previously known as Kebele) organs of power are the following:
  - (i) Ketena council
  - (ii) Ketena chief executive
  - (iii) Ketena standing committee
  - (iv) Ketena social courts

38. According to the Charter, the Addis Ababa city government has the following powers and duties:

- (a) Issue and implement policies concerning the development of the city.
- (b) Approve and implement economic and social development plans.
- (c) Determine the administration and working conditions of employees and officials of the city government as well as of the staff of other organs of power specified under the Charter.
- (d) Constitute the executive bodies of the city government and establish public enterprises, as legal entities, on its own or in partnership, according to applicable laws, with the private sector or other third parties.
- (e) Organize sub-cities and Ketenas, demarcate their borders, and allocate budgetary subsidy to the same.



- (f) Identify, determine, and organize municipal services to be delivered at the level of the city, a sub-city, and a Ketena; provide efficient, effective, and equitable services through the use of a variety of service delivery alternatives and the participation of the people; and ensure that a standardized, acceptable system of service delivery is in place.
- (g) Administer, according to law, the land and the natural resources located within the bounds of the city.
- (h) Administer, develop, or sell the houses nationalized according to Government Ownership of Urban Lands and Extra Houses Proclamation No. 47/1975 and administered by the city government as well as other houses, which the city government built or otherwise obtained lawfully.
- (i) Expropriate private property and/or clear and take over landholdings designated as an object of public interest, subject to payment of commensurate compensation in accordance with the law.
- (j) Prepare, approve, and administer the budget of the city; determine and collect, according to law, taxes, duties, and service charges out of the sources of income specifically given hereby to the city government; revoke taxes and penalties imposed according to the law; participate in income-generating activities; and receive donations and gifts.
- (k) Borrow money from domestic sources under authorization by the federal government; identify external sources of loans and request the federal government to borrow money on its behalf; and establish relations and conclude cooperation agreements with federal and regional government organs and institutions, the private sector, nongovernmental organizations, and, under authorization by the federal government, with various international organizations.

39. The City Government of Addis Ababa qualifies as an SNG according to the definition of supplementary guidance for subnational PEFA assessments (page 7). The City Government of Addis Ababa has the authority over the geographical city of Addis Ababa, it owns assets and incurs liabilities, it has autonomy in electing mayors and government administration staff, it is independent in making rules and administering compliance in all areas of city administration, it enjoys powers to raise or spend funds on own initiative, and it has a legislative autonomy exercised by the city council. It is not a deconcentrated unit of the federal government. Under the City Administration/Government of Addis Ababa, there are sub-cities which have authority over woredas. Woredas have authority over Ketenas. Ketenas have no political authority, neither do they have fiscal powers. They exist only for community participation and engagement.

40. The city government transfers funds to sub-cities and then sub-cities to woredas. Ketenas do not receive any subsidies from woredas, sub-cities, or city government. Ketenas have neither political nor fiscal power; they only exist for community engagement. Woredas report to sub-cities and sub-cities report to the city government. Only woredas meet the requirement of the supplementary guidance for subnational PEFA assessments, page 7. They function at SNG level below the regional government or the city government (as in this case). Sub-cities are the territorial administrative division of the city; they function as city districts and are rather deconcentrated units of the city government.

41. In addition to the Charter, a range of laws guide the PFM of the Addis Ababa city administration. The main laws guiding the PFM framework include

- (a) A proclamation to provide for the Financial Administration of the Addis Ababa City Government Proclamation No. 16/2009, which includes provisions relating to

disbursement of public money, protection of public assets, public debit and loan, budget preparation and approval, budget execution, amendments of appropriations and allotments, internal audit, and accounting and control;

- (b) Proclamation 17/2009 on the Addis Ababa City Government Procurement and Property Administration Proclamation, which elaborates on the power and responsibility of the bureau (BoFED), basic public procurement procedures, procedures of open tendering, restricted tendering, request for proposal, and so on;
- (c) Proclamation No. 29/2012 on the Addis Ababa City Government Office of the Auditor General Reestablishment Proclamation, which explains the power of the office and has a miscellaneous provision section; and
- (d) Proclamation No. 35/2012 on the Addis Ababa City Government Executive and Municipal Service Organs Reestablishment Proclamation, which establishes cabinet members and executive organs, establishes accountability of bureaus and offices, and defines the power and function of bureaus and other executive organs including BoFED and the revenue authority.

**Table 2.5: Overview of Addis Ababa City governance structure**

Government level	Corporate body (Y/N)	Own political leadership (Y/N)	Approves own budget (Y/N)	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenue	Percentage funded by transfers
City	Y	Y	Y	1	3.6 million	100	100	0
Sub-city	N	Y	Y	10	No data	31.1	37.4	100
Woreda	N	Y	Y	116	No data	No data	No data	No data
Ketena	N	N	N	No data	No data	No data	No data	No data

Source: BoFED.

### **Legal and regulatory arrangements for PFM**

#### **Addis Ababa city government budgetary systems**

- To a large extent, federal government laws guide the city budget processes; however, allocation and transfer to sub-cities are decided by the city government, as it receives no subsidies from the federal government.
- The city government has two main treasury accounts; these are kept at the National Bank of Ethiopia (NBE). With the approval of the city Finance Bureau, most budget entities maintain own revenue accounts with the Commercial Bank of Ethiopia (CBE).
- The city government prepares its own budget. The budget is approved by the city council without federal government interference.
- The city government has a separate (and independent) public procurement authority; it is governed by Proclamation Number 17/2009.
- The city government can borrow money from domestic sources under authorization by the federal government.

### *Addis Ababa City institutional (political and administrative) structures*

- The city government is independent of the federal government legislature; it approves its budgets and enacts laws and regulations for the city, but these laws must be in tandem with federal government laws.
- The city government has the power to appoint its own executives, budget officers, accountants, and treasury officers. The hiring and appointments are in accordance with city civil service rules and salary structure, which is independent from federal government administration.
- The budget and financial management processes are adopted from the federal government systems.

### *PFM functions*

- Payment - the city government commits and pays for its expenditure without federal government interference.
- Revenue administration - it raises its own revenues in line with city revenue laws.
- Performance arrangements for service delivery involving the SNG - the city administration transfers funds to sub-cities; sub-cities then transfer to woredas for service delivery in accordance with city government policy.
- Monitoring of public corporations - the city government has a duty to monitor public corporations; the performance of this function is weak.
- Monitoring of lower tiers of SNGs - the city government monitors sub-city governments; it receives timely annual financial reports, but these are not published.
- Public investment - public investment management at the city level is managed by the city government. It has a Public Investment Management (PIM) manual adopted from the draft manual prepared at the federal level with the support of DFID and the World Bank.
- Management, monitoring, and recording of assets - the management, monitoring, and recording of fixed assets is decentralized, with each budget unit responsible for managing and safeguarding its assets. Disposal of fixed assets is done mostly centralized, through the PPPDS.
- Debt management - the city has no borrowing powers except for domestic ones with the authorization of the federal government.
- Macroeconomic forecasting - the city government prepares macroeconomic forecasts.
- Cash monitoring and forecasting - cash forecasting is done annually and updated quarterly.
- Payroll - payroll is decentralized, with each budget unit managing its own payroll.
- Procurement - public procurement is governed by Procurement Proclamation No. 17/2009. Each unit prepares procurement plans, but these are not published. Data on procurement are available but may not be complete and accurate.
- Internal audit - each budget unit has an internal audit unit; it prepares annual internal audit plans. It also prepares quarterly internal audit reports, but applicability to international standards is low.

- Financial reporting - annual financial reports are prepared and submitted to the City Auditor General for audit.

42. This assessment covers only the administration of Addis Ababa City with its constituent sub-cities. The respective woredas and Ketenas are not part of the scope. It is to be noted that the sub-cities are not SNGs according to the PEFA definition; they are considered as part of the city government. The sub-cities are not assessed as separate entities; they are constituent parts of the Addis Ababa city government. However, they are at the city government level transferring funds to service delivery units. This is a specific arrangement relevant for Addis Ababa City only.

## 2.4 Institutional arrangements for PFM

43. According to the Ethiopian Constitution, Addis Ababa has a power of self-administration and is governed by the Addis Ababa City Government Revised Charter, Proclamation No. 361/2003. Addis Ababa City is divided into 10 sub-cities and 116 woredas under the sub-cities. At the city level, there are 99 budgetary units and 7 public SoEs. There are no extra-budgetary units (EBUs) at the city level. An EBU is defined in accordance with the IMF Government Finance Statistics (GFS) 2014 definition, which is also reported in the Field Guide, page 46, Clarifications 6.1, 6.2, and 6.3. According to the IMF GFS definition, EBUs are separate units that operate under the authority or control of a central government (or in the case of a city or SNG assessment, the state or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, EBUs have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction, or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as 'extra-budgetary funds' or 'decentralized agencies' (GFS Manual 2014, Chapter 2, Section 2.82).

44. Tables 2.6, 2.7, and 2.8 outline the structure of the public sector and central government operations in the city of Addis Ababa.

**Table 2.6: Structure of the public sector (number of entities and financial turnover)**

2017/2018	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary unit	EBUs		Nonfinancial public corporations	Financial public corporation
Central	99	NA	NA	7	NA
1st tier subnational (sub-cities)	10	NA	NA	NA	NA
2nd tier subnational (woredas)	116	NA	NA	NA	NA

Source: Addis Ababa BoFED.

**Table 2.7: Financial structure of the city government - budget estimates (ETB, millions)**

2017/2018	City government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	38,616	NA	NA	38,616
Expenditure	40,500	NA	NA	40,500

Source: Draft accounts for 2015/2018.

**Table 2.8: Financial structure of the city government - actual revenue and expenditure (ETB, millions)**

2017/2018	City government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	33,087	NA	NA	33,087
Expenditure	30,013	NA	NA	30,013
Transfers to (-) and from (+) other units of general government	—	NA	NA	—
Liabilities	6,526	NA	NA	6,526
Financial assets	20,950	NA	NA	20,950
Nonfinancial assets	—	NA	NA	NA

Source: Draft accounts for 2017/18.

45. The city government's organs of power are the city council, mayor, city cabinet, city judiciary organs, and Office of the Auditor General. Members of the city council are elected by the residents for a five-year term. The city council has the power to levy taxes and duties as well as set service charges upon financial matters falling under the power of the city government in accordance with the Charter, approve the budget of the city, and approve long-term and short-term economic and social development plans of the city. It also has the power to allocate budgetary subsidy to sub-cities according to the adopted formula.

46. The mayor is the chief executive officer of the city and is accountable to the city council and the federal government. The mayor is elected by the city council from among the members, for the same term as the council. The city cabinet is accountable to the mayor and is responsible to ensure that proclamations, regulations, resolutions, and standards adopted by the city council and by the federal government are implemented.

47. The city government has the city courts and woreda social courts. The city courts have a first instance court and an appellate court. The jurisdiction of the courts is stipulated in the city charter. The Federal Supreme Court decides on conflict of jurisdiction that may arise between the Addis Ababa city courts and federal courts.

48. In accordance with the charter, the city government has the power to assess and collect tax on income that falls under its jurisdiction such as employment income tax, land use fee, profit tax, excise tax, rental tax, property tax, and royalty and other municipal taxes and duties. The city government may, according to authorization by the federal government, borrow from domestic sources directly or by way of selling bonds, on short and long repayment terms. The city government can also identify international credit sources and solicit the federal government to take loans on its behalf. The city government, as is the case with the other regions (states), does not receive subsidies from the federal government. However, it may be granted with emergency, rehabilitation, and development aid from the federal government.

49. According to the City Financial Administration Proclamation No. 16/2009, BoFED has the power to supervise and monitor the finance of the city and oversee the internal audit functions of public bodies. The public bodies are responsible for managing the budgets allocated to their sectors. BoFED also required the city budget shall be prepared transparently and through the participation of residents. There is an internal audit function at each public body reporting administratively to BoFED. Taxes and duties are collected by the Addis Ababa Revenue Authority (AARA), and all collections flow to the consolidated fund account at BoFED treasury account. Payroll and procurement are decentralized to the budget institutions (BIs). Independent external audit is provided by ORAG, which reports to the council.

### *Requirements for internal control*

50. The concept of internal control involves the entire government legal framework, the procurement rules, and formalized acts that control the various kinds of risks relevant to an organization. The internal control objectives relate to the reliability of financial data and reporting, timely feedback on the achievement of planned operational activities and strategic goals, and compliance with laws and regulations at the level of an organization. The usual internal control procedures in the PFM area in Addis Ababa City are related to the budget and treasury operation and the accounting procedures, which are designed to prevent fraud and identify weaknesses and errors. These procedures are formalized in the financial proclamation of the region, being the key PFM legal framework, as well as in various internal provisions, manuals, and rules. These cover the following requirements broken down to the five elements of internal control:

- (a) **Control environment.** A strong regulatory framework is to be outlined in the various PFM and related proclamations and regulations that are the guiding framework for the control environment. All budget entities should post their visions, mission, and objectives and the ethical values. There should be (i) procedures on budget preparation, approval, and amendment; (ii) treasury procedures for cash management and bank reconciliation; (iii) procedures on procurement tendering and contracting; (iv) rules of payroll composition and staff appointment and termination; (v) rules of making payment; and (iv) submission of budget-related documentation.
- (b) **Risk assessment.** Risks are to be covered by preliminary risk assessment mainly in the function of internal audit and tax payment. The internal audit units are supposed to conduct a risk assessment as part of their annual audit plan. The regional revenue authority should conduct risk assessments to determine the highest risk of noncompliance in all groups of taxpayers.
- (c) **Control activities.** The internal control tools that are mentioned in the different manuals that stipulate the segregation of duties and procedures for preparation, review, and approval of payments for procurement should be adhered to. Other control activities are the regular bank reconciliation and periodical cash counts. Fixed asset and inventory records and annual counts should be updated. There should be electronic online documentation of budget data securing access and changes as well as frequent consolidation and reconciliation of budget information and data.
- (d) **Information and communication.** There is a budget account information system known as Integrated Budget and Expenditures (IBEX) deployed within the budget entities; it is designed to automatically connect all authorized users covering comprehensively the entire budget process related procedures and systems including the operations on budget execution and reporting. The software should allow regular data entry, filling in, and submission of various budget preparation and execution forms. This system is to be used for all intercommunication among budget entities. Budget preparation and execution are to be communicated to the regional council. The annual financial report should be comprehensive of all financial data and should be made public.
- (e) **Monitoring.** The external and internal auditors are supposed to prepare and submit reports on compliance and regularity. The audit reports should be submitted to the regional council for discussion and further actions. Public participation at hearings should be ensured as well as publication of the annual audit report.

## 2.5 Institutional arrangements for the health and education sectors

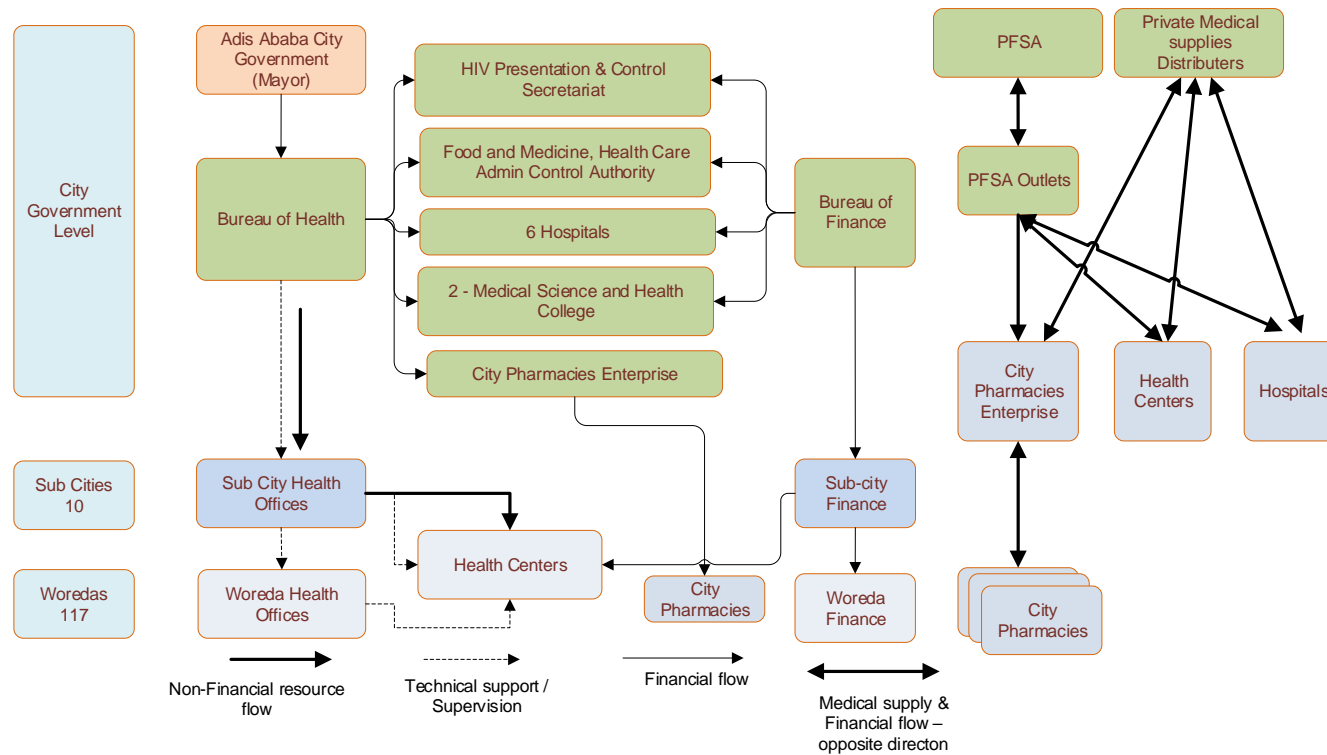
51. The Ethiopian health service is structured in a three-tier system: primary, secondary, and tertiary level of care with defined catchment populations. The primary level of care includes a primary hospital (serves 60,000–100,000 people), health centers (serves 25,000 people), and health posts (3,000–5,000 people in rural areas). The primary hospital, health centers, and health posts form a Primary Health Care Unit (PHCU). Secondary-level health care, that is, general hospitals, serves 1–1.5 million people. It provides inpatient and ambulatory services and helps as a referral center for primary hospitals. The third tier, tertiary-level health care or specialized hospitals, serves 3.5–5.0 million people and serves as referral center for general hospitals.

52. The education structure of Ethiopia is composed of three years of preprimary education, eight years of primary education (first cycle: grades 1–4, second cycle: grades 5–8), two years of general secondary education (grades 9–10), two years of preparatory secondary education, and higher education (college or university). Implementation and management of primary education and (in most cases) junior (general) secondary education are managed by woreda education office, accountable to the woreda cabinet and BoE. Regions manage senior (preparatory) secondary education, technical and vocational education and training (TVET), and universities under their jurisdiction, as well as the institutions training teachers for primary and junior secondary education. Regions are also responsible (within the framework of federal guidelines) for curriculum development in primary education, the choice of the language of instruction, and textbook provision at the primary level. The federal government is responsible for the management of higher education, which is under the Ministry of Education (MoE). The MoE is also responsible for formulating education policy, development of curriculum for secondary and higher education, and training of teachers for secondary and higher education.

53. The Addis Ababa health administration structure follow the administrative structure of the city, where there is the Health Bureau at the city level and health offices at the sub-city and woreda levels. The PHCUs, that is, the woreda health centers are reporting to the woreda health offices while the secondary and tertiary health care, city pharmacies, and health college report to the city Health Bureau. At the city level, there are two bodies responsible for education, the Technical and Vocational Education Training Agency, which is responsible for technical and vocational training, and the Education Bureau, which is responsible for general education. There are also sub-city and woreda education offices under the Education Bureau. The Addis Ababa Metropolitan University is managed by the Education Bureau while secondary schools (general and preparatory schools) are managed by the sub-cities. Preprimary and primary schools are reporting to the woreda education offices.

54. Figures 2.1 and 2.2 outline the service delivery arrangements for both the health and education sectors.

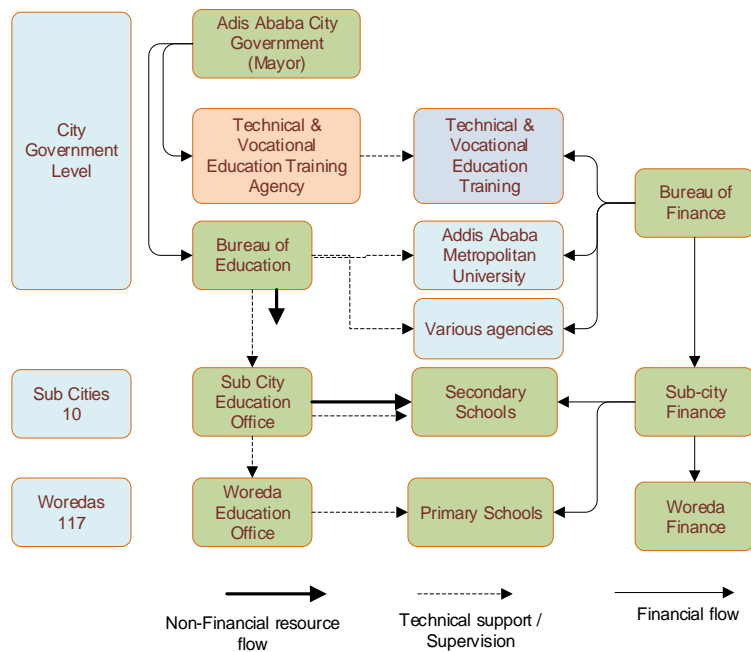
Figure 2.1: Institutional Arrangements for Health



Source: Drawing by PEFA team based on interviews with the Bureau of Health (BoH), health centers, and BoFED.



**Figure 2.2: Institutional Arrangements for Education**



Source: Drawing by PEFA team based on interviews with the Bureau of Education (BoE), BoFED, and visited schools.

## 2.6 Other important features of PFM and its operating environment

55. Financial planning, budget preparation, execution, and control are the responsibility of BoFED. An annual budget is prepared by BoFED for the city public bodies, and a block grant is awarded to sub-cities according to the block grant distribution formula approved by the City Council. The financial management system is decentralized, and sub-cities are responsible for managing their finances. Sub-cities send monthly financial reports to BoFED. All BIs currently use IBEX to record their transactions. BoFED prepares annual consolidated financial statements of all city BIs and sub-cities. There is no specific directorate within BoFED responsible for monitoring public enterprises; each enterprise reports to its parent BI.

### 3. Assessment of PFM performance

#### HLG-1 Transfers from a higher-level government

##### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for score
<b>HLG-1 Transfers from a higher-level government</b>	<b>NA</b>	<b>Scoring method M1</b>
HLG-1.1 Outturn of transfer from higher-level government	NA	This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the federal government.
HLG-1.2 Earmarked grants outturn	NA	This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the federal government.
HLG-1.3 Timeliness of transfer from higher-level government	NA	This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the federal government.

##### **HLG-1.1 Outturn of transfer from higher-level government**

56. This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the federal government.

Dimension score: NA

##### **HLG-1.2 Earmarked grants outturn**

57. This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the Federal Government.

Dimension score: NA

##### **HLG-1.3 Timeliness of transfer from higher-level government**

58. This dimension is not applicable; the City Government of Addis Ababa does not receive grants/subsidies from the Federal Government.

Dimension score: NA

### **PILLAR I. Budget reliability**

59. This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

#### **PI-1 Aggregate expenditure outturn**

##### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for score
<b>PI-1 Aggregate expenditure outturn</b>	<b>D</b>	<b>Scoring method M1</b>

Indicator/Dimension	Score	Justification for score
PI-1.1 Aggregate expenditure outturn	D	Aggregate expenditure outturn was less than 85% in at least two of the last three years (69.2% in 2015/2016, 77.5% in 2016/2017 and 74.1% in 2017/2018).

60. Aggregate expenditure outturn for the three years under review was significantly below budget. As shown in Table 3.1, the total expenditure outturn was 69.2 percent in 2015/2016, 77.5 percent in 2016/2017, and 74.1 percent in 2017/2018. The main reason for this low outturn was that procurement was not conducted as planned due to shortage of foreign currency in the country. The calculations upon which the table is based are reported in Annex 5.

**Table 3.1: Comparison of budgeted expenditure against actual outturn**

	2015/2016 (ETB, millions)	2016/2017 (ETB, millions)	2017/2018 (ETB, millions)
Original budget	31,805	35,400	40,500
Actual outturn	22,013	27,428	30,013
Actual outturn (%)	69.2	77.5	74.1

Source: BoFED 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

Dimension score: D

### PI-2 Expenditure composition outturn

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for score
<b>PI-2 Expenditure composition outturn</b>	<b>D+</b>	<b>Scoring method M1</b>
PI-2.1 Expenditure composition outturn by function	D	Expenditure composition variance by function for all of the last three years was more than 15% (22% in 2015/2016, 21% in 2016/2017, and 17% in 2017/2018).
PI-2.2 Expenditure composition outturn by economic type	D	Expenditure composition variance by economic type for all of the last three years was more than 15% (28.2% in 2015/2016, 23% in 2016/2017, and 30.4% in 2017/2018).
PI-2.2 Expenditure from contingency reserves	C	Average expenditure charged to contingency reserves for the last three years averaged 7% of the total expenditure.

61. This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Variations in expenditure composition may indicate an inability to spend resources in accordance with the government's plans, as expressed in the originally approved budget.

#### PI-2.1 Expenditure composition outturn by function

62. The functional resource allocation appears to be weak as evidenced by Table 3.2. The functional composition variance for the last three years was 22 percent in 2015/2016, 21 percent in 2016/2017, and 17 percent in 2017/2018 (excluding contingency and interest). This resulted mainly from salary expenditures and vehicle purchases that were not included in the original budget. The reasons for this budget reallocation are also poor planning and budgeting processes, failing to anticipate the need for proper resource allocation. The Financial Administration Proclamation of the city stipulates that budget transfers from capital to recurrent budget are not allowed and BoFED is empowered to approve all transfers. However, it can delegate public bodies to make transfers.

Dimension score: D

#### *PI-2.2 Expenditure composition outturn by economic type*

63. The economic composition variance for the last three years was 28.2 percent in 2015/2016, 23 percent in 2016/2017, and 30.4 percent in 2017/2018 as shown in Table 3.2. This indicates that the economic resource allocation is also weak as is the case with functional resource allocation. Such large reallocations could negatively affect efficient service delivery especially at the woreda level since originally budgeted resources could be reassigned to other sectors considered important but not within the original government priorities.

Dimension score: D

#### *PI-2.3 Expenditure from contingency reserves*

64. The actual expenditure charged to contingency reserve for the last three years averaged 7 percent of the total expenditure as shown in Table 3.3. The Financial Administration Proclamation of the city empowers BoFED to approve transfers from contingency budget to public bodies based on their request to meet unforeseen expenditures that could not be included in their original budget; however, the law does not state the limit on contingency vote as a percentage of total expenditure. Good practice suggests a 3 percent maximum contingency vote in relation to total government expenditure.

Dimension score: C

**Table 3.2: Result matrix PI-2 - composition variance by economic classification**

Year	Total expenditure deviation (less contingency) (%)	Composition variance by economic classification (%)
2015/2016	69	28.2
2016/2017	77	23
2017/2018	74	30.4

**Table 3.3: Result matrix - PI-2.1 and PI-2.3 composition variance by functional classification and contingency**

Year	For PI-1	For PI-2.1	For PI-2.3
	Total expenditure deviation (%)	Composition variance by function (%)	Contingency share (%)
2015/2016	69	22	7
2016/2017	77	21	
2017/2018	74	17	

### **PI-3. Revenue outturn**

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for score
<b>PI-3 Revenue outturn</b>	<b>D</b>	<b>Scoring method M2</b>
PI-3.1 Aggregate revenue outturn	D	Actual total revenue outturn for at least two of the last three years was less than 92% to 116% (86.5% in 2015/2016, 84.9% in 2016/2017, and 85.7 in 2017/2018).
PI-3.2. Revenue composition outturn	D	Revenue composition variance for at least two of the three years was more than 15% (13.7% in 2015/2016, 19.5% in 2016/2017, and 17.6% in 2017/2018)

65. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Accurate revenue forecasts are a key input to the preparation of a credible budget.

### *PI-3.1 Aggregate revenue outturn*

66. Most of the revenue of the city is generated from tax, which, in the three years under review, accounts for 87 percent of the total revenue collected. The remaining was collected from nontax revenue, municipality revenue, and external assistance. The actual revenue outturn for all the three years was under budget as evidenced in Table 3.4. The actual revenue outturn in 2015/2016 was 86.5 percent, 84.9 percent in 2016/2017, and 85.7 percent in 2017/2018 (the calculations upon which the table is based are reported in Annex 3A). Except nontax revenue, which exceeded plans in 2016/2017 and 2017/2018, all other types of revenue underperformed in all the three years. The main contributors for such low outturn were low tax collection, decrease in land lease sales, and decrease in external assistance. Revenue forecast is done based on the revenue potential assessment performed by BoFED and additional inputs from medium-term framework (MTF), researches, and so on. AARA has no incentive to underestimate revenue so that when it exceeds its target, it receives bonuses. Therefore, any issues about forecasting are purely due to low technical capacity.

Dimension score: D

**Table 3.4: Comparison of budgeted revenue against actual outturn**

	2015/2016 (ETB, millions)	2016/2017 (ETB, millions)	2017/2018 (ETB, millions)
Original budget	29,167	33,324	38,616
Actual outturn	25,219	28,303	33,087
Actual outturn (%)	86.5	84.9	85.7

Source: BoFED 2015/2016 and 2016/2017 audited accounts and 2017/2018 draft accounts.

### *PI-3.2 Revenue composition outturn*

67. The revenue composition variance for the last three years was 13.7 percent in 2015/2016, 19.5 percent in 2016/2017, and 17.6 percent in 2017/2018. This indicates that the variance for all the three years was more than 15 percent resulting in a score of D. Revenue composition was significantly affected in all the three years as a result of below-target performance in tax revenue, municipality revenue, and external assistance. However, this has been partially compensated by nontax revenue which has been above target in 2016/2017 and 2017/2018. Though the turnout of tax revenue remained around 90 percent in all the three years, external assistance showed an increase from 15 percent in 2015/2016 to 86 percent in 2017/2018. The performance of municipality revenue remained low in all the three years (58 percent in 2015/2016, 43 percent in 2016/2017, and 58 percent in 2017/2018).

Dimension score: D

## PILLAR II. Transparency of public finances

### PI-4 Budget classification

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for score
<b>PI-4. Budget classification</b>	<b>B</b>	<b>Scoring method M1</b>
PI-4.1 Budget classification	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification at the GFS standard level of 3 digits and use functional classification of GFS/Classification of Functions of Government (COFOG) that can produce consistent documentation comparable with those standards.

68. This indicator assesses the extent to which the city government budget and accounts classification is consistent with international standards. There is only one dimension for this indicator.

69. In the City Government of Addis Ababa, the budget classification and Chart of Accounts (CoA) for revenue and expenditure include the following categories: (a) administrative (at every administrative level as the sub agency code is included), (b) economic, and (c) functional. The functional classification is subdivided into sub functional classification. Whereas the functional classification is aligned with the international COFOG standards at the main function level (10 main functions, three-digit level), the sub functional classification (four-digit level) cannot produce consistent documentation comparable with the subfunctions of GFS/COFOG. The economic classification uses the 'Group' level of the GFS standard—three digits.

Dimension score: B

### PI-5 Budget documentation

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for score
<b>PI-5 Budget documentation</b>	<b>C</b>	<b>Scoring method M1</b>
PI-5.1 Budget documentation	C	Budget documentations fulfills at least 3 basic elements.

70. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

71. This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the city cabinet to the council of representatives and is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to the city council, that is, the FY2018/2019 (2011 Ethiopian Calendar) budget.

72. The summary box for checklists is provided in Table 3.5.

**Table 3.5: Budget documentation benchmarks**

No.	Budget documentation benchmarks	Availability
<b>Basic elements</b>		
1.	Forecast of the fiscal deficit or surplus (or accrual operating result)	No

No.	Budget documentation benchmarks	Availability
2.	Previous year's budget outturn, presented in the same format as the budget proposal	Yes - budget book
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes - budget book
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (refer to PI-4), including data for the current and previous years, in addition to the detailed breakdown of revenue and expenditure estimates	Yes - budget book
<b>Additional elements</b>		
5.	Deficit financing, describing anticipated composition	No
6.	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Yes - budget speech
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	Not applicable
8.	Financial assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	No
9.	Summary information of fiscal risks including contingent liabilities such as guarantees and contingent obligations embedded in structured financing instruments such as public-private partnership (PPP) contracts.	No
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	Partially - budget speech. The budget speech explains the budget implications of new policy initiatives and major new public investments but does not provide estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.
11.	Documentation on the MTF	No
12.	Quantification of tax expenditures	Not applicable

Source: Budget document EFY 2011, budget speech EFY 2011, and budget summary EFY 2011, Addis Ababa BoFED and city council.

Dimension score: C

### PI-6 City government operations outside financial reports

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-6 City government operations outside financial reports</b>	<b>A</b>	<b>Scoring method M2</b>
PI-6.1 Expenditure outside financial reports	A	There is no unreported budgetary city government (BCG) expenditure.
PI-6.2 Revenue outside financial reports	A	There is no unreported BCG revenue.
PI-6.3 Financial reports of extra-budgetary units	NA	There are no EBUs at the level of the City Government of Addis Ababa.



*PI-6.1 Expenditure outside financial reports*

73. There are no EBUs at the level of the City Government of Addis Ababa. All hospitals and health centers can raise own revenue. School fees and medical service fees and other own revenue are captured both in the budget and in the year-end accounts.

Dimension score: A

*PI-6.2 Revenue outside financial reports*

74. The revenue raised by the hospitals and health centers finances expenditure which is also reported both in the budget and the end-of-year accounts.

Dimension score: A

*PI-6.3 Financial reports of extra-budgetary units*

75. There are no EBUs at the level of the City Government of Addis Ababa.

Dimension score: NA

**PI-7 Transfers to subnational governments***Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-7 Transfers to subnational governments</b>	<b>B+</b>	<b>Scoring method M2</b>
PI-7.1 System for allocating transfers	A	The system for allocating horizontal transfers to sub-city governments, though complicated, is rule-based and transparent.
PI-7.2 Timeliness of information on the transfers	B	Sub-city administrations receive reliable information on transfers more than three months before the beginning of the new fiscal year; this allows for sufficient time to prepare their annual budgets. This process is part of the regular calendar process and is adhered by the majority of the budgetary units.

76. This indicator assesses the transparency and timeliness of transfers from the federal government to the first-tier SNGs along with fiscal relations with the federal government. It reviews the basis for the transfers, including whether the regional governments receive timely information about their allocations to facilitate fiscal planning.

*PI-7.1 System for allocating transfers*

77. The City Council of Addis Ababa has delegated its powers and authority to the City Cabinet for approving the sub-city block grant distribution formula. The block grant distribution formula is based on the following factors (assumptions):

- MTFF and MTEF ceilings
- Unit cost of child education and/or health care per capita
- Sub-city revenue potential

- Solid waste: number of population within sub-cities, amount of solid waste disposed of in a month, number of solid waste disposal vehicles, and distance from landfill site
- Number of police force
- Number of completed health care facilities/institutions to be operational in the next fiscal year plus anticipated number of patients
- Number of completed educational institutions to be operational in the next fiscal year plus expected number of pupils/students
- Number of micro and small enterprises within sub-cities

78. The block grant distribution matrix, though complicated, is based on transparent rules in Proclamation No. 361/2003, the Addis Ababa City Government Revised Charter Proclamation 57, clearly stating fiscal decentralization as well as the 2015/2016 recurrent and capital budget distribution formula for sub-cities law dated April 2015 and approved by the city cabinet; also actual allocation followed the same grant formula approved by the city cabinet. Each of the eight factors (assumptions) above has a different formula for grant allocation; for instance, Tables 3.6 and 3.7 summarize the allocation formula for solid waste and micro and small enterprises:

**Table 3.6: Grant distribution formula for solid waste for FY2017/2018**

Solid waste budget/grant =	Solid waste generated in a month + 2016/2017 population of each sub-city + distance to landfill site + number of solid waste vehicles in operation for 2015/2016
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Source: BoFED Budget Directorate.

**Table 3.7: Grant distribution formula for micro and small-scale enterprises**

	% allocation
Employment opportunity	25
Market links	10
Savings	5
Level of promotion	15
Industry extension and training	20
Production and display	10
Organized enterprises	15

Source: BoFED Budget Directorate.

79. Once the formula is approved by the city cabinet, BoFED prepares the budget for final approval by the city council. Table 3.8 summarizes sub-cities subsidies for FY2017/2018.

**Table 3.8: Block grants to sub-cities FY2017/2018 (ETB)**

No.	Sub-city	2017/2018 Recurrent budget	2017/2018 Capital budget	Grand total
1	Arada	867,265,900.00	520,040,308.00	1,387,306,208.00
2	Addis Ketema	821,349,213.00	215,810,778.00	1,037,159,991.00
3	Lideta	808,030,523.00	430,609,978.00	1,238,640,501.00
4	Qirkos	934,294,995.00	371,909,443.00	1,306,204,438.00
5	Yeka	1,265,727,937.00	342,934,837.00	1,608,662,774.00
6	Bole	1,143,418,329.00	224,540,156.00	1,367,958,485.00
7	Akaki Kalit	1,204,361,756.00	297,183,048.00	1,501,544,804.00
8	Nifas Silk	1,093,591,008.00	555,349,546.00	1,648,940,554.00

No.	Sub-city	2017/2018 Recurrent budget	2017/2018 Capital budget	Grand total
9	Kolife Keraniyo	1,439,748,804.00	385,296,132.00	1,825,044,936.00
10	Gulele	896,962,587.00	117,688,451.00	1,014,651,038.00
	<b>Total</b>	<b>10,474,751,052.00</b>	<b>3,461,362,677.00</b>	<b>13,936,113,729.00</b>

Source: Addis Ababa 2017/2018 Approved Budget Law.

Dimension score: A

#### PI-7.2 Timeliness of information on the transfers

80. The City Government of Addis Ababa receives no block grants from the federal government. It is therefore not affected by delays in receiving reliable information for budget preparation from the federal government. There are 10 sub-cities under the city administration and 116 woredas below the 10 sub-cities that rely heavily on grants from the city government. BoFED issued a budget call circular with approved ceilings to sub-cities on March 27, 2017, for fiscal year July 1, 2017, to June 30, 2018, allowing at least three months for the preparation of sub-cities budget estimates. This process is part of the regular calendar process; information on transfers is provided early in advance but the process is adhered to by the majority (61 percent) of the budgetary units.

Dimension score: B

#### Ongoing reforms

81. None.

#### PI-8 Performance information for service delivery

##### Summary of scores and performance table

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-8 Performance information for service delivery</b>	<b>D</b>	<b>Scoring method M2</b>
PI-8.1 Performance information for service delivery	D	Information is prepared and published annually on the outcomes achieved for ministries accounting for 12% of total expenditure.
PI-8.2 Performance achieved for service delivery	D	Information is prepared but not published annually on the outcomes achieved for ministries accounting for 7% of total expenditure.
PI-8.3 Resources received by service delivery	D	Information on resources received in cash by frontline service delivery units is collected and recorded but not for resources received in kind. A report compiling the information is prepared at least annually.
PI-8.4 Performance evaluation for service delivery	C	Midterm evaluations were carried out by both the Addis Ababa education and health bureaus in May 2018 and June 2018, respectively.

82. This indicator examines service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions. Dimension 8.1 assesses existence of performance plans for service delivery; dimension 8.2 assesses performance achieved; dimension 8.3 assesses resources received by service delivery units; and dimension 8.4 assesses performance evaluation for service delivery.

*PI-8.1 Performance information for service delivery*

83. The Addis Ababa city government has not yet introduced program budgeting. However, the key sectors of health and education are guided by five-year strategic plans, that is, the Health Sector Transformation Plan (HSTP) and the Education Sector Development Plan (ESDP) V, for health and education sectors, respectively, which provide information on planned performance for service delivery. The Addis Ababa Education Bureau five-year plan has been published. There is, however, no evidence of publication for the health sector strategy. The BoE expenditure accounts for 12 percent (< 50 percent) of the total city expenditure. The planned programs and projects financed through the Addis Ababa city budget are included in the budget proposal, but there are no key performance indicators outlined in any document. There is published information annually on project objectives but no information on the related key performance indicators, outputs, and outcomes.

Dimension score: D

*PI-8.2 Performance achieved for service delivery*

84. The Addis Ababa Health Bureau uses a web-based software to collect information on health sector performance. Hospitals, health centers, and clinics are expected to update this information on this web-based system known as the Health Information Management System (HIMS). The data on this system are entered at a lower level by frontline service providers. It was further noted that schools also collect information on their performance and provide the information to sub-cities.

85. The Addis Ababa Health Bureau HIMS provides information on service delivery on quarterly, semiannual, and annual basis detailed by program indicators. The information provided includes performance with detailed breakdown by hospitals and sub-cities. The indicators are categorized into different types, including maternal health, neonatal, and child birth; prevention and control of diseases; and child birth and illness management, and some of the specific indicators under each category include the proportion of children age 24–59 months dewormed and HIV screening for TB patients and stillbirth rate; these are reported for each sub-city and hospital. The HIMS information is not published. The BoH expenditure accounts for 7 percent (< 50 percent) of the total.

86. Every year, the city mayor delivers a detailed report on the city's performance to the city council reporting on performance achieved including output and outcomes. In addition, the Mayor delivers the year's achievement of the city's efficiency and effectiveness to the public. This is provided in many channels such as publication in a yearly magazine issued by the mayor's office and Fana broadcasting corporation. The Civil Service University studied the city's independent evaluation of efficiency and effectiveness, and the result was transmitted on a live program and published.

Dimension score: D

*PI-8.3 Resources received by service delivery*

87. Information on resources received in cash by primary schools and clinics is collected and recorded at the service delivery level in both health and education. The BoE compiles the information every year in the Education Statistics Annual Abstract. The information on resources received in kind is not recorded for schools or clinics.

Dimension score: D

*PI-8.4 Performance evaluation for service delivery*

88. Midterm evaluations were done by both the Addis Ababa Education Bureau and Addis Ababa Health Bureau in May 2018 and June 2018. The reports are not independent evaluations and are not published. The materiality level reaches 25 percent.

Dimension score: C

*PI-9 Public access to fiscal information**Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2016 score
<b>PI-9 Public access to key fiscal information</b>	<b>D</b>	<b>Scoring method M1</b>
PI-9.1 The comprehensiveness of fiscal information available to the public	<b>D</b>	The Addis Ababa city government makes available to the public 3 basic elements and 2 additional elements.

89. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension for this indicator.

*PI-9.1 The comprehensiveness of fiscal information available to the public*

**Table 3.9: Public access to key fiscal information**

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (means of availability)
<b>Basic elements</b>			
1.	<b>Annual executive budget proposal documentation.</b> A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	<b>No</b>	The city government does not make available to the public the executive budget proposal; only the enacted budget is published.
2.	<b>Enacted budget.</b> The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	<b>Yes</b>	The annual budget of the city government for EFY 2011 was approved by the city council on July 3, 2010. The enacted budget was published on Addis Negari Gazeta on July 10, 2018, with an affordable price of ETB 19. BoFED has also publicized the enacted budget via SMS text message to the citizen on July 17, 2018. The website of the Addis Ababa BoFED was not working during the assessment.
3.	<b>In-year budget execution reports.</b> The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	<b>No</b>	In-year execution reports are not published.

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (means of availability)
4.	<b>Annual budget execution report.</b> The report is made available to the public within six months of the fiscal year-end.	<b>Yes</b>	The city government prepares the annual execution report in booklet form and distributes to the sub-cities and woreda council members and citizens within six months of the fiscal year-end. In addition, the sub-cities publicize the annual report results on billboards also within six months of the fiscal year-end.
5.	<b>Audited annual financial report, incorporating or accompanied by the external auditor's report.</b> The reports are made available to the public within twelve months of the fiscal year-end.	<b>Yes</b>	The Office of Auditor General of the city government announces the annual audit report submitted to the city council as well as audit findings through the Addis TV every Sunday for 20 minutes.
<b>Additional elements</b>			
6.	<b>Pre-budget statement.</b> The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	<b>No</b>	No, the city government does not prepare a pre-budget statement.
7.	<b>Other external audit reports.</b> All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission	<b>Yes</b>	The Office of Auditor General of the city government announces the annual audit report submitted to the city council as well as audit findings through the Addis TV every Sunday for 20 minutes.
8.	<b>Summary of the budget proposal.</b> A clear, simple summary of the executive's budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a 'citizens' budget', and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval	<b>Yes</b>	The enacted budget is publicized through SMS text and the media (Addis TV) as well as by printing in brochures and in the city newspaper.
9.	<b>Macroeconomic forecasts.</b> The forecasts as assessed in PI-14.1 are available within one week of their endorsement.	<b>No</b>	The city government prepares macroeconomic forecasts, but these are not published.

90. As indicated in Table 3.9, the Addis Ababa city government only makes available three basic elements within the specific time frames out of the five basic elements of information and two additional elements.

Dimension score: D

#### Ongoing reforms

91. The BoFED website is going to be maintained for downloading the needed information.

## PILLAR III. Management of assets and liabilities

### PI-10 Fiscal risk reporting

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-10 Fiscal risk reporting</b>	<b>D</b>	<b>Scoring method M2</b>
PI-10.1 Monitoring of public corporations	D	The city government (through BoFED) does not receive AFSs from these enterprises.
PI-10.2 Monitoring of subnational governments	D	All 10 sub-city governments submit AFSs to the city government within six months; both the unaudited financial statements and audited reports are not published on time. The most recent published report relates to EFY 2007 (FY 2014/2015).
PI-10.3 Contingent liabilities and other fiscal risk	D	The City Government of Addis Ababa does not prepare and publish a fiscal risk report. In addition, it does not prepare and monitor both explicit and implicit contingent liabilities. The city Housing Agency has an outstanding loan portfolio of ETB 55.25 billion as at end February 2019.

92. This indicator has three dimensions. Dimension 10.1 assesses the level of monitoring of fiscal risk implications of public corporations on government operations; dimension 10.2 examines fiscal risk posed by SNGs; and dimension 10.3 measures the level of government contingent liabilities and other fiscal risks.

#### PI-10.1 Monitoring of public corporations

93. There are seven public enterprises under the city government; these are (a) Abattoir enterprise, (b) Anbessa city bus service enterprise, (c) Sheger mass transport service enterprise, (d) Exhibition center and market development enterprise, (e) small and medium manufacturing industry cluster development corporation, (f) cinema enterprise, and (g) Kenema pharmacies. The city government (through BoFED) does not receive AFSs from these enterprises. A new public enterprise supervisory authority has been established according to Proclamation No. 64/2019 to monitor and evaluate the financial and managerial activities of these public enterprises.

Dimension score: D

#### PI-10.2 Monitoring of SNGs

94. Article 40 of the Addis Ababa City Government Financial Administration Proclamation No. 16/2016 allows the city government to borrow domestically but with the consent of the federal government MoF; sub-cities have no borrowing powers whatsoever. Sub-cities are required, by Article 64 of the same proclamation, to report on their revenue and expenditure to the city government. Furthermore, Article 57 requires the city administration to prepare a consolidated financial statement including all accounts of city BIs as well as sub-cities for the attention of the city council. Whereas the city administration consolidates all sub-cities financial reports, they are not published on time; the most recent published report relates to EFY 2007 (FY 2014/2015). All 10 sub-city governments submit annual (unaudited) financial statements to the city government within six months; however, neither the AFSs nor the audited accounts are published. Table 3.10 shows submission dates of sub-cities accounts to BoFED.

**Table 3.10: Sub-city government submission of AFSs**

Sub-city name	Financial year June 30	Submission date (Ethiopian calendar)	Submission date (Gregorian calendar)	Reference number
Arada	FY2017/2018	01/10/2011	20/9/2018	A/sub city /fa/e/d//401/2011
Addis Ketema	FY2017/2018	12/09/2010	15/8/2018	A/k/fa/102/2010
Lideta	FY2017/2018	12/01/2010	07/08/2018	L/s city/Fa/E/DE/011/2010
Kirkos	FY2017/2018	12/11/2010	17/8/2018	fa/e/0251/10
Yeka	FY2017/2018	28/12/2010	03/09/2018	Y/fa/e/d/901/2010
Bole	FY2017/2018	18/01/2011	28/9/2018	bo/s city/0106/2011
Akaki Kaliti	FY2017/2018	02/08/2011	18/10/2018	Aka/fa/e/d/355/2011
Nifas Silk	FY2017/2018	24/12/2010	30/8/2018	N/la/fa/e/d/3094/2010
Kolfe Keranio	FY2017/2018	20/12/2010	26/8/2018	ko/k/fa/9331/10
Gulele	FY2017/2018	13/02/2011	23/10/2018	G/fa/102/11

Source: ACOAG.

Dimension score: D

### *PI-10.3 Contingent liabilities and other fiscal risks*

95. BoFED does not prepare nor publish a fiscal risk report. In addition, it does not keep records of both implicit and explicit contingent liabilities although the city government guarantees bonds raised for the Housing Agency as well as the city bus transportation network.

96. The Addis Ababa housing scheme has two main funding mechanisms: (a) the 20/80 funding scheme which is meant for the pro-poor society—here, the beneficiary and the city government contribute 20 percent and 80 percent, respectively, for the cost of the house; and (b) funding of 40/60 which requires the beneficiary to contribute 40 percent while the city government subsidizes 60 percent of the cost of the house. Available information from the Housing Bureau portrays a very risky financial situation; as at February 19, 2019, an outstanding loan (bond from the CBE, guaranteed by the city administration) of ETB 55.25 billion is on the books of the two main housing schemes. The 20/80 financing scheme owes ETB 35.8 billion representing 64.8 percent while the 40/60 scheme owes ETB 19.45 billion representing 35.2 percent. The total loan (bond) to the Housing Agency represents 123.6 percent of the city administration's 2018/2019 budget;<sup>2</sup> this is alarming.

Dimension score: D

### *Ongoing reforms*

97. No known reforms.

### **PI-11 Public investment management**

#### *Summary of scores and performance table*

Dimension	Score	Justification for 2018 score
<b>PI-11 Public investment management</b>	<b>C</b>	<b>Scoring method M2</b>

<sup>2</sup> ETB 44.7 billion.



Dimension	Score	Justification for 2018 score
PI-11.1 Economic analysis of investment projects	C	The city of Addis Ababa adopted the draft PIM manual that is being prepared by the federal level with the support of DFID and the World Bank dated November 2017. Most projects undergo economic analysis, but the results are not published.
PI-11.2 Investment project selection	C	About 30% of capital projects are selected based on economic analysis; the remaining 70% are selected based on political consideration.
PI-11.3 Investment project costing	C	It is estimated that 30% of the 2017/2018 capital budget relates to the road sector, which includes at least one-year maintenance cost.
PI-11.4 Investment project monitoring	C	The Monitoring and Evaluation (M&E) Directorate of BoFED in conjunction with the implementing budgetary unit undertakes quarterly physical inspection of capital projects. Quarterly and annual financial progress reports are also prepared. That said, they are not published. A summary project completion report is published on city notice boards.

98. This indicator assesses the process of economic appraisal, selection, costing, and monitoring of the most significant public investment projects by the government. This is a new indicator; it has four dimensions. There are no EBUs and funds within the city government administration.

#### *PI-11.1 Economic analysis of investment projects*

99. Pages 37 and 80 of the 2016 PEFA framework and the PEFA Field Guide 2016, respectively, define major investment projects as “total investment cost of project amounting for 1 percent or more of total annual budget expenditure” and these investment projects are “among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units’ investment project expenditure.” According to the Addis Ababa city PIM manual dated November 2017, a project is defined as “a temporary endeavor undertaken to create a unique product, service, or result.” According to this definition, there is no cost limitation as far as a project is concerned. The cost-benefit analysis is the appraisal technique used to decide whether a project will make a contribution toward reaching the city’s objectives. That said, the Planning and Policy Directorate of BoFED reviews most (75 percent in value terms) of the feasibility studies undertaken. Most (75 percent in terms of value) of the feasibility studies are also conducted by implementing BIs in accordance with the PIM manual, which represents the national guidelines for project selection and implementation. That said, the results of the studies are not published.

100. Table 3.11 outlines the 10 largest total capital investment projects. Only one (Cobble-stone Road Construction—representing 2.63 percent of the total budget) meets the PEFA criteria. Nonetheless, the rest were taken into account by the assessment team on the basis of the city’s definition of investment projects. That said, the results reached imply that economic analysis was conducted for some (25 percent) of the major investment projects, because the rest of the elements in the criteria for higher scoring are not met.

**Table 3.11: Total capital investment projects (10 largest)**

Name of project	Capital cost	BoFED total budget	% of budget
Upgrading shortcut and access road construction	98,317,598.00	40,500,000,000.00	0.24
Cobble-stone Road Construction	1,066,894,188.96	40,500,000,000.00	2.63

Pushekin Adebabay–Gofa mazoriya–Gotera interchange	218,523,330.00	40,500,000,000.00	0.54
Meskel square–Bole Airport/right-of-way	84,810,000.00	40,500,000,000.00	0.21
Drainage construction and maintenance	98,114,547.00	40,500,000,000.00	0.24
Grave road construction	141,670,143.00	40,500,000,000.00	0.35
lidetatsebel AU adebabay–bulgaryamazoriya lancha esraelgaraz road	131,163,000.00	40,500,000,000.00	0.32
Tafo–Sendafa waste disposal road	30,724,068.00	40,500,000,000.00	0.08
Tulu Dimtu Kaliti square	47,958,055.00	40,500,000,000.00	0.12
Reconstruction of residence houses damaged by fire around Hadid Area (Hider 2010 Open)	301,036,000.00	40,500,000,000.00	0.74

Source: BoFED Planning Directorate.

Dimension score: C

### *PI-11.2 Investment project selection*

101. The three key project selection criteria are as follows:

- (a) Desirability - projects ought to be in line with the overall government medium-term strategic plan
- (b) Achievability - whether the project can be delivered according to plan considering funding mechanisms and other environmental constraints and challenges
- (c) Viability - to consider the cost implications and potential revenue-generating streams, management implications, financial sustainability, and project economic impact

102. It is estimated that only 30 percent of capital projects undergo rigorous selection criteria based on societal needs, alignment to city and in some cases federal government policy (GTP II), and the availability of fiscal space. The remaining 70 percent (prioritized by the city cabinet) are selected and funded based on political considerations; one example of this is the ongoing housing project, requiring significant amount of finance, for which the city government has issued a bond currently at ETB 55.25 billion (refer to PI-10.3). It appears that the impact of the adopted PIM manual is yet to be seen. The PIM manual represents the national guidelines, but it is not yet published.

Dimension score: C

### *PI-11.3 Investment project costing*

103. The budget documentation includes a medium-term capital expenditure framework, but there is no evidence of a full and comprehensive forward-linked recurrent expenditure framework. The total cost of major capital projects is included in the budget documentation. An amount of ETB 22.3 billion has been allocated to capital expenditure for FY2017/2018 (for both new and ongoing projects). However, there is no clarity referencing forward-linked recurrent expenditure. Officials have indicated that about 30 percent of the capital budget relates to the road sector which includes at least a year's maintenance cost once the project is completed. It is considered a good practice for project costing to include both total investment cost and forward-linked recurrent expenditure. As fiscal space is usually limited, a comprehensive cash flow forecasting (costing framework) becomes an important element in decision making for new projects, especially in cases where there are ongoing capital investment projects. This significantly reduces the predisposition of uncompleted government projects.

Dimension score: C

*PI-11.4 Investment project monitoring*

104. The M&E Directorate of BoFED is responsible for examining all capital investment projects undertaken by the central government under the city administration. Every quarter, it performs physical inspection of projects together with individual budgetary units and prepares progress reports: the progress reports contain pictures of projects. Quarterly and annual financial reports are also produced to track the financial performance of capital projects; these are not published. Where there are defects, the M&E Directorate of BoFED recommends remedial action to be taken against the contractor. At the end of the project, project completion reports are prepared. The Addis Ababa City Auditor General also undertakes some performance audits of some capital projects. Whereas the performance audit reports are not published, summarized project completion reports are pasted on city notice boards for information dissemination.

Dimension score: C

*Ongoing reforms*

105. DFID and the World Bank are providing technical assistance for drafting the new PIM regulations, guidelines and manuals. This is underway and not yet completed.

**PI-12 Public asset management***Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-12 Public asset management</b>	<b>D+</b>	<b>Scoring method M2</b>
PI-12.1 Financial asset monitoring	C	The consolidated AFSs of the City Administration shows cash and bank balances; however, it does not disclose investment portfolios in both public and private enterprises.
PI-12.2 Nonfinancial asset monitoring	D	There is no consolidated fixed assets register; fixed asset management is decentralized. That said, the decentralized asset register shows user information, cost of acquisition, and age of asset.
12.3 Transparency of asset disposal	C	Disposal of fixed assets within the city administration and allied BIs is regulated by Article 59 of the Addis Ababa Procurement and Property Administration Proclamation No. 9/2009 dated November 9, 2009. The law requires that disposals should be published and done through public auction. Available evidence shows transfer of obsolete assets to other public entities within the city administration. This information is included in the financial reports of the city government.

106. This indicator has three dimensions. Dimension 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; dimension 12.2 examines the extent to which nonfinancial assets (fixed assets) are monitored and reported; dimension 12.3 measures the level of transparency of asset disposal. There are no EBUs and extra-budgetary funds within the City Government of Addis Ababa.

*PI-12.1 Financial asset monitoring*

107. The Addis Ababa city administration does not maintain a record of financial assets (investments in shares) in both public and private entities. There are, however, records of both cash and bank balance in each sector (city BI) as well as at the BoFED Treasury. There are two public transport companies under the direct supervision of the Addis Ababa Transport Authority, namely, Anbessa and Sheger; that said, the investment portfolio in these two enterprises is neither captured under the transport authority's AFSs nor the city administration's financial statements.

Dimension score: C

*PI-12.2 Nonfinancial asset monitoring*

108. Just as management of fixed assets is decentralized at the federal government level, the same applies to Addis Ababa city administration; there is no consolidated fixed assets register. There is no comprehensive fixed assets management policy at the city level. Article 57 of the Addis Ababa City Administration Procurement and Property Administration Proclamation No. 9/2009 stipulates that all heads of BIs shall record the date, description, quantity, and cost of acquisition and indicate the custody and usage of fixed assets. Each budgetary unit maintains an asset register for vehicles, furniture and fittings, computers, and equipment, showing both the historical cost of asset, depreciation, and net book value. The asset register however does not contain records of information on buildings. The asset registers at each budgetary unit provide information of their usage and age as well as the custodian of the asset; the asset user card provides this useful information. A new development which began in 2016 with the passage of Proclamation No. 818/2016 on management and use of land within Addis Ababa is worth mentioning; the Integrated Land Information Center (ILIC) is responsible for registering and maintaining records of all lands belonging to the city administration. The center has so far identified 650,000 acres of land to be registered over a 10-year period beginning 2016; so far, it has managed to register only 50,000 acres in the cadaster system. Managers of the center have identified weaknesses in the land registration and administration software as well as obsolete land registration equipment as major drawbacks to achieving the 10-year land registration program. In addition, low technical capacity has been identified as a potential setback to successfully accomplish the set target.

Dimension score: D

*PI-12.3 Transparency of asset disposal*

109. Disposal of fixed assets within the city administration and allied BIs is regulated by Article 59 of the Addis Ababa Procurement and Property Administration Proclamation No. 9/2009 dated November 9, 2009. The regulatory framework referencing the threshold for fixed asset disposal applicable at the federal government level is the same at the city government level. Each fixed asset valued at ETB 10,000 or above and/or cumulatively valued at ETB 100,000 or above shall be referred to the PPPDS for disposal. Below this threshold, the budget unit shall dispose of assets through public auction. The legal framework requires that adverts are placed in the city newspapers and TV station; the sale of assets should be done through public auction. Subsection 2 of Article 59 mandates all BIs to deposit all disposal proceeds into the Addis Ababa city treasury bank account; at the time of the assessment, no proceeds have been realized from fixed assets disposal. The current practice is that obsolete assets are transferred (in accordance with Article 61 of the same proclamation) to other public bodies such as schools and clinics in woredas within the 10 sub-cities. This information is included in the financial reports of the city government.

Dimension score: C

*Ongoing reforms*

110. No known reforms.

**PI-13 Debt management***Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-13 Debt management</b>	<b>D</b>	<b>Scoring method M2</b>
PI-13.1 Recording and reporting of debt and guarantees	D	The city government issues guarantees for agencies with government interest. That said, these guarantees are neither recorded nor monitored by the city government.
PI-13.2 Approval of debt and guarantees	D	As indicated under PI-13.1, the city government has issued guarantees for agencies with government interest. However, these guarantees are not reported and monitored by the city government. In addition, there are no documented policies that guide the issuance of these guarantees.
PI-13.3 Debt management strategy	D	The city of Addis Ababa cannot borrow on its own accord however, it provides guarantees. The city does not prepare a medium-term debt strategy.

111. There are three dimensions under this indicator. Dimension 13.1 assesses the integrity and comprehensiveness of reporting federal government debt (both domestic and foreign debts as well as guarantees). Dimension 13.2 measures the legal and regulatory framework governing approval of loans and guarantees. Dimension 13.3 assesses whether the government prepares medium-term debt strategy.

*PI-13.1 Recording and reporting of debt and guarantees*

112. This dimension is not assessed; the city of Addis Ababa cannot borrow without the consent of the federal MoF as mandated by Article 40 (2) of the 2017 Financial Administration Proclamation No. 648/2009. All loans on the books of the city administration are on-lent from the federal government. The same Financial Administration Proclamation gives authority to the city government to issue guarantees on behalf other agencies with government interest. As indicated under PI-10.3, the city government guarantees bonds raised for the Housing Agency as well as the city bus transportation network. That said, these guarantees are neither recorded nor monitored by the city government.

Dimension score: D

*PI-13.2 Approval of debt and guarantees*

113. This dimension is not assessed, as the city of Addis Ababa cannot borrow on its own accord. In accordance with Article 40 (2) of the (federal government) 2017 Financial Administration Proclamation No. 648/2009,<sup>3</sup> the minister of finance is the sole government official authorized to contract loans and issue guarantees on behalf of the Federal Government of Ethiopia and the city and regional governments. According to Article 40 of Addis Ababa City Administration Financial Proclamation No. 16/2010, the city council shall authorize all domestic borrowing in concurrence with the federal minister of finance; by this proclamation, the city administration cannot borrow without MoF consent. As indicated under PI-13.1, the city government has issued guarantees for agencies with government interest. However, these guarantees are not reported and monitored by the city

<sup>3</sup> Ethiopian Calendar = 2017 Gregorian Calendar

government. In addition, there are no documented policies that guide the issuance of these guarantees.

Dimension score: D

#### *PI-13.3 Debt management strategy*

114. The city of Addis Ababa cannot borrow on its own accord but it provides guarantees. However, it doesn't prepare a medium-term debt strategy.

Dimension score: D

#### *Ongoing reforms*

115. No known reforms.

## **PILLAR IV. Policy-based fiscal strategy and budgeting**

### *FPI-14 Macroeconomic and fiscal forecasting*

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-14 Macroeconomic and fiscal forecasting</b>	<b>C+</b>	<b>Scoring method M2</b>
PI-14.1 Macroeconomic forecasts	C	The Fiscal Policy and Revenue Study Directorate prepares forecasts of key macroeconomic indicators, which, with the underlying assumptions, are included in a summary version in the budget speech submitted to the council but are not submitted in full. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have not been reviewed by a technical entity other than the preparing entity.
PI-14.2 Fiscal forecasts	C	The Fiscal Policy and Revenue Study Directorate prepares, through the MTFF, forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget are included in a summary version in the budget speech submitted to the council but are not submitted in full.
PI-14.3 Macro-fiscal sensitivity analysis	B	The Fiscal Policy and Revenue Study Directorate of BoFED prepares, for internal use, a range of fiscal forecasts based on alternative macroeconomic assumptions. The budget documents sent to the city council include a discussion of forecast sensitivities.

116. This indicator measures the ability of a government to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations.

*PI-14.1 Macroeconomic forecasts*

117. The Fiscal Policy and Revenue Study Directorate of BoFED prepares the MTFF which contains forecasts for aggregate expenditure and revenue and key macroeconomic indicators (inflation, production, exchange rate, global market price of commodities, and so on) for the current year and two outer years. The MTFF is updated every year and has been issued for the past three fiscal years, EFY 2008, 2009, and 2010. The MTFF is sent to the cabinet for approval and review. A summary of its contents and the underlying assumptions are submitted through the budget speech to the city council but not the document itself. Furthermore, it is not reviewed by an independent technical entity other than the preparing entity.

Dimension score: C

*PI-14.2 Fiscal forecasts*

118. The Fiscal Policy and Revenue Study Directorate of BoFED, through the MTFF, prepares forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget are included in a summary version in the budget speech which is submitted to the city council. The full version is not submitted. The differences with the previous year's budget are explained in the budget speech and the MTFF for all past three fiscal years, EFY 2008, 2009, and 2010. As to the underlying assumptions, for revenue, the performance of past year's tax collection was considered, as was the nominal GDP growth; for expenditure, the targets of GTP II were considered, along with the exchange rate, the government's cost reduction strategy, and debt, among others.

Dimension score: C

*PI- 14.3 Macro-fiscal sensitivity analysis*

119. The Fiscal Policy and Revenue Study Directorate of BoFED prepares, for internal use, a range of fiscal forecasts based on alternative macroeconomic assumptions. These include three scenarios (pessimistic, baseline, and optimistic) and include a qualitative and quantitative assessment of the impact of alternative macroeconomic assumptions such as performance of tax reform and nontax revenue, economic development, aid, foreign direct investment, completion of ongoing projects, and the exchange rate impact. The budget documents sent to the city council include a discussion of forecast sensitivities.

Dimension score: B

*PI-15 Fiscal strategy**Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-15 Fiscal strategy</b>	<b>D</b>	<b>Scoring method M2</b>
PI-15.1 Fiscal impact of policy proposals	D	The city government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.
PI-15.2 Fiscal strategy adoption	D	The city government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.
PI-15.3 Reporting on fiscal outcomes	NA	The city government does not prepare an internal report on the progress made against its fiscal strategy.



120. This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. No fiscal strategy is developed for the Federal Government of Ethiopia.

#### *PI- 15.1 Fiscal impact of policy proposals*

121. The city government through the budget speech (ref. PI-5) explains the budget implications of new policy initiatives and major new public investments but does not provide estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.

Dimension score: D

#### *PI- 15.2 Fiscal strategy adoption*

122. The city government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.

Dimension score: D

#### *PI- 15.3 Reporting on fiscal outcomes*

123. The city government does not prepare an internal report on the progress made against its fiscal strategy.

Dimension score: NA

#### *Ongoing reforms*

124. None.

### ***PI-16 Medium-term perspective in expenditure budgeting***

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	<b>D+</b>	<b>Scoring method M2</b>
PI-16.1 Medium-term expenditure estimates	D	The annual budget does not present expenditure for the two following fiscal years.
PI-16.2 Medium-term expenditure ceilings	D	The aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the cabinet after the BCC is issued.
PI-16.3 Alignment of strategic plans and budgets	D	Medium-term strategic plans are prepared for 12% of the bureaus in terms of share of total expenditure.
PI-16.4 Consistency of budgets with previous year estimates	A	The budget documents provide an explanation of all changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the bureau level.

125. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to



which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

#### *PI- 16.1 Medium-term expenditure estimates*

126. Though the MTEF is prepared on a three-year basis and is approved by the cabinet, the annual budget document presents estimates of expenditure by administrative unit, function or program, and economic type but for the budget year only.

Dimension score: D

#### *PI- 16.2 Medium-term expenditure ceilings*

127. In EFY 2010 (that is, Gregorian FY2017/2018), the BCC was issued on April 8, 2018 (see PI-17.1). For the preparation of the budget for EFY 2011 (that is, Gregorian FY2018/2019), the MTEF was approved by the cabinet of the city government in the month of April 2018. Though the date is not written in the MTEF, the planning and budgeting division said that it was approved after the BCC was issued. The MTEF includes both aggregate and sectoral bureau-level ceilings for the budget year and two outer years.

Dimension score: D

#### *PI- 16.3 Alignment of strategic plans and budgets*

128. The assessment team met the BoH, BoE, Road Authority, and the National Planning Commission and asked for the sector strategic plans which are deemed to be developed on a five-year basis and updated annually. Only the BoH and the BoE sector strategies were provided to the assessment team. The strategies are fully costed. As seen from Table 3.12, the education and the health sectors combined represented 19 percent of total expenditure for FY2017/2018. This is less than the 25 percent required for a C score.

**Table 3.12: Changes between MTEF and budget**

Administrative category	Actual expenditure FY2017/2018	Costed sector strategy	Percentage of expenditure/total
Organ of state	1,201		
Justice and legal affairs	1,566		
General service	2,267		
Public procurement and property disposal	83		
Agriculture	145		
Natural resource	2,581		
Trade and industry	1,106		
Transport and communication	1,608		
Construction	5,631		
Education	3,529	Yes	12
Culture and sport	746		
Health	2,192	Yes	7
Social affairs	666		
Budget support	825		
Miscellaneous	44		
Administration and general service	1,425		

Administrative category	Actual expenditure FY2017/2018	Costed sector strategy	Percentage of expenditure/total
Economy	1,362		
Social	181		
Allocated expenditure	27,158		
Interests	-		
Contingency	2,855		
Total expenditure	30,013		

Dimension score: D

#### PI- 16.4 Consistency of budgets with previous year estimates

129. The changes between the MTEF issued in FY2017/2018 for FY2018/2019–2020/2021 (EFYs 2011–2013) and the FY2018/2019 (EFY 2011) budget are detailed in Table 3.13 in terms of the size of the expenditure involved in the changes. Only 7 percent of the changes in value, compared to MTEF forecasts, relating to the water supply and sewerage were left unexplained in the FY2018/2019 budget (EFY 2011 budget). As a result, the budget documents provide an explanation of 93 percent of the changes to expenditure estimates between the second year of the last medium-term budget and the current year of the current year budget at the bureau level.

Dimension score: A

**Table 3.13: Changes between MTEF and budget**

Concerned items/budget units	Changes in terms of approved expenditure (EFY2011, FY2018/2019) (ETB, billions)	Explanation (Yes/No)	Unexplained changes
Total recurrent	6.63	Yes	
Total capital	0.56	Yes	
Total recurrent and capital	6.07	Yes	
Road Authority	1.08	Yes	
Water supply and sewerage	1.21	No	7%
Housing Development Office	0.02	Yes	
BoE	0.39	Yes	
BoH	0.14	Yes	
Transport Authority	0.13	Yes	
Subsidy to sub-cities	1.13	Yes	
<b>Total changes</b>	<b>17.36</b>		

Sources: Addis Ababa city government BoFED, Budget FY2018/2019, and MTEF issued in EFY 2010 for 2011–2013.

#### Ongoing reforms

130. None.

**PI-17 Budget preparation process***Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-17 Budget preparation process</b>	<b>C</b>	<b>Scoring method M2</b>
PI-17.1 Budget calendar	C	An annual budget calendar exists, and some budgetary units comply with it and meet the deadlines for completing estimates.
PI-17.2 Guidance on budget preparation	B	A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects the bureaus and agency ceilings submitted to the cabinet of the city government. The cabinet's approval took place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions.
PI-17.3 Budget submission to the legislature	D	The executive has not submitted the annual budget proposal to the legislature at least one month before the start of the new year.

131. This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the ministries, departments, and agencies (MDAs), including their political leadership represented by the cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions 17.1 and 17.2 are assessed using the last budget submission, for EFY 2011. Dimension 17.3 is assessed on the basis of the last three approved budgets, that is, EFY 2011, 2010, and 2009.

**17.1 Budget calendar**

132. The budget calendar exists and is partially adhered to. It allows six weeks for the BIs to complete the submissions, as the BCC for the preparation of the EFY 2011 budget was issued on April 8, 2018, and the deadline for submissions was May 22, 2018. That said, 61.3 percent of BIs submitted their expenditures on time, which means that some (> 25 percent) budgetary units comply with it and meet the deadlines.

Dimension score: C

**Table 3.14: Budget calendar**

Cycle/part/stage	Ethiopian calendar	European calendar
<b>Planning cycle</b>		
1. More than one year plan	Hamle 1–Nehassie 30	July 8–September 5
2. For a program more than one year	Meskerem 15–Tahsas 30	September 25–January 8
3. Annual financial plan	Pagumie 1–Tahsas 30	September 6–January 8
<b>Budget cycle</b>		
<b>A. Executive preparation and recommendation of budget</b>		
1. Budget preparation	Meskerem 21–Megabit 7	October 1–March 16
2. Preparation of grant formula for the sub-cities	Meskerem 20–Hidar 5	September 30–November 15
3. Notification of the grant (subsidy)	Tahsas 30–Yekatit 7	January 9–February 16
4. Budget call	Tahsas 30–Tir 28	January 9–February 7
5. Budget request	Tir 30–Megabit 2	February 8–March 31
6. Preparation of budget recommendation	Megabit 23–Miaza 28	April 1–June 6

Cycle/part/stage	Ethiopian calendar	European calendar
7. Approval of the recommended budget	<b>Ginbot 30–Sene 30</b>	<b>June 7–June 20</b>
<b>B. Legislative approval</b>		
8. Approval of the grant formula to sub-cities	Hidar 7–Tahsas 6	November 16–December 15
9. Approval of the recommended budget by the city council (enactment)	Sene 14–Sene 30	June 21–July 7
10. Appropriation of the budget	Sene 14–Sene 30	June 21–July 7
<b>C. Executive implementation</b>		
11. Notification of approved budget	Hamle 1–Hamle 8	July 8–July 14

Source: Planning and budget core process of Addis Ababa BoFED.

**Table 3.15: Budget requests submission dates**

Budget code	Name of public body	Submission date	Actual expenditure EFY 2010, Gregorian FY2017/2018 in ETB, millions
112	Mayor Office	29/5/2018	1,148,605,444
127	Police Commission	8/6/2018	1,330,250,505
135	Office of Code Enforcement Service	25/5/2018	244,581,528
152	Finance and Economic Development Bureau	12/6/2018	965,498,894
153	Communication Affairs Bureau	30/5/2018	117,872,164
155	Public Service and Human Resource Development Office	1/6/2018	356,425,575
156	Revenue authority	25/5/2018	881,278,629
159	Mass Media Agency	4/6/2018	184,045,177
163	Public Procurement and Disposal Agency	29/5/2018	92,239,078
221	Water and Sewerage Authority	4/6/2018	2,850,916,991
231	Trade Bureau	29/5/2018	370,283,363
232	Micro Small Enterprises Development Office	4/6/2018	464,450,510
262	Transport Program Coordination Office	29/5/2018	643,582,942
265	Transport Authority	25/5/2018	730,422,428
266	Driving and Vehicle Permit and Control Authority	31/5/2018	137,826,330
267	Traffic Management Agency	30/5/2018	249,615,021
271	Construction Bureau	23/5/2018	131,665,196
273	Road Authority	13/6/2018	4,343,102,249
275	Housing Development Project Office	4/6/2018	921,128,562
311	Education Bureau	30/5/2018	2,721,126,840
315	Kotebe Metropolitan University	29/5/2018	176,574,723
319	Addis Ababa Meles Zenawi Management Academy	7/6/2018	152,283,369
323	Technical & Vocational Education Training Office	6/6/2018	162,551,619
331	Youth and Sport Bureau	30/5/2018	553,152,387
332	Culture and Tourism Bureau	17/5/2018	252,143,744
341	Health Bureau	29/05/2018	1,386,766,092
345	HIV Prevention and Control Office	28/05/2018	15,866,127
346	Zewditu Memorial Hospital	22/05/2018	146,297,297
347	Gandhi Memorial Hospital	31/05/2018	106,186,439
348	Tirunesh Beijing Hospital	17/05/2018	121,195,726

Budget code	Name of public body	Submission date	Actual expenditure EFY 2010, Gregorian FY2017/2018 in ETB, millions
351	Labor and Social Affairs Bureau	4/6/2018	238,713,884
353	Rehabilitation Project Office for Displaced Peasants due to Development	24/5/2018	229,890,096
354	Women and Children Affairs Bureau	31/5/2018	230,277,764
522	Beauty, Parking & Permanent Parking Development & Service Office	30/5/2018	277,162,648
524	Solid Waste Re-use & Disposal Project Office	23/5/2018	77,501,125
531	Fire and Emergency Prevention and Rescue Authority	1/6/2018	200,010,274
Total expenditure for public bodies EFY 2010 and Gregorian FY2017/2018 that answered late to the BCC (after March 22, 2018 GC)			11,612,941,760
Total expenditure for public bodies EFY 2010 and FY2017/2018 GC			30,013,437,787
Total expenditure for public bodies that answered on time to the BCC/total expenditure for public bodies EFY 2010 and FY2017/2018 GC			<b>61.3%</b>

Source: Planning and budget core process of Addis Ababa BoFED.

### 17.2 Guidance on budget preparation

133. A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects the bureaus and agency ceilings submitted to the cabinet of the city government. The cabinet's approval took place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions.

Dimension score: B

### 17.3 Budget submission to the legislature

134. The new fiscal year starts on July 8. Table 3.16 presents the dates of the budget submission. The executive has not submitted the annual budget proposal to the legislature at least one month before the start of the new year for all the years.

Dimension score: D

**Table 3.16: Dates of submission of the budget to the city council**

Ethiopian calendar	European calendar	
2011	2018/2019	June 8, 2018
2010	2017/2018	June 27, 2017
2009	2016/2017	June 23, 2016

### PI-18 Legislative scrutiny of budgets

#### Summary of scores and performance table

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-18 Legislative scrutiny of budgets</b>	<b>D+</b>	<b>Scoring method M1</b>
PI-18.1 Scope of budget scrutiny	C	The legislature's review covers the details of expenditure and revenue.

Indicator/Dimension	Score	Justification for 2018 score
PI-18.2 Legislative procedures for budget scrutiny	D	The legislature's procedures to review budget proposals are not approved by the legislature in advance of budget hearings. The procedures include internal organizational arrangements, such as specialized review committees, and negotiation procedures. They do not include public consultation or technical support.
PI-18.3 Timing of budget approval	B	The legislature has approved the annual budget before the start of the fiscal year in two of the last three years.
PI-18.4 Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget amendments by the executive and are adhered to in all instances. Extensive administrative reallocations are permitted without total expansion of expenditure.

135. This indicator assesses the legislative scrutiny and debate of the annual budget law as described by the scope of the scrutiny, the internal procedures for scrutiny and debate, and the time allocated to that process, in terms of the ability to approve the budget before the commencement of new fiscal year, and also assesses the existence of rules for in-year amendments to the budget without ex ante approval by the legislature.

#### *PI-18.1 Scope of budget scrutiny*

136. The Finance and Economic Development Committee (FEDC) is a standing committee of seven members, appointed by the speaker of the city council, all from the ruling party (there are no opposition members in the council). It combines the roles of review of draft budgets before they are approved by the council, monitoring of budget execution, and scrutiny of audit reports after the year has ended. There are no specialized review committees.

137. The FEDC no longer receives the MTEF, although it is received by the Cabinet. It receives the detailed estimates of expenditure and revenue and the budget speech that includes a summary of the MTEF. Though this includes fiscal policy, medium-term fiscal forecasts, and medium-term priorities, the FEDC only reviews the detailed estimates of revenue and expenditure.

Dimension score: C

#### *PI-18.2 Legislative procedures for budget scrutiny*

138. Once the yearly budget is approved, it is published in a budget proclamation, as well as in the website of the city administration, and is generally distributed to the public. There are no written procedures for budget scrutiny. The process of review is rather based on practice and experience. The budget is issued within a month after approved by the city council. The legislative procedures for budget scrutiny include a specialized committee, the FEDC. The draft budget is received by the speaker of the city council, and then, it is forwarded to the FEDC. Next, the draft budget is sent to the legal department. The whole review process takes 10 days. Negotiation procedures are in place and are specified in the Code of Conduct of the Members of the Council of Addis Ababa.

139. The procedures do not include arrangements for public consultation nor the possibility to ask for technical support. Public participation is not formally envisaged. Still, the practice described by the council and the minutes reviewed indicate that at the budget scrutiny conducted for the previous budget (EC 2010 budget) examined by the council, the following parties attended: (a) standing committee members, (b) representatives from 116 woredas and 10 cities, (c) heads of all sector bureaus, (d) heads of sub-cities and speakers, (e) the women league of the city (three participants), (f) youth league (three participants), and (g) Addis Ababa City Residence Forum (three participants),

which amounts to nine participants in total from civil society. They are usually invited by PAC. The last fiscal year budget proposal scrutiny was broadcasted live on Addis TV.

140. For the EC 2011 budget review conducted in 2010, which is the one assessed by this PEFA, the woredas were not represented, nor was civil society. This was due to significant change of leadership. The last budget proposal scrutiny was attended only by representatives of the Bureau of Justice, Bureau of Finance, and revenue authority. The new management of the remaining BIs were in the process of appointment. This massive change of top management followed protests and social turmoil in society. As a result, the mayor and vice mayor as well as the speaker of Addis Ababa city government were replaced. The change did not affect the timing but rather the attendance of the budget scrutiny process. Usually, the woreda-level BIs consult with the public at the budget planning stage. Only last year, this element was omitted.

Dimension score: D

### *Ongoing reforms*

141. Since the end of 2018, the outcome of the budget scrutiny hearing has been posted on Facebook.

#### *PI-18.3 Timing of budget approval*

142. For the past three budgets, the dates of the submission of the draft budget to the Budget and Finance Committee (BFC) are shown in the table below. The dates of approval by the BFC for the last three budgets are also shown below. The fiscal year in Ethiopia starts on July 8th. For two of the last three fiscal years, the budget was approved before the start of the new fiscal year. The approved budget is provided to all BIs, including sub-cities and woredas, through IBEX.

**Table 3.17: Budget submission to the council and adoption (2016/2017–2018/2019)**

Budget year	Draft budget submitted to council	Budget adopted by council
EFY 2009 and FY2016/2017	June 23, 2016	July 2, 2016
EFY 2010 and FY2017/2018	June 27, 2017	July 4, 2017
EFY 2011 and FY2018/2019	June 8, 2018	July 10, 2018

Source: City council.

Dimension score: B

#### *18.4 Rules for budget adjustments by the executive*

143. The rules for budget adjustments are clearly stated in Articles 22 and 27 of the City Government Financial Administration Proclamation No. 51/2017. There is no specific rule on how many times the budget can be amended or any volume threshold for adjustment. In addition to this provision, the annual city government budget proclamation also has an Article (Article 4) stipulating additional rules on budget transfers. Articles 22 and 27 state that “transfers shall be allowed from the recurrent to the capital budget” and “no transfers shall be allowed from the capital to the recurrent budget.” The provision gives BoFED of the city government the flexibility to transfer budget provisions between sectors, programs, and economic items, just as long as capital budget allocations are not transferred to the recurrent budget. Also, any supplementary budget has to be approved by the city council.

144. The team has analyzed all the city government transfers for EFY 2010 (FY2017/2018) and could conclude that no transfers were made from the capital budget to the recurrent budget. The rules were

thus adhered to in all instances. That said, the rules allow for extensive administrative reallocations, where total expenditure is not expanded and only reallocations within the approved budget are allowed. Thus, the rules set limits on the nature of amendments.

Dimension score: B

### *Ongoing reforms*

145. None.

## **PILLAR V: Predictability and control in budget execution**

### *PI-19 Revenue administration*

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-19 Revenue administration</b>	<b>B</b>	<b>Scoring method M2</b>
PI-19.1 Rights and obligations for revenue measures	B	AARA provides payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
PI-19.2 Revenue risk management	C	AARA uses partly structured and systematic approach for assessing and prioritizing compliance risks.
PI-19.3 Revenue audit and investigation	B	The performance of tax audit was 103% of the plan, while investigation audit was 90% of the plan.
19.4 Revenue arrears monitoring	A	The arrears balance at the end of FY2017/2018 was 9.46% of total revenue, while arrears older than 12 months were 14% of total revenue.

146. The indicator assesses the procedures used to collect and monitor government revenues. A government's ability to collect revenue is an essential component of any PFM system.

147. AARA has been under the jurisdiction of the Federal Ministry of Revenue (formerly known as Ethiopian Revenue and Customs Authority) from 2010 to December 2018. Federal revenues collected by the Ministry of Revenue (MoR) were transferred to the federal government while city revenues have been transferred to the city government. However, in December 2018, AARA has been separated from the MoR and established as a separate public body under the Addis Ababa city administration.

#### *PI-19.1 Rights and obligations for revenue measures*

148. Most of the revenue of the city administration (87 percent of the total revenue in the last three years) was collected by AARA. Since AARA has been under the MoR until recently and all the tax laws, regulations, and directives are similar to those of the federal government, the information on the main tax obligations and rights and redress processes and procedures that is being communicated by the MoR equally apply for the city taxpayers. The MoR uses different channels of communication to reach the taxpayers such as website ([www.erca.gov.et](http://www.erca.gov.et)), social media (Facebook and Twitter), annual magazine, and radio and television programs. AARA is currently in the processes of developing its own website. The main tax laws applicable in Addis Ababa city administration are

- Income Tax Proclamation No. 173/1961, as amended by Proclamation No. 979/2016;
- Proclamations No. 30/1992, No. 107/1994, and No. 979/2016 for income tax on employment;



- Proclamations No. 77/1997, No. 152/1978, and No. 8/1995 for rural land and agricultural activities income tax;
- Proclamation No. 979/2016 for rental income tax;
- Proclamation No. 286/2002 for unincorporated business;
- Proclamations No. 36/1996 and No. 286/2002 as amended for incorporated business;
- Proclamation No. 286/2002 for capital gains tax;
- Proclamations No. 68/1993 and No. 285/2002 for value added tax (VAT) on goods and services;
- Stamp Duty Proclamation No. 612/2016
- Proclamations No. 68/1993, No. 77/1997, No. 149/1999, and No. 307/2002;
- Income Tax Regulation No. 78/2002;
- Excise Tax Proclamation No. 307/2002;
- Turnover Tax Proclamation No. 308/2002; and
- Federal Tax Administration Proclamation No. 983/2016.

149. Generally, the laws and regulations are up-to-date, comprehensive, and easily understood by taxpayers. All these tax laws as well as regulations and directives are posted at the MoR website. However, private sector representatives complain that directives that are prepared by AARA are not easily accessible, too many, and frequently revised and that it is difficult to get clear explanations from the AARA staff. This has resulted in ambiguity and confusion on the side of taxpayers, thereby affecting tax compliance. AARA has a directorate (Customer Education and Service Directorate) that is dedicated for awareness creation among taxpayers. With the objective of encouraging voluntary tax payment and creation of awareness on the tax laws, AARA has conducted about 145 consultative workshops with taxpayers and distributed 10,000 copies of the newspaper in 2017/2018. AARA has also prepared a 'Citizens Charter' which details the rights and obligations of taxpayers, and these are posted on all branches. Brochures are also availed to customers at all the branches. The Addis Ababa Chamber of Commerce has complained that though they are invited to workshops conducted by the authority, these workshops are not held on a permanent basis. The Ethiopia and Addis Ababa Chamber of Commerce has equally intimated that some private sector businesses deliberately refuse to comply with tax laws.

150. The mechanisms for administrative and judicial tax appeal are set out under Part 9 of the Tax Administration Proclamation No. 983/2016. There are three tiers of tax appeal mechanisms:

- (a) Administrative mechanism through the different levels of structures within AARA
- (b) An independent Tax Appeal Commission (TAC)
- (c) Court of law - Federal High Court and Federal Supreme Court

151. The proclamation specifies the tax appeal procedures at each level. The authority has set a threshold for an appeal to be presented to the branch offices at ETB 5 million for small taxpayers, ETB 15 million for medium taxpayers and ETB 50 million for large taxpayers. Tax appeals above these thresholds should be presented to the head office. There is a tax review committee at each branch to review the appeals with the final approval to be made by the branch manager. A tax appeal should be presented to the authority within 21 days of notice of decision. If a taxpayer did not receive an objection decision within 180 days of appeal and/or is not satisfied with the decision of the authority, he/she can file the notice of appeal to the TAC. For the notice of appeal to be valid, the taxpayer has

to pay 50 percent of the assessed amount to the authority; this has now been reduced to 25 percent. That said, the tax appeal system is a disincentive to taxpayers since it requires payment of at least 25 percent of tax assessed before filing an appeal. A taxpayer who is dissatisfied with the decision of the commission may, within 30 days after being served with notice of the decision, file a notice of appeal to the Federal High Court. For the appeal to the court to be valid, the taxpayer has to pay 75 percent of the assessed amount. A taxpayer who is dissatisfied with the decision of the Federal High Court may, within 30 days after being served with notice of the decision, file a notice of appeal to the Federal Supreme Court. From the 1,238 appeal cases presented to the authority in 2017/2018, 1,257 (99 percent) of the cases were settled at the authority.

Dimension score: B

### *PI-19.2 Revenue risk management*

152. AARA collects on average 87 percent of the city's revenue. Out of this, direct and non-direct tax accounts for 98 percent of the revenue while municipality revenue stands at only 2 percent. The risk management function of AARA is managed by the Risk Management Directorate and a risk management strategy is being drafted. Apart from salary tax (pay as you earn [PAYE]), taxpayers are categorized as A, B, and C based on their annual revenue. Categories A and B taxpayers, which are high and medium taxpayers, are required to maintain books of accounts. Hence, they are required to pay their taxes on a self-assessment basis based on their financial reports, while Category C taxpayers, which are low taxpayers and are not required to maintain books of accounts, are required to pay presumptive tax according to a schedule included within the Income Tax Regulation. However, compliance with regard to filing remains low. All tax payments above ETB 1,000 should be paid using Certified Payment Order (CPO), and cash collections by cashiers in each branch should be deposited to the bank on a daily basis. Out of the total 300,000 traders registered in the city, about 50,000 are Category A taxpayers and these are considered high risk. There is a manual to guide the risk assessment process based on predetermined criteria; however, selection for audit is done manually. The manual covers all the four main revenue obligations but still needs to be fully applied. AARA is in the process of automating the selection process by integrating it with the Standard Integrated Government Tax Administration System (SIGTAS).

153. The tax registration system requires every taxpayer to have a Taxpayer Identification Number (TIN), and this is incorporated in the tax administration software SIGTAS. TINs are prepared using the automated fingerprint identification system (AFIS) and card production facility (CPF). It is not possible to get trade license or form a company without having a TIN registration. There are currently around 1.1 million registered taxpayers in the city. However, it is believed that there are still many unregistered traders, and AARA is working with different stakeholders such as the Ministry of Trade to bring traders operating without registration into the system. However, this process is slow and registration continues to be a challenge.

154. Nontax revenues collected by other entities are deposited daily to a blocked account at the CBE and the bank transfers the balance to the MoF's treasury account. Collections are mainly made through direct bank deposit except small amounts that are collected in cash. Risk assessment and audit of the income is performed by the internal audit functions of the respective entities.

Dimension score: C

### *PI-19.3 Revenue audit and investigation*

155. Selection of files for audit (which is semiautomated) is performed by the Risk Management Directorate and Audit and Investigation Directorate based on the risk profile of each taxpayer. Based

on this risk assessment and additional information, AARA identifies the major risks and mitigation strategies (compliance improvement plan). One strategy used is audit and investigation. An annual audit plan is developed by the Audit and Investigation directorate and cascaded to the respective branches. As shown in Table 3.18, in FY2017/2018, the performance of tax audit was 103 percent of the plan and investigation audit was 90 percent of the plan. A total of ETB 5.14 billion was collected from tax audit, and ETB 565.38 billion was collected from investigation audit during the same year.

**Table 3.18: Planned and performed audits in 2017/2018**

Type of audit	Planned	Performed	Percentage
Tax audit	13,714	14,185	103
Investigation audit	190	171	90
Total	13,904	14,356	103

Source: AARA annual report.

156. Audit of nontax revenues collected by other public bodies is conducted by the Internal Audit Directorates of the line bureaus as part of their regular audit, and the Inspection Directorate at BoFED oversees the internal audit functions of all public bodies. Quarterly internal audit reports are submitted to BoFED Inspection Directorate. External audit of these line bureaus is conducted by ORAG, which covers 90 percent of nontax revenues generated by these bureaus.

Dimension score: B

#### *PI-19.4 Revenue arrears monitoring*

157. As indicated in Table 3.19, the revenue arrears that were brought forward from FY2016/2017 were ETB 2.4 billion, and in FY2017/2018, an additional ETB 2.69 billion was transferred to arrears, totaling the arrears amount to ETB 5.09 billion. Out of this, ETB 1.96 billion was collected in the same year and the balance stood at ETB 3.13 billion. The arrears balance at the end of FY2017/2018 was 9.46 percent of the total revenue and the arrears that were older than 12 months were 14 percent of the total revenue arrears balance for the year. As mentioned in AARA's annual report for 2017/2018, collection of revenue arrears stood at 38.49 percent, which is reported as not satisfactory. Tax that is not settled within the due date is classified as arrears. The arrears data are maintained by the main revenue sources and branches (where the branches are classified as large, medium, and small taxpayers).

**Table 3.19: Tax arrears for EFY 2010 (2017/2018) (in ETB, millions)**

	Brought forward from 2009 (2016/2017)	Actual outturns in 2010 (2017/2018)	Total	Arrears collected	Stock of arrears at end of 2010 (2017/2018)	Total tax revenue collection for the year
	A	B	C (A+B)	D	E (C-D)	F
Amount	2,400	2,690	5,090	1,960	3,130	33,087
% of arrears					9.46	
% older than 12 months	2,400 less 1,960 = 440 = 14%					

Dimension score: A

## PI-20 Accounting for revenue

### Summary of scores and performance table

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-20 Accounting for revenue</b>	<b>C+</b>	<b>Scoring method M1</b>
PI-20.1 Information on revenue collections	A	BoFED obtains revenue data at least monthly from entities collecting all city government revenue. This information is broken down by revenue type and is consolidated into a report.
PI-20.2 Transfer of revenue collections	A	Revenue collections are transferred to a treasury account at the CBE daily.
PI-20.3 Revenue accounts collections	C	The monthly reconciliation does not include assessments and arrears; reconciliation only covers collections and transfers to the Treasury.

158. This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. Accurate recording and reporting of tax and nontax revenue collections are important to ensure all revenue is collected in accordance with relevant laws.

#### PI-20.1 Information on revenue collections

159. Of the city's revenue, 87 percent is collected by AARA. The authority reports on a monthly basis to BoFED. The report details the revenue collected by categories such as direct tax, indirect tax, and municipality revenue. It also compares the performance against the plan. At the time of the assessment, the report for the month of December 2017 was submitted to BoFED. The total tax collection for the three years under review was ETB 76 billion and tax revenue accounted for 80 percent, nontax revenue – 12 percent, municipality revenue – 7 percent, and external assistance - less than 1 percent. The nontax revenue is mainly derived from government investment income. All other public bodies report on a monthly basis to BoFED including revenue collection disaggregated by type of revenue. The Chamber of Commerce has raised serious concerns on tax exemptions, citing a systematic framework of abuses.

Dimension score: A

#### PI-20.2 Transfer of revenue collections

160. Each AARA branch office has an account at the CBE, and the cashiers are required to deposit collections on a daily basis. The Memorandum of Understanding (MoU) signed with the CBE used to require the bank to transfer collections to BoFED treasury account within 15 days. AARA officials complained that delays by the bank were common and cited an incident where ETB 2 billion (6 percent of total revenue for 2017/2018) was delayed for weeks and AARA solved the issue with the interference of the mayor and discussion with CBE higher officials. Subsequently, an MoU was signed with the CBE requiring it to transfer collections on a daily basis, and this is now being generally adhered to. The collection by AARA is equivalent to 87 percent of the total revenue of the city. All other revenues collected by other public bodies are transferred to the Treasury on a monthly basis.

Dimension score: A

#### PI-20.3 Revenue accounts collections

161. AARA which collects 87 percent of the total revenue of the city provides for revenue to be collected and deposited every day in the CBE. The collections are transferred to the Treasury Single

Account (TSA) daily at the end of each business day. AARA prepares monthly reconciliation of revenue collection, retention by the authority, and transfer to BoFED monthly. However, this reconciliation does not incorporate assessments and arrears. Officials have identified this as a major weakness that requires redress.

Dimension score: C

### **PI-21 Predictability of in-year resource allocation**

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-21 Predictability of in-year resource allocation</b>	<b>C+</b>	<b>Scoring method M2</b>
PI-21.1 Consolidation of cash balances	C	The treasury department at BoFED uses a TSA to regulate bank balances of BIs on a daily basis. There are 90 bodies that are served using this account. The consolidation of cash balances is done on a monthly basis.
PI-21.2 Cash forecasting and monitoring	B	Most public bodies prepare a cash flow forecast for a year, and the cash flow is updated based on actual cash flow on a quarterly basis and used to establish a monthly cash ceiling for BIs.
PI-21.3 Information on commitment ceilings	B	BoFED provides quarterly expenditure commitment ceilings for public bodies after the annual budget proclamation is passed.
PI-21.4 Significance of in-year budget adjustments	C	In-year budget adjustments appear to be frequent.

162. This indicator assesses the extent to which the city government is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions. Dimension 21.1 assesses the consolidation of cash balances; dimension 21.2 examines cash forecasting and monitoring; 21.3 assesses existence of information on commitment charges; and dimension 21.4 assesses significance of in-year budget adjustments.

#### *PI-21.1. Consolidation of cash balances*

163. The treasury department at BoFED uses a TSA to regulate bank balances of BIs on a daily basis. There are 90 bodies that are served using this account. The consolidation of cash balances is done on a monthly basis for the treasury accounts and all the 90 BIs. The monthly financial report prepared by public bodies includes cash received, expenditure during the month, and remaining cash balances at the end of the month.

**Table 3.20: Volume of cash in and outside TSA in ETB for year-end for EFY 2009 and 2010**

	2017/2018 (EFY 2010)	2016/2017 (EFY 2009)
Total cash	7,955,896,640	5,901,410,884
Total cash balance in TSA (4105)	5,216,378,300	3,857,824,785
Cash in other accounts not part of TSA (4103)	2,102,590,091	1,297,471,285
Cash in hand (4101)	586,801,001	666,560,371
Cash in transit (4114)	50,127,247	79,554,442
<b>Share of TSA cash balance</b>	<b>66%</b>	<b>65%</b>

Source: Annual Financial Report for EFY 2009 and 2010, Addis Ababa City BoFED.

164. The share of cash not in the TSA is 65 percent and 66 percent in EFY 2009 and 2010, respectively. Most of the cash balances are consolidated on a monthly basis.

Dimension score: C

#### *PI-21.2 Cash forecasting and monitoring*

165. Public bodies prepare a cash flow forecast for a year and submit to BoFED for consolidation at the city level. The cash flow projections emanate from the preparation of annual procurement plans from each BI, once the annual budget proclamation has been passed. The cash flow is updated based on actual cash flow on a quarterly basis and is used to establish a monthly cash ceiling for BIs.

Dimension score: B

#### *PI-21.3 Information on commitment ceilings*

166. BoFED provides quarterly ceilings to public bodies for expenditure commitment. The quarterly ceilings are issued after the annual budget of the city administration is approved by the city council.

167. Once the budget is approved, each budget entity prepares annual cash flow forecast as well as quarterly cash plans, which form the basis for expenditure commitment ceilings. Over the last completed fiscal year, EFY 2010, the amount of funds for commitment was not reduced, which ensured predictability of funds for the BIs; therefore, the commitment ceilings are regarded as reliable.

Dimension score: B

#### *PI-21.4 Significance of in-year budget adjustments*

168. The Addis Ababa City Financial Administration Proclamation No. 16/2009 Article 23 to Article 27 and BoFED Directive on Budget Administration No. 3/2003 lay the rules for budget transfers; accordingly, the head of BoFED is empowered to transfer funds of expenditure of the recurrent budget within a public body, transfer budget from one capital project to another within a public body, and transfer the budget approved for capital expenditure of the public body to finance pending obligations of a project approved in the previous year for which no budget allocation in the current fiscal year is available. In addition, the head of the bureau may transfer a recurrent budget from one public body to the other if it is ascertained that the public body to which the budget is appropriated cannot utilize its budget. In-year budget adjustments at the city appear to be frequent, but they are done in a transparent way.

Dimension score: C

### **PI-22 Expenditure arrears**

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-22 Expenditure arrears</b>	<b>C</b>	<b>Scoring method M1</b>
PI-22.1. Stock of expenditure arrears	C	The stock of expenditure arrears is no more than 10% of total expenditure in at least 2 of the last 3 fiscal years.

Indicator/Dimension	Score	Justification for 2018 score
PI-22.2. Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.

169. This indicator has two dimensions. Dimension 22.1 assesses the level of stock of expenditure arrears; dimension 22.2 examines the framework for monitoring expenditure payments arrears.

#### *PI-22.1. Stock of expenditure arrears*

170. The only categories of arrears in the Addis Ababa city government are

- Capital expenditure arrears and
- Sundry creditors

171. The definition of arrear is expenditure unpaid after the grace period payable which is 30 days. Table 3.21 shows the stock of arears at the end of each of the past three fiscal years, which is constant at 9 percent of total expenditure.

Dimension score: C

**Table 3.21: Stock of arrears FY2015/2016–2017/2018 (ETB, millions)**

Arrears category	FY2015/2016	FY2016/2017	FY2017/2018
Grace period payable (capital expenditure arrears related to procurement contracts)	612	441	381
Sundry creditors arrears	1,389	2,079	2,268
Total arrears at year-end	2,002	2,520	2,650
Total expenditure	22,013	27,428	30,014
<b>Share of total arrears</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>

Source: Addis Ababa BoFED Accounts and Treasury core process financial reports of FY2015/2016, 2016/2017, and 2017/2018.

#### *PI-22.2. Expenditure arrears monitoring*

172. The accounting department at BoFED keeps the database on arrears. The database has complete records on arrears which fall in the two abovementioned categories: capital expenditure and sundry creditors. The data are updated on an annual basis. The database does not have the age profile of the arrears, just the stock and the composition.

Dimension score: C

#### *Ongoing reforms*

173. None.

### **PI-23 Payroll controls**

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-23 Payroll controls</b>	<b>D+</b>	<b>Scoring method M1</b>



Indicator/Dimension	Score	Justification for 2018 score
PI-23.1 Integration of payroll and personnel records	B	The payroll is supported by a full documentation for all changes made to personnel records each month and checked against the previous month data. Staff hiring is controlled by a list of all approved staff positions.
PI-23.2 Management of payroll changes	A	Payroll changes are updated at least monthly in time for the following month's payment. Retroactive adjustments are rare and insignificant.
PI-23.3 Internal control of payroll	B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
PI-23.4 Payroll audit	D	There is no strong payroll audit system, and surveys have not been taken by Internal auditors. The Office of Auditor General of the City Government tries to conduct payroll audit as part of the financial audit, but it has been limited in the past three years.

174. This indicator is concerned with payroll for civil servants only as to how the payroll is managed, how changes to the payroll are controlled with responsibility, and how the personnel records are aligned to the payroll to promote predictability in the availability of resources when requested. The indicator contains four dimensions: dimension 23.1 assesses the effectiveness of payroll control; dimension 23.2 examines the integration of payroll and personnel records; dimension 23.3 assesses the management of payroll changes; and dimension 23.4 assesses the extent of payroll audits.

175. As there are no EBUs at the level of the city of Addis Ababa (refer to PI-6), the payroll for the budgetary city administration is the same as the payroll for the city administration.

#### *PI-23.1. Integration of payroll and personnel records*

176. The payroll system of the City Government of Addis Ababa is decentralized to BIs.

- The personnel database of each BI of the city government has to be maintained by the Human Resource Support Process (HRSP).
- Every department of each BI is submitting its attendance to the HRSP for the preparation of the payroll and changes in the payroll due to promotion, transfer, new recruitment, and termination.
- The HRSP submits the changes as they happen to the Finance Administration Support Process (FASP).
- The FASP is responsible for the preparation of the monthly payroll.

177. Both BoFED and other BIs are using Microsoft Excel spreadsheets in preparing the payroll. This implies that the personnel and the payroll databases are not directly linked. The changes in payroll are nonetheless supported by full documentation from the HRSP every month, and promotions are controlled by the approved positions and with the availability of budget.

Dimension score: B

#### *PI-23.2. Management of payroll changes*

178. Changes to personnel status are communicated by the department/core process of the BIs and submitted to the HRSP weekly for review. The HRSP then communicates the changes to the FASP which is the unit managing the payroll database itself. The changes relating to termination of



appointments take longer, but for all changes to the personnel database including the ones relating to termination, the whole process from the change in personnel status to payroll change (core department to HRSP to FASP) is completed by the 20th of the same month in which the change occurs. Retroactive adjustments are rare.

Dimension score: A

#### *PI-23.3 Internal control of payroll*

179. Authority and basis for changes to personnel records and the payroll are clear and adequate and ensure high integrity. Changes are made within the month of payment. The responsibility of making payroll changes is given to authorized payroll personnel. Payroll changes are made only against documents received from Human Resources (HR) Department. An Excel spreadsheet is used for the payroll calculation which is password protected. Payroll sheets are approved by the head of finance before payment is transferred to employees' bank accounts.

180. Since the payroll is prepared in a Microsoft Excel spreadsheet, changes do not leave an audit trail.

Dimension score: B

#### *PI-23.4. Payroll audit*

181. The City Government of Addis Ababa has a structure of internal audit in all BIs and an Office of Auditor General, which conducts external audits. The payroll audit should be part of the annual financial audit which is carried out by the City Auditor General. The external auditors have to examine the payroll through sample personnel files and attendance lists and verify the existence of strong internal control systems for the payroll. That said, the only payroll audit which was conducted in the past three fiscal years by the City Auditor General was very limited in coverage: 1 percent of BI expenditure for that fiscal year. The internal audit division of each BI is responsible to conduct a payroll audit at least annually. That said, there have been no payroll audit conducted by the internal auditors of the visited BIs such as BoFED, BoE, BoH, Housing Authority, and Addis Ababa City Roads Authority (AACRA). Thus, no significant payroll audit has been conducted in the last three years.

Dimension score: D

#### *Ongoing reforms*

182. The City Government of Addis Ababa BoFED has started to automate the payroll system using a system known as ITAP that changes the attendance sheet from paper based into recognizing employees by fingerprint. Eight pilot sector bureaus have been selected and have started preparing the January 2019 payroll using the system, and it is planned to reach 100 sector offices of the city government within the budget year.

#### *PI-24 Procurement*

##### *Summary of scores and performance table*

Indicator/Dimension	Score	Brief justification for score
PI-24 Procurement	C	Scoring method M2

Indicator/Dimension	Score	Brief justification for score
PI-24.1 Procurement monitoring	B	Most of the BIs in the City Government of Addis Ababa maintain a record for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They prepare the quarterly and annual performance report for the city government administration that issues procurement performance report consolidating the data received for 80% of the BIs in the last fiscal year.
PI-24.2 Procurement methods	B	The value of procurement on a competitive method was 79% for the last completed fiscal year.
PI-24.3 Public access to procurement information	D	Only two of the key procurement information requirements have been met.
PI-24.4 Procurement complaints management	D	Four of the six basic elements for procurement compliant management have been met, but not criteria No. 1 due to the fact that complaints can be handled within the BI where independence cannot be ensured.

183. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains four dimensions that focus on key procurement management, procurement monitoring, transparency, openness and competitiveness of procurement methods applied, public access to procurement information and the management of procurement complaints and redress arrangements.

184. Procurement is decentralized to the BIs of the City Government of Addis Ababa except for the procurement of strategic and common use items, which are procured centrally by the Addis Ababa Public Procurement and Property Disposal Agency that has been established by the City Council Directive No. 55/1013. The BIs including the Public Procurement and Property Disposal Agency are regulated by the BoFED Procurement and Property Administration Core Process (PPACP). The main functions of the core process of BoFED are to regulate procurement in accordance with the City Government Procurement and Property Administration Proclamation No. 17/2009 and Directive No. 3/2009.

185. Each BI is required to prepare and approve its annual procurement plan and send it to BoFED for information. The PPACP evaluates each plan and discusses it with the BI. Plans are supposed to be posted on the BoFED website or on the individual website depending on the threshold set in the proclamation and directive. For posting on the website and advertisement in newspaper, the threshold for individual procurements is for works ETB 10 million, for goods ETB 3 million, for consultancy ETB 2 million, and for other services ETB 1 million. Contract awards are not made public.

#### *PI-24.1 Procurement monitoring*

186. There are no EBUs in the City Government of Addis Ababa. The Addis Ababa BoFED's PPACP is responsible for the establishment of the procurement database and the consolidation of procurement data for all city government BIs and for all methods of procurement. All the BIs are responsible for preparing the quarterly and annual performance report and submit to BoFED after the end of each quarter and the budget year, respectively. Most of the city government BIs maintain the procurement database or records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. The Addis Ababa City Government Public Procurement and Property Disposal Agency that is established to procure strategic and commonly used items keeps the records of the procurement information for the City Government of Addis Ababa. However, the actual procurement function is performed by the BIs themselves. The PPACP of

BoFED has received the procurement performance report for FY2017/2018 from 80 BIs out of 100 BIs which is 80 percent of the BIs. Therefore, a procurement record is maintained, and data are reported to Addis Ababa city government for most BIs.

Dimension score: B

#### *PI-24.2 Procurement methods*

187. The Addis Ababa City Government Public Procurement and Property Administration Proclamation No. 17/2009 states six methods of procurement to be used by every BI. These methods are (a) open bidding, (b) request for proposal, (c) two-stage tendering, (d) restricted tendering, (e) request for quotation, and (f) direct procurement. Public bodies may use a method other than open bidding only where conditions for use of such other method stipulated under the proclamation are satisfied. Otherwise, the open bidding is a default for procurement.

188. According to the 2017/2018 performance report of BoFED, out of 100 central government budget entities that are supposed to submit their report, only 80 BIs (or 80 percent) have reported their performance of procurement. Table 3.22 shows the total procurement expenditure broken down by method of procurement for the last completed fiscal year, FY2017/2018.

**Table 3.22: Procurement method data for EFY 2010 (Gregorian FY2017/2018)**

	Methods of procurement	Amount (ETB, billions)	%
1	Open bidding (C)	8.03	72
2	Two-stage bidding (C)	0.01	0
3	Restricted tendering (C)	0.53	5
4	Request for proposal (C)	0.12	1
5	Request for quotation (C)	0.19	2
6	Direct procurement	2.3	21
	Total procurement expenditure	11.18	
	<b>Volume of competitive method of procurement (1+2+3+4+5)</b>	<b>8.88</b>	<b>79</b>

Source: Addis Ababa city government BoFED 2017/2018 performance report issued by the Ababa City Government Public Procurement and Property Disposal Agency.

Note: C = Competitive.

189. The total expenditure for the procurement on competitive bidding is ETB 8.88 billion. It represents 79 percent of the total expenditure of procurement. However, this has not been verified by the external auditor.

Dimension score: B

#### *PI-24.3. Public access to procurement information*

190. Based on the Public Procurement and Property Proclamation No. 17/2009 and the Procurement Directive No. 3/209 of the City Government of Addis Ababa, the information elements required to be publicized are the annual or quarterly procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. Accordingly, the information on bidding opportunities only is made available to the public through newspaper, TV, and radio. The information on contract awards, complaint resolution decisions, procurement plan, and annual procurement statistics is not publicized neither on BoFED's website nor on the BIs' website. Two of the key procurement information requirements have been met.

**Table 3.23: Key procurement performance information elements**

Elements/requirements	Met (Yes/No)	Evidence used/comments
1. Legal and regulatory framework for procurement	Yes	Public procurement proclamations and directives are publicized through the website of the Addis Ababa BoFED website <a href="http://www.aaBoFED.gov.et">www.aaBoFED.gov.et</a> , and it is available in each BI of the city government.
2. Government procurement plan	No	Each BI prepares and submits the annual procurement plan at the beginning of the budget year and submits to BoFED (Public Procurement and Property Administration Authority [PPA]) of the city government. In addition, the Addis Ababa PPA consolidates the procurement plan of all BIs, but it is not publishing the annual procurement plan.
3. Bidding opportunities	Yes	Bids are announced through the newspaper (the Ethiopian Herald, Addis Zemen, and so on), FM radio stations, Addis TV, and the website of BoFED ( <a href="http://www.aaBoFED.gov.et">www.aaBoFED.gov.et</a> ), which is not working now.
4. Contract awards (purpose, contractor, and value)	No	Contract awards with the purpose of the contract, value of the contract, and the name of the contractor are not disclosed fully (published) through the website of BoFED and other BIs.
5. Data on resolution of procurement complaints	No	The resolution on procurement compliant data are not published in the website of BoFED.
6. Annual procurement statistics	No	The annual procurement statistics are prepared by the city government BoFED (PPA), but they are not published on the website or other media.

Dimension score: D

#### *PI-24.4. Procurement complaints management*

191. Based on the Procurement and Property Administration Proclamation No. 17/2009, an independent complaint system is available. There are two alternatives of complaint handling. First, the procuring unit of the BIs of the City Government has to announce the final decision of the bid and invite any complaints to be filed within seven working days of the announcement. The supplier or contractor with complaints has to submit his/her complaint to the BI head within the given time frame. The BI head has to respond and announce the final decision within 10 days. If the bidder is not satisfied with the decision of the head of the BI, within five days of receiving the decision, he/she has the right to apply to the Complaint Review Committee of the city government.

192. The Complaint Reviewing Board is composed of representatives from City Government Mayor Office, BoFED, Chamber of Commerce (two members), and PPA of BoFED. The expert from PPA of BoFED is acting as the secretariat of the Compliant Review Board. In terms of independence of the complaints mechanism, it is to be remarked that while at first instance, when the complaints are handled by the BI, the process is not fully independent (because often members of the tender evaluation committee are involved in the complaints resolution being the most familiar with the technicalities), and the composition of the second instance Complaints Review Board consists of members from both public and private sectors that are not involved in decisions leading to contract award decisions. Another shortcoming of the review process is that the time frame specified by the law is not fully respected due to delays by the BIs in submitting the necessary evidence to the board. Due to the specificity of the complaints system consisting of two stages, the first not fully independent and the second one independent, the fact that the resolution can be made at the first stage indicates that there may be instances that allow for lack of independence. The previous assessment (2015)

considered the independence only of the Complaints Review Board and not of the entire complaints review system.

**Table 3.24: Performance of Complaint Review Committee and complaints submitted in FY2015/2016, 2016/2017, and 2017/2018**

Budget year	Total complaints lodged	Complaints accepted	Complaints rejected		Complaints lodged on BIs	Transferred to next budget year
			BI was right	Procedural irregularities		
2015/2016	34	34	No information	No information	No information	
2016/2017	36	30	No information	No information	No information	6
2017/2018	38	2	15	10	9	2

Source: Addis Ababa city government BoFED PPA annual report of 2015/2016, 2016/2017, and 2017/2018.

193. According to the member of the Complaint Resolution Committee from the chamber of commerce, the limited number of cases submitted to the Complaint Resolution Board is because suppliers fear to be hampered in their future participation in bids. Those who are not satisfied by the decision of the committee have the right to go to the court.

194. Four of the six basic elements for procurement compliant management have been met, but the essential element No. 1 is not met.

**Table 3.25: Criteria for procurement complaints management**

Element/requirements	Met (Yes/No)	Evidence used/comments
Complaints are reviewed by a body which		
1. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No	The complaint resolution committee is composed of members from BoFED and Chamber of Commerce and the city mayor office. Three of the members are directly or indirectly involved in procurement transaction and procurement decisions. These members are public servants in BoFED City Procurement Authority and one from government procuring entity (for example, BoE if the complaint relates to education).
2. Does not charge fees that prohibit access by concerned parties	Yes	There are no fees charged, and the service is rendered freely to all.
3. Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes	The process is clearly defined by the proclamation of Public Procurement and Property Administration No. 17/2009 and the Public Procurement Directive No. 3/2009.
4. Exercises the authority to suspend the procurement process	Yes	When the complaint is submitted to the board, the procurement process is suspended until a decision is given.
5. Issues decisions within the time frame specified in the rules/regulations	No	The time frame specified in the law sometimes is not strictly followed due to different reasons such as delay in submitting the necessary documents by the BIs and absenteeism of the board members.
6. Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Yes	The decisions made by the board are binding on all parties (but do not preclude subsequent access to a court).

Dimension score: D

*Ongoing reforms*

195. None.

**PI-25 Internal controls on non-salary expenditure***Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-25 Internal controls on non-salary expenditure</b>	<b>A</b>	<b>Scoring method M2</b>
PI-25.1 Segregation of duties	A	Segregation of duties is in place and clearly laid down in the relevant financial management related proclamations, regulations, procedures, and guidelines.
PI-25.2 Effectiveness of expenditure commitment controls	B	IBEX does not limit expenditure commitment due to unavailability of cash; it however limits expenditure commitment based on approved quarterly ceilings.
PI-25.3 Compliance with payment rules and procedures	A	Payment rules and regulations are generally respected. Only less than 1% of the total expenditures are reported to be noncompliant to payment rules and regulations.

196. This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator assesses segregation of duties, the effectiveness of expenditure commitment controls, and compliance with payment rules and procedures.

*Background*

197. The Financial Administration Proclamation No. 51/2017 and the Procurement and Property Administration Proclamation No. 17/2009 provide the broad legal framework for internal controls on non-salary expenditures. BoFED issued 11 financial management related manuals in June 2013 based on Financial Administration Proclamation No. 16/2009 (replaced by the new Financial Administration Proclamation No. 51/2017).

- Manual for the Administration of Budget (3/2011)
- Manual for Cash Management (4/2011)
- Cash Disbursement Manual (5/2011)
- Accounting Procedure (6/2011)
- Financial Accountability (7/2011)
- Internal Audit Manual (8/2011)
- Internal Control Standards (9/2011)
- Property Administration (10/2011)
- Handover Procedure (11/2011)
- Procedure on Guarantor (12/2011)
- Guideline/Manual for the Procurement of Goods and Services (2/2011)

198. Compliance to internal control on non-salary expenditure is subject to review by the internal audit units of BIs (PI-26) and by the ACOAG (PI-30).

*PI-25.1. Segregation of duties*

199. This dimension assesses the existence of the segregation of duties, which is a fundamental element of internal control. As such, it prevents an employee or group of employees from being in a position both to perpetrate and/or to conceal errors or fraud in the normal course of their duties.

200. The Proclamation No. 35/2012 on the Reestablishment of the Addis Ababa City Government Executive and Municipal Service Organs stipulates the broad segregation of duties between the various executive organs. In addition, the Financial Administration proclamation, regulations, and manuals provide the detailed segregation of duties between requesting of a payment, preparation of vouchers, custodianship of cash and other resources, review of disbursement documents, evaluation of tenders, and approval of payments.

201. Generally, segregation of duties is complied with. The report of the Addis Ababa City Government Auditor General and the various internal audit reports indicated limitations in the application of segregation of duties in certain BIs in connection with property administration.<sup>4</sup>

Dimension score: A

*PI-25.2 Effectiveness of expenditure commitment controls*

202. This dimension assesses the effectiveness of expenditure commitment controls. Proclaiming a budget does not warrant availability of cash. The revenue shortfall of about 15 percent for EFY 2015/2016, 2016/2017, and 2017/2018 had an implication on the release of actual cash for payment of expenditure (PI-3). According to Article 32 of the Financial Administration Regulation No. 51/2017, no commitment shall be made by a public body unless there is a sufficient unencumbered balance from the budget to discharge any debt. In addition, the same article requires BIs to put in place a procedure where financial commitment chargeable to each budgetary item shall be controlled. IBEX does not limit expenditure commitment due to unavailability of cash. However, BIs commit only for projected expenditures included in the quarterly cash flow forecast submitted to BoFED (PI-21). Unpaid bills due to unavailability of cash were not reported as a limitation by the business community.<sup>5</sup>

Dimension score: B

*PI-25.3. Compliance with payment rules and procedures*

203. This dimension assesses the extent of compliance with the payment control rules and procedures based on available evidence.

204. Internal control rules and procedures on payment are generally respected. Common internal control irregularities in connection with payment observed in certain BIs include insufficient supporting documents, not using competitive method of procurement, and not withholding taxes from payments in accordance with the tax laws. According to the Auditor General Report of the Consolidated Fund of the City of Addis Ababa (2016/2017), payments that are not complied with rules and procedures are about 0.74 percent of the total expenditure.

Dimension score: A

<sup>4</sup> Audit report on the consolidated financial statements of the Addis Ababa city government for EFY 2007 (2014/2015), EFY 2008 (2015/2016) and EFY 2009 (2016/2017) and the internal audit reports issued by the BoE, BoH, AACRA, Addis Ababa Water and Sewerage Authority (AAWSA), and Housing Agency.

<sup>5</sup> Addis Ababa Chamber of Commerce and Sectoral Association.



**PI-26 Internal audit***Summary of scores and performance table*

Indicator/Dimension	Score	Explanation
<b>PI-26 Internal audit</b>	<b>D+</b>	<b>Scoring method M1</b>
PI-26.1 Coverage of internal audit	A	All BIs have a functioning internal audit unit that covers close to 100% of financial audits.
PI-26.2 Nature of audits and standards applied	C	The internal audit largely follows the international internal audit standards for most of the procedures but largely focuses on financial compliance audit than systemic audit and risk-based audits.
PI-26.3 Implementation of internal audits and reporting	C	Majority of the internal audit units accomplished their programmed audits.
PI-26.4 Response to internal audits	D*	Information was not available to the assessment team on the number of audit recommendations acted upon by management and the timing of action taken.

205. This indicator assesses the standards and procedures applied in internal audit.

206. According to Article 4 of the Financial Administration Proclamation No. 51/2017, BoFED has the power and function to oversee the internal audit activities of the city government. The Internal Auditor Support Directorate (IASD) at BoFED monitors the internal audit activities throughout the city administration including sector bureaus, sub-cities, and woredas. It provides training to internal auditors and does special audits on demand basis. The internal audit units of the BIs are staffed with 2–10 auditors depending on the amount of the annual budget they manage and the nature of their financial transactions. Though Proclamation No. 51/2017 requires the establishment of audit committees, they are not in place. The internal audit committees used to be functional at the woreda level.<sup>6</sup> The committees were dissolved when the funding from a donor-funded project terminated. The turnover of internal auditors is relatively low as compared to the 2014 PEFA assessment<sup>7</sup> and from the current staff turnover rate of internal auditors at the federal government level.

*PI-26.1. Coverage of internal audit*

207. This dimension assesses the extent to which government entities are subject to internal audit.

208. All city government bureaus, their branches, sub-cities, and woredas have internal audit units. The IASD categorized BIs into four grades depending on the nature and volume of transactions. Public bodies with relatively large volume of transactions (Grade 1) have 10 internal auditors, and BIs with small volume of transactions (Grade 4) have 2 internal auditors. The internal audit units cover all funds including donor-funded projects and revenue collections. The revenue authority also conducts regular audit and investigation audits on the city administration revenue which represents about 87 percent of the total revenue (PI-19). All internal audit units have submitted audit plan and audit reports and cover about 100 percent of the financial audit. Some of the internal audit units conduct performance audits.

Dimension score: A

<sup>6</sup> 2014 PEFA Report of the City of Addis Ababa Government.

<sup>7</sup> At the time of assessment, vacant positions are 261 (29 percent) out of the 888 positions.



### *PI-26.2 Nature of audits and standards applied*

209. This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

210. The internal audit units follow the audit manual issued by the MoF in 2006. The internal audit manual generally covers most of the international standards in internal auditing as stipulated by International Standards for the Professional Practice of Internal Auditing (ISPPA) including audit standards, code of professional ethics, and internal audit procedures. BoFED issued a Performance Audit Manual in 2015. Internal audit units have organizational independence.<sup>8</sup> They are functionally accountable to their BIs and administratively to the IASD. Article 6 of the Financial Administration Proclamation (Proclamation No. 51/2017) stipulates that the government shall protect heads and staff of internal audit with legal protection against any persecution because of performance of their duties. The IASD interferes when the internal auditor's independence is threatened by a head of BI.<sup>9</sup>

211. Internal audit units prepare annual audit plan, which is approved by the head of the respective government entities. The plan is prepared considering the mandatory financial audit and certain risk elements based on past audit experience. No comprehensive organizational risk assessment is held, the audit is mainly focusing on compliance audit, and much of the audit work is not risk based. Some of the audit reports indicated deficiencies in the existing internal control procedure, and the extent of systemic audit<sup>10</sup> is minimal though few financial audit reports indicate deficiencies in certain internal control procedures. Internal audit charters are not available as required by ISPPA. ISPPA requires internal auditors to possess the required proficiencies by obtaining the appropriate certification and qualification. Almost all of the internal auditors have Bachelor of Arts degree. The IASD provides training annually to internal auditors.<sup>11</sup>

212. The IASD conducts a quality assurance exercise based on the internal audit reports submitted to it by internal audit units. The IASD reviews the quality of the report in terms of presentation, the quality of the audit findings and recommendations against the evidence presented in the report, and other matters. In 2017/2018, the IASD provided feedback to 982 internal audit reports submitted to it by sector bureaus, woredas, schools, and health centers. The internal audit units of visited health clinics conduct financial audits and submit quarterly financial audit (include internal revenue) reports and also inventory audits on medical suppliers at stores and dispensaries every six months, and also a surprise inventory audit for selected medical supplies.

Dimension score: C

### *PI-26.3. Implementation of internal audit and reporting*

213. This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function, as shown by the preparation of annual audit programs and their actual implementation, including the availability of internal audit reports.

214. The IASD set standards for the type and number of audits to be conducted by each category of BIs. The standard also includes the time required to complete a given type of audit including financial audit, revenue audit, surprise audit, property audit, performance audit, project audit, and investigation audit. The internal audit units strive to attain these targets. Some of the internal audit

<sup>8</sup> Most of the visited internal audit heads indicated that they have organizational independence. The IASD indicated that they assisted for the reinstatement of auditors who have been fired or threatened because of their report.

<sup>9</sup> IASD, internal audit team of Housing Agency.

<sup>10</sup> Systemic audit provides assurance on the effectiveness and adequacy of internal controls.

<sup>11</sup> In 2017/2018, the IASD provided training to 241 internal auditors.

units object the target as it may not specifically address the context of each audit engagement. All internal audit units submit two financial audit reports per year and many more other audits. During EFY 2010, the BoH submitted 24 audit reports, the Housing Agency submitted 145 audit reports (more than 100 percent achievement), the BoE submitted 10 audit reports, the Water Authority submitted 68 internal audit reports (100 percent), and the Road Authority submitted 34 internal audit reports (67 percent of the plan). The IASD planned to receive 2,184 audit reports from sector bureaus, sub-cities, woredas, and other institutions in EFY 2010 (2017/2018) and actually received 1,922 reports (88 percent of its target). The percentage of accomplishment of audit out of the total programmed audit is not available at the bureau level. However, from the overall performance rate of 88 percent and also from the sample visit of bureaus indicated earlier, it can be concluded that the majority of the programmed audits have been accomplished at the city level (excluding woreda and sub-cities).

215. The internal audit reports are available for the review of the Auditor General Office of the Addis Ababa City Government on demand. The auditor general uses the internal audit reports at the time of their audit engagement. BoFED head presents significant internal audit findings to the city council together with other performance reports.

Dimension score: C

#### *PI-26.4. Response to internal audits*

216. This dimension assesses the extent to which action is taken by management on internal audit findings.

217. The Internal Audit Directive (Directive No. 2011) requires that managers respond to the recommendation of the internal audit within 10 days. The IASD also reviews internal audit reports and writes letters to the audited entities for significant findings. The timeliness of response to audit findings varies between BIs. All of the visited BIs indicated that the response time ranges from 1 month to 12 months.<sup>12</sup> According to the IASD, though most of the BIs take action, action on certain audit findings have been delayed beyond 12 months. It is expected that the establishment of an audit committee (as stipulated in the new Financial Administration Proclamation No. 51/2017) will improve the timeliness of the response to audit findings. Information was not available to the assessment team on the number of audit recommendations acted upon by management and the timing of action taken. Hence, it was not possible to rate this dimension.

Dimension score: D\*

## **PILLAR VI. Accounting and reporting**

### *PI-27 Financial data integrity*

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-27 Financial data integrity</b>	<b>B</b>	<b>Scoring method M2</b>
PI-27.1 Bank account reconciliations	B	Bank reconciliation of all treasury accounts is done on a monthly basis, within 4 weeks, by the accounts department at BoFED.
PI-27.2 Suspense accounts	NA	No suspense accounts are held both at BoFED and at bureaus and agencies.

<sup>12</sup> Management response to audit findings: Road Authority within 4 months, Housing Agency within 1 month, Water Authority within 1 month, the BoE within 1 month, the BoE within 12 months.

Indicator/Dimension	Score	Justification for 2018 score
PI-27.3 Advance accounts	C	Advance accounts reconciliations at BoFED are done on an annual basis while preparing the AFSs.
PI-27.4 Financial data integrity process	B	The IBEX system does not prompt for a change of password. Consequently, a given password can be used over a long period with no change. Nonetheless, there is an audit trail.

218. This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions. Dimension 27.1 assesses the extent and frequency of bank reconciliations for the central government accounts; dimension 27.2 assesses reconciliation of suspense accounts; dimension 27.3 measures the frequency of reconciling advance accounts; and dimension 27.4 measures the financial data integrity processes.

#### *PI-27.1 Bank account reconciliations*

219. Bank reconciliations for all BoFED treasury accounts are done on a monthly basis within four weeks of the end of the previous month. In addition, the budget units visited, including the BoE and BoH, do reconcile their bank accounts against the IBEX cash ledger on a monthly basis.

220. There were long unreconciled balances in the case of the Addis Ababa City Road Construction Authority; these are described as (a) items deducted from the cash at bank balance but not reflected in the bank statement and (b) items included in the bank statement but not reflected in the cash at bank balance.

Dimension score: B

#### *PI-27.2 Suspense accounts*

221. There are no suspense accounts reported on the consolidated city financial statements. The accounting system does not encourage the use of suspense accounts, as evidenced by documentation review of the BoH, BoE, and Addis Ababa City Road Construction Authority.

Dimension score: NA

#### *PI-27.3 Advance accounts*

222. There are no advance accounts maintained at BoFED treasury level. The consolidated financial statement of the city reflects advances reported at public bodies. The visited public bodies including the BoE, BoH, and AACRA perform advance accounts reconciliations on a yearly basis while preparing their AFSs. These reconciliations take place usually within eight weeks after year-end, but sometimes, there are delays. This is because the advance accounts of these public budget bodies are related to advance payments on procurement contracts when there happen to be delays in acceptance and clearance of the procured goods, works, or services. Usually, 30 percent of the procurement contract is paid in advance against a bank guarantee. The main function of AACRA is to construct and maintain roads. The BoE and BoH yearly allot a specific grant for construction of schools and health centers. Thus, the advance account is accrued when advance payments are paid to contractors and consultants.

223. The Addis Ababa City Road Construction Authority had long outstanding advances with significant balance amounting to ETB 683 million since 1996.

Dimension score: C

#### *PI-27.4 Financial data integrity process*

224. The standard accounting software used by the Addis Ababa city administration is IBEX software. It was noted there is an IBEX support unit at the level of the MoF. The software has a password requirement for entering into the system; however, it does not prompt for a change of password at intervals as required under strong accounting systems. Consequently, the individual password can be used over a period without change, which exposes the system to risks. Nonetheless, IBEX has audit trails for tracking user activity.

Dimension score: B

#### *PI-28 In-year budget reports*

##### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-28 In-year budget reports</b>	<b>D+</b>	<b>Scoring method M1</b>
PI-28.1 Coverage and compatibility of reports	B	Monthly detailed budget execution reports are prepared by public bodies and submitted to BoFED. BoFED consolidates these reports on an annual basis. The reports include budget execution by detailed administrative, economic, and functional classifications.
PI-28.2 Timing of in-year budget reports	D	Consolidated budget execution reports are prepared at the city level on an annual basis. However, public bodies prepare financial reports that compare budget against actual and submit to BoFED on a monthly basis.
PI-28.3 Accuracy of in-year budget reports	C	The data prepared both at the city level and that of PBs is useful for budget execution analysis even though there are concerns on data accuracy. Expenditures are reported at the payment stage only.

Note: PB = Public body.

225. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with the budget coverage and classification to allow monitoring of budget performance and, if necessary, timely use of corrective measures.

226. It contains three dimensions. Dimension 28.1 assesses coverage and compatibility of reports; dimension 28.2 assesses timing of in-year budget reports; and dimension 28.3 assesses accuracy of in-year budget reports.

##### *PI-28.1 Coverage and compatibility of reports*

227. Monthly detailed budget execution reports are prepared by public bodies and submitted to BoFED. BoFED consolidates these reports on an annual basis. The reports include budget execution by detailed administrative, economic, and functional classifications as reported under PI-4. The coverage and classification of data allow direct comparison to the original budget estimates as well as expenditures made from transfers to sub-cities and sectors within the city government.

Dimension score: B

#### *PI-28.2 Timing of in-year budget reports*

228. Consolidated budget execution reports are prepared at the city level on an annual basis; however, public bodies prepare financial reports that compare the budget against actual expenditure and submit to BoFED on a monthly basis.

Dimension score: D

#### *PI-28.3 Accuracy of in-year budget reports*

229. The data prepared both at the city level and public bodies are useful for budget execution analysis, even though concerns over data accuracy have been raised; these are not highlighted in the financial reports. The report captures expenditures made at the payment stage only.

Dimension score: C

### *PI-29 Annual financial reports*

#### *Summary of scores and performance table*

Indicator/Dimension	Score	Justification for 2018 score
<b>PI-29 Annual financial reports</b>	<b>C+</b>	<b>Scoring method M1</b>
PI-29.1 Completeness of annual financial reports	C	The AFSs for Addis Ababa city regional government for the last completed fiscal year, FY2017/2018, include information on budget, revenue, expenditure, and cash balances and are supported by a reconciled cash flow statement. The information in the financial statement enables comparability with the approved budget. The report also disclosed the accounting policy used in preparing the financial statements.
PI-29.2 Submissions of reports for external audit	B	The financial statement for 2017/2018 (EFY 2010) was submitted on October 9, 2018, to the auditors, that is within six months after the end of the fiscal year, that is, July 7, 2018.
PI-29.3 Accounting standards	C	The city of Addis Ababa applies the national accounting standard called a modified double entry accounting system. The same is applied in the federal government and all national and regional states. They show the accounting standards in notes.

230. This indicator assesses the extent to which AFSs are complete, timely, and consistent with generally accepted accounting principles and standards. This is critical for accountability and transparency in the PFM system. It contains three dimensions. Dimension 29.1 assesses completeness of annual financial reports; dimension 29.2 assesses submissions of reports for external audit; and dimension 29.3 assesses the accounting standards used to prepare financial statements. The coverage and frequency of reporting should be explained and the financial statements should include information on extra-budgetary funds and the finances of public enterprises.

### *PI-29.1 Completeness of annual financial reports*

231. The Addis Ababa City financial administration is governed by Proclamation No. 16/2009: “A proclamation to provide for the financial administration of the Addis City Government.” According to this proclamation, the financial statement of the city is to include the audited accounts of public bodies and the audited consolidated accounts of sub-cities and to include among others the financial transaction of the fiscal year, the consolidated funds, funds expenditure, and appropriated and unexpended and special funds. Budget formulation, execution, and reporting are based on administrative, economic, and functional classification at the GFS standard level of 3 digits (refer to PI-4). The AFSs for the last completed fiscal year, FY2017/2018, include information on budget, revenue, expenditure, and cash balances and are supported by a reconciled cash flow statement. The information in the financial statement enables comparability with approved budget. Furthermore, the notes to the financial statements disclose the accounting policy used in preparing the statements. The financial reports do not include information on tangible assets and on guarantees and other contingent liabilities.

Dimension score: C

### *PI-29.2 Submissions of reports for external audit*

232. According to the Addis Ababa City Administration Regulation No. 6/2004, after BoFED has consolidated the audited financial statements of public bodies, the Treasury should submit the consolidated financial statements to the Regional Office of the Auditor General within 90 days after the end of each fiscal year. In practice, BoFED submits the financial statements for external audit within six months after the end of each fiscal year. The 2017/2018 (EFY 2010) financial statements were submitted on October 9, 2018, for audit, that is within six months after the end of the fiscal year, which is July 7, 2018.

Dimension score: B

### *PI-29.3 Accounting standards*

233. BoFED Regulation No. 6/2004, Article 59 of the revised City Charter states, “The financial administration of the City shall be in accordance with accepted accounting norms, the country’s finance laws and with the respective law to be issued by the City Council.” Following this rule, the city adopted a national accounting standard called a modified double entry accounting system. It is a combination of cash basis and accrual basis internationally accepted accounting systems. This system is applied in the federal government and all national and regional states. The draft consolidated financial statement of BoFED for FY2015/2016, 2016/2017, and 2017/2018 indicated that the financial statements have been prepared in accordance with the Federal Government of Ethiopia Accounting Standard, which follows a modified cash basis of accounting. The financial statements of the Addis Ababa city regional government for FY2015/2016, 2016/2017, and 2017/2018 were prepared based on the modified cash basis. The notes to the financial statements disclose the accounting policy used in preparing the statements. The standard has been consistently applied throughout the period of assessment. No activity was noted at BoFED with respect to adopting international financial reporting standards such as International Public Sector Accounting Standards (IPSAS).

Dimension score: C

## PILLAR VII. External scrutiny and audit

### PI-30: External audit

#### Summary of scores and performance table

Indicator/Dimension	Score	Explanation
<b>PI-30 External audit</b>	<b>D+</b>	<b>Scoring method M1</b>
PI-30.1 Audit coverage and standards	D	The audit coverage with respect to financial audit represents less than 50% (the majority) of total expenditure and revenue in EFY 2008, EFY 2009, and EFY 2010. National auditing standards, largely consistent with International Standard on Supreme Audit Institution (ISSAI), have been applied.
PI-30.2 Submission of audit reports to the legislature	C	Audit reports were submitted to the legislature within eight months by the ACOAG from the receipt of the consolidated financial reports from BoFED for EFY 2007, 2008, and 2009.
PI-30.3 External audit follow-up	B	The ACOAG has an audit finding follow-up team responsible for follow-up of implementation of recommendation. Audited entities generally provide a written formal response on audit findings. Most of them took actions on time. Some of the findings recur from year to year.
PI-30.4 Supreme Audit Institution (SAI) Independence	D	Out of the eight principles, five are met, two are partly met, and one is not met. SAI does not meet the key principle for independence with respect to procedures of appointment and removal of the Head of SAI.

234. This indicator examines the characteristics of external audit.

#### Background

235. In accordance with Article 14/1/a of the Charter of the Addis Ababa City Government (Proclamation No. 361/2003) and the Proclamation No. 29/2012 on the Establishment of the Office of the Auditor General of Addis Ababa City Government, the auditor general has a broad mandate for the audit of the Addis Ababa city administration. The Charter of the City of Addis Ababa also describes the mandate and role of OFAG.<sup>13</sup> The charter acknowledges the auditing and supervision power of the federal government in respect of the proper utilization of support and loans extended to the city government. According to Proclamation No. 29/2012, it is the objective of the ACOAG to maintain close contact and cooperation with other regional ORAGs and OFAG to enhance the development of auditing. It has been reported by the auditor general that experience-sharing visits were conducted between ORAGs of Amhara, Oromia, Tigray, and Benishangul -Gumuz. There is also an intention to conduct a peer review among the regional auditor generals.

236. In addition to the BIs of the city government, the ACOAG audits sub-cities, woredas, schools, and health centers within the city. The ACOAG conducts financial audit, performance audit, and special audits. It is also mandated to audit the accounts of private contractors related to the City Government of Addis Ababa contract work which involves a sum exceeding ETB 1 million. The ACOAG uses the

<sup>13</sup>Article 55 (2) of the Charter of the City of Addis Ababa (Proclamation No. 361/2003) and Article 29/2012 on the Establishment of the Auditor General of Addis Ababa City Government. Similar mandate of OFAG has been indicated in the Proclamation (Proclamation No. 669/2010) on the establishment of OFAG, which was replaced by the new proclamation (Proclamation No. 982/2016). As ORAG is in the process of preparation of a draft bill for the revision, it is unlikely that ORAG may be mandated for the audit of any federal government subsidy and loans to the Government of Addis Ababa City Administration. Nonetheless, it is indicated in the new proclamation of OFAG that training and other capacity-building support will be provided to regional ORAGs—Proclamation No. 982/2016 Article 4(5).



works of internal audit units during their audit engagement at BIs. The ACOAG provides trainings to internal auditors.

#### *PI-30.1 Audit coverage and standards*

237. This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

238. The audit coverage with respect to financial audit for the Addis Ababa city government is 95.3 percent, 62.7 percent, and 9.7 percent in EFY 2009 (2016/2017), EFY 2008 (2015/2016), and EFY 2007 (2014/2015), respectively. The ACOAG conducts interim audit to speedily finalize its annual audits. The audit process starts in January (in the middle of the fiscal year) and ends in December (in the middle of the following fiscal year). The Public Participation Development Agency is one of the audit entities.

239. The AFS includes a summary of revenue and expenditures and cash flow statements but no statement of financial positions and disclosure on assets (other than cash and cash equivalents) and liabilities (PI-29). The audit report of the ACOAG indicated that the audit did not cover all of the liabilities and assets of the city government as the information was not available for audit.

240. According to Proclamation No. 29/2012 Article 16 (1), the auditor general should carry out audits based on international standards on auditing, but it does not specify which international standards. OFAG's audit manual, largely consistent with international standards, was tailored to the city's laws and adopted by the ACOAG in 2013. The quality assurance process, risk assessments, and staff capacities are areas where the ACOAG is striving to improve. The quality assurance department has been established, yet to be operational. The audit report highlighted major findings and the impression of the auditor general on the implementation of audit findings by the executives.

241. Most of the audit reports of the audited entities had received qualified audit opinion, one unqualified audit opinion, and two adverse audit opinions on the audit of the individual BI's financial statements for EFY 2009 (2016/2017). See Table 30.1.

242. The audit coverage at sector bureaus and agencies directly reporting to the city government is improving from year to year. Table 30.1 shows the audit coverage in terms of city government total revenue and expenditure.

**Table 30.1: Audit coverage**

EFY	No. of entities (city government)	Coverage/expenditure and revenue (%)
EFY 2009 (2016/17)	28	95.3
EFY 2008 (2015/16)	14	62.7
EFY 2007 (2014/15)	16	9.7

Source: ACOAG.

Dimension score: D

**Table 30.2: Number of BIs audited and the type of audit opinion received**

Audit opinion	No. of BIs 2007 (2014/2015)	No. of BIs 2008 (2015/2016)	No. of BIs 2009 (2016/2017)
Unqualified	—	—	1
Qualified	40	49	37



Audit opinion	No. of BIs 2007 (2014/2015)	No. of BIs 2008 (2015/2016)	No. of BIs 2009 (2016/2017)
Disclaimer	—	—	0
Adverse	—	—	2
Accounts not closed timely	1	—	1

Source: ACOAG.

### PI-30.2 Submission of audit reports to the legislature

243. This dimension assesses the timeliness of audit report submissions on budget execution to the legislature as a key element in ensuring the timely accountability of the executive to the legislature and the public.

244. The ACOAG adopted interim audit approach, as permitted under Article No. 5 (4) of Proclamation No. 29/2012, where the audit process commences before the receipt of the final report from BoFED. The ACOAG should submit the audit report within four months from the receipt of the consolidated financial statements from BoFED to the city council in accordance with Article 13 (2) of Proclamation No. 12/2012. By law, BoFED shall submit the consolidated AFSs to the ACOAG within six months from the end of the budget year. Available evidence suggests that audit reports are submitted to the city council within eight months of the receipt of the financial statements.

**Table 3.26: Dates on which auditor general submits audited financial statements to the city council**

Ethiopian financial year	Date of receipt of AFS by ACOAG	Audit report submission to the city council due date by law (according to proclamation)	Actual date of submission of audit report to the city council	Remarks (delay or on time)
2010	20/10/2018	17/02/2019	Not yet submitted	
2009	27/10/2017	24/02/2018	June 2018 8 months	Delay
2008	28/10/2016	25/02/2017	June 2017 8 months	Delay
2007	04/11/2015	03/03/2016	June 2016 8 months	Delay

Source: ORAG/PAC.

Dimension score: C

### PI-30.3 External audit follow-up

245. This dimension assesses the extent to which effective and timely follow-up on external audit observations is undertaken by the executive of the audited entity.

246. According to Article 17 (3) of Proclamation No. 29/2012, the audited entity is obliged to take corrective measures within 15 days from the date of receipt of the audit report from the auditor general. The auditor general should also notify the council of the city administration, the Federal Ethics and Anti-Corruption Commission (FEACC) (Addis Ababa Branch Office), Justice and Legal Affairs Bureau, and the head of the audited entity when he/she has reasons to believe that an offense has been committed.

247. The ACOAG has an audit finding follow-up team responsible for checking whether audited entities implement recommendations. Audited entities generally provide a formal and comprehensive

response on audit findings by taking actions on the audit recommendations. Most of them took actions on time. The ACOAG compiled a summary of audit findings and actions taken by audited entities between 2009/2010 and 2015/2016 and submitted it to the speaker of the house for PAC follow-up.<sup>14</sup> In addition, it has been indicated that the role of the Financial Transparency and Accountability Committee (made up of the mayor office PAC, FEACC, and the city Justice Bureau) was very instrumental in increasing the responsiveness of audited entities with regard to taking actions on audit recommendations. The auditor general indicated in the audit report that there were few audited entities that failed to take remedial actions and that similar findings were reported from year to year. The most recurring audit findings are

- Delay in settlement of advances and payables and long outstanding receivables and payables,
- Unknown debtors and creditors,
- Budgetary control which includes budget transfer without authorization and spending for unbudgeted line items,
- Not deducting withholding taxes in accordance with the tax law,
- Not complying with the procurement rules and regulations and tendency to use noncompetitive methods of procurement, and
- Not complying with property administration rules and regulations.

Dimension score: B

#### *PI-30.4 Supreme Audit Institution independence*

248. This dimension assesses the independence of the SAI from the executive. The basis of the assessment on independence is the principles set out in the International Standard on Supreme Audit Institution, as stipulated in the Mexico Declaration on SAI Independence. Out of the eight principles, five are met, two are partly met, and one is not met. See Table 10.4.

**Table 3.27: SAI independence assessment in accordance with Mexico Declaration**

Element/requirements	Met (Yes/No)	Evidence used/comments
The existence of an appropriate and effective legal framework and of de facto application provisions of this framework	Yes	The Charter of Addis Ababa City Government (Proclamation No. 361/2003) and the Reestablishment Proclamation for the ACOAG (Proclamation No. 29/2012) provide the legal framework for the ACOAG as an autonomous body accountable to the city council.

<sup>14</sup>The Addis Ababa city government did not receive subsidies and loans from the federal government for the last three completed fiscal years. The federal government provided guarantee for the loan received by Addis Ababa city government from the CBE (for the housing project). OFAG did not conduct audit of the Housing Agency because of the guarantee provided by the federal government.

Element/requirements	Met (Yes/No)	Evidence used/comments
Independence of the ACOAG head and its members including security of tenure and legal immunity	Yes/partly	Article 26 of the Charter of Addis Ababa City Government stipulates that the auditor general shall be independent in the performance of its function. The auditor general may be removed from office due to apparent health condition, clear work incompetence, lack of commitment, unethical practices, involvement in corruption, and retirement. However, the auditor general shall only be removed from office upon investigation of reasons of removals by the concerned standing committee of the council and when decided by the council in accordance with its rules of standing order. However, Article 11 (9) of Proclamation No. 29/2012 appears to affect the legal immunity and security of the auditor general as it mandates the mayor to suspend the auditor general for a period of up to three months, until the City Council passes decision, when the auditor general is found to be a threat to the work appointed for. The proclamation does not explain the scope of the 'threat' and how this is independently verified.
Broad mandate and full discretion in delivering the tasks entrusted to the SAI	Yes	Article 26 of the Addis Ababa City Charter (Proclamation No. 361/2003) and Proclamation No. 29/2012 provide broad mandate to the ACOAG to audit the efficiency, performance effectiveness of resource utilization, and administration of the city government. Its scope of audit includes sub-cities, woredas, schools, and health centers. It conducts financial audit, performance audit, and special audits. It is also mandated to audit the accounts of private contractors related to the City Government of Addis Ababa contract work which involves a sum exceeding ETB 1 million. The ACOAG is mandated to issue auditing guidelines in consultation with OFAG and may require internal auditors to conduct an audit and report to it.
Unrestricted access to information	Yes	Article 19 (a) of Proclamation No. 29/2012 provides the legal framework for unrestricted access of the ACOAG to information. Any person who fails to produce or make available documents including ledgers, vouchers, or documentary by himself/herself or through his/her employee representatives for the auditor is punishable with imprisonment from five to seven years or with a fine of ETB 10,000 or both. The auditor general indicated that he/she has unrestricted access to information.
The right and obligation to report its work	Yes	According to Proclamation No. 29/2012, the auditor general is required to submit annual audit report to the council. In practice, the auditor general submits audit reports twice a year. There is no restriction on the timing of the audit reports. There is no intervention on its annual audit plan and also on the selection of audited entities.
The freedom to decide the content and timing of audit reports and to publish and disseminate them	Yes/partly	The auditor general has the freedom to decide the content and timing of audit report. Audit reports are not published where the public can have an easy access such as posting on website. The ACOAG has an information center where anybody can come and read audit reports. This is little known to the public.
Existence of follow-up mechanism on the ACOAG's recommendation that have been implemented	Yes	The ACOAG conducts follow-up of audit findings. There is a dedicated team for the follow-up of implementation of audit findings. It compiles outstanding audit recommendations not implemented by the auditees and submits to the FTA committee (which is composed of the mayor office, the FEACC, Bureau of Justice, and PAC).

Element/requirements	Met (Yes/No)	Evidence used/comments
Financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources	No	According to Article 13 (6) of Proclamation No. 29/2012, the auditor general submits his/her budget proposal at the time of delivering the audit findings to the parliament for approval. In practice, the executive decides the salary scale and organizational structure of the ACOAG. The ACOAG drafted a bill for the amendment of Proclamation No. 29/2012 and a new regulation for more financial autonomy.

Dimension score: D

### PI-31 Legislative scrutiny of audit reports

#### Summary of scores and performance table

Indicator/Dimension	Score	Explanation
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>C+</b>	<b>Scoring method M2</b>
PI-31.1 Timing of audit report scrutiny	A	PAC completes the scrutiny of the audit report within two months from the receipt of the audit report.
PI-31.2 Hearings on audit findings	B	PAC conducts the hearing on key audit findings for more than 80% of the audited entities which received a qualified, adverse, or disclaimer opinion.
PI-31.3 Audit recommendations by the legislature	C	PAC issues recommendation to the executives but has no follow-up mechanism. The ACOAG does the follow-up and reports to PAC on the status of implementation. PAC revisits audited entities that failed to take action on time.
PI-31.4: Transparency of legislative scrutiny of audit reports	D	Though PAC scrutinizes the executives on key findings, the process is not open to the general public and reports of PAC were not published for public access.

249. This indicator focuses on legislative scrutiny of the audited financial reports of the city government, including institutional units, to the extent that either they are required by law to submit audit reports to the legislature or their parent or controlling unit must answer questions and take action on their behalf. The assessment of this indicator is based on the audit reports submitted to the legislature within the last three years.

250. According to Proclamation No. 361, Article 14 sub-article 2(I) of the Charter of Addis Ababa City Government, the City Council has the power and function to examine and render decision upon the report submitted by the external auditor. According to the standing order of the Addis Ababa city council, the Finance and Economic Standing Committee is mandated to follow up the works of the auditor general. The audited BIs are required to report to the city council the action they took based on the recommendation they received from the auditor general.<sup>15</sup>

#### PI-31.1 Timing of audit report scrutiny

251. This dimension assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function.

<sup>15</sup> Article 5 of Proclamation No. 29/2012 for the Reestablishment of the Auditor General Office of the City Administration.

252. PAC reviews the audit report it receives from the ACOAG (through the vice speaker of the City Council). As the ACOAG submits reports twice in a year (in January and June), the scrutiny is conducted in two rounds. PAC determines the key and significant findings and develops a checklist to conduct the hearing. The scrutiny on the audit report is conducted within two months from the receipt of the audit report on the Consolidated Fund of the City of Addis Ababa Government from the ACOAG.

**Table 3.28: Time between the receipt of reports by PAC and completion of their review by the legislature**

	EFY 2007 (2014/2015)	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)
Date on which the ACOAG submits audit report to the City Council	June 2016	June 28, 2017	June 19, 2018
Date on which the auditor general delivered speech on the audit findings to the city council	June 30, 2016	June 29, 2017	June 24, 2018
Date on which the report was scrutinized by the city council	August 2016	August 2017	August 2018

Source: ACOAG, the city council.

Dimension score: A

#### *PI-31.2 Hearings on audit findings*

253. The auditor general presents the Audit Report for the Consolidated Fund of the City of Addis Ababa to the full chamber in June. PAC conducts the hearing following the receipt of the audit report from the city auditor general. The biannual audit reports of the ACOAG and the audit implementation status report prepared by the ACOAG are the basis for PAC to select key audit findings to follow up. The scrutiny process is conducted for about four weeks and PAC conducts about three BIs per week and it covers about 80 percent of the entities selected for the scrutiny. The remaining audited entities are scrutinized in the second-round supervision. The supervision mission for audit scrutiny is conducted twice per year. The Financial Accountability and Transparency (FTA) team composed of PAC members and representatives from BoFED and the Bureau of Justice and Anticorruption used to follow up the implementation of audit findings. The FTA team appears to be nonfunctional.

Dimension score: B

#### *PI-31.3 Audit recommendations by the legislature*

254. PAC does not have its own system of tracking the implementation of audit recommendations by the executives. PAC relies on the report issued by the audit follow-up team of the ACOAG which periodically reports on the status of implementation of audit recommendations (PI-30.3). PAC provides recommendation orally and in writing to the audited entity following a scrutiny and supervision of the audited entities.<sup>16</sup>

Dimension score: C

#### *PI-31.4 Transparency of legislative scrutiny of audit reports*

255. The biannual speech of the auditor general to the full chamber of the council is broadcasted live by Addis TV.<sup>17</sup> Private media agencies also attend. Audit hearings are conducted at the premises

<sup>16</sup> On July 7, 2018, the Speaker of the City Council ordered the executives (the audited entities) for the implementation of the recommendations provided by PAC. Pac conducted supervision from May 21<sup>st</sup> to June 5<sup>th</sup>, 2018. The recipient of the report includes BoH, BoE, Bureau of Construction, Water Authority, the ACOAG and others. In addition, The Chairman of PAC issued a report (recommendation) on 3<sup>rd</sup> of December 2018 following a supervision held by PAC.

<sup>17</sup> Addis TV is owned by Addis Ababa Mass Media Agency (a public body under the Addis Ababa City Government)

of the audited entity by PAC in the presence of representatives from the ACOAG. The hearing is not open to the public. The result of the hearing is not published for public access. About 260 people representing youth forum, women forum, universities, internal auditors, heads of sub-cities, and representatives from BoFED attend the quarterly performance evaluation meeting of the ACOAG. The ACOAG's presentation provides information on key findings, and participants are allowed to ask questions. However, the auditees do not attend this meeting and only journalists from the Addis Ababa Mass Media Agency attend the meeting. Hence, there is no scrutiny process held in this meeting though significant members of the community from the city administration attend the half-day event.

Dimension score: D

## 4. Conclusions of the analysis of PFM systems

### 4.1 Integrated assessment of PFM performance

#### *Pillar I: Budget reliability*

256. Over the three years covered by this assessment (2015/2016, 2016/2017, and 2017/2018), the PFM system of Addis Ababa city government has not produced a credible budget. Total expenditure outturn variation was between 69 percent and 75 percent of the approved aggregate expenditure in the three fiscal years (PI-1 rated D). The composition variance by functional and economic classification was not good either, showing considerably high expenditure for unforeseen events (PI-2 rated D+). The comparison of revenue estimates to actual outturns has also not scored well (PI-3 rated D), with revenue collections consistently not meeting the targeted plans (actual outturn average of about 85 percent for the three fiscal years), with high revenue composition variance (average for the three fiscal years above 15 percent). Nonconservative revenue projections are the reason for low tax performance. All these elements have contributed to a non-credible city budget.

#### *Pillar II: Transparency of public finances*

257. The information on PFM is fairly comprehensive, rather consistent but poorly accessible to users. This pillar is achieved through a comprehensive budget classification, the transparency of all government revenue and expenditure including intergovernmental transfers, and ready access to fiscal and budget documentation.

258. The budget is well formulated based on administrative, economic, and functional classification with consistent documentation compliant with GFS standards (PI-4 rated B). The budget documentation is only partial but not sufficiently comprehensive and accessible to the public with the exception of the budget book, elaborating previous years' budget outturn and current budget aggregate data (PI-5 rated C). Coverage of government operations is complete with all budget city government revenue and expenditure included in the budget and financial statements (PI-6 rated A).

259. The system of horizontal allocation of transfers to sub-city governments is rule-based and transparent (PI-7 rated B+). The sub-city level of governments receives reliable budget allocation information in good time (three months in advance) to develop their budgets before the start of the new fiscal year. However, the budget is submitted with delay from implementing entities.

260. Performance information on service delivery is hardly available at the planning and reporting stage (PI-8 rated D), but steps are taken to promote informed policy decisions and to drive a proper accountability process on the outcome of financial execution through delivery of public services. Program budgeting is still not developed by the city government. Most performance information submitted as part of the budget requests is based on five-year plans for the key service delivery areas. This information features achievement of program indicators which are evaluated on midterm basis, but this information does not reach the public.

261. Public access to fiscal information is not yet sufficient to align with international good practices. Only approved and executed budget as well as annual audited financial report are made available to the public (PI-9 rated D). Though prepared by the city government, there is no transparency on the in-year budget execution reports, pre-budget statement, and macroeconomic forecasts.

262. Transparency of information on public finances is necessary to ensure that government activities and operations are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables the external scrutiny of government policies and programs and their implementation.

263. Budget classification is generally comprehensive (PI-4 rated B), the budget formulation, execution, and reporting are based on administrative, economic, and functional classification at the level of GFS standard. The information of service delivery performance is not consistently available and published (PI-8 rated D), and there is no ready access to fiscal and budget documentation (PI-9 rated D).

### *Pillar III: Management of assets and liabilities*

264. Effective management of assets and liabilities ensures that (a) fiscal risks are adequately identified, monitored, and addressed in a timely and appropriate manner; (b) public investments respond to infrastructure needs, including maintenance costs, and provide value for money; (c) financial investments provide appropriate returns, assets are recorded regularly, and rules for asset transfers and disposal are followed; and (d) the debt portfolio is managed based on a sustainable debt strategy minimizing debt service costs.

265. The city government arrangements for the effective management of assets and liabilities are not in line with international standards (PI-12 rated D+). Monitoring of public corporations appears to be weak (PI-10.1 rated D); there is no reliable data on public corporations. The sub-cities also submit their financial statements late. The City Government of Addis Ababa does not prepare and publish a fiscal risk report and does not monitor contingent liabilities although it guaranteed a huge housing loan. There is no comprehensive picture of the sector and the risks it poses to the city government public finances.

266. The implementation of the government's capital investment program is not sufficiently supported by the current PIM framework and does not meet international standards (PI-11 rated C). Although certain economic analyses are conducted, as established in national Project Implementation Manual guidelines, to assess major and other investment projects, it is estimated that only 30 percent of capital projects undergo rigorous selection criteria based on societal needs and alignment to city and in some cases federal government policy (GTP II). The remaining 70 percent are selected and funded based on political considerations. However, the city government has not instituted procedures to assess the economic impact and viability of projects, and no cost-benefit analysis has been undertaken (PI-11). Therefore, it cannot be ascertained whether projects undertaken by the city government would support the region's social and economic development objectives.

267. Project monitoring shows that 30 percent of the latest 2017/2018 capital investment initiatives relate to the road infrastructure activities with total investment cost and only one year of maintenance cost. The M&E Directorate of BoFED undertakes quarterly physical inspection of capital project with duly produced progress reporting that is not published or publicly available in any mode. Furthermore, public asset management also indicates fairly poor performance on the accounting and reporting of public assets (PI-12 rated D+). Besides records of both cash and bank balance, the city government does not maintain a record of its holdings in major categories of financial assets, and a specific consolidated report on the financial performance is not prepared or published.

268. The reporting of fixed assets and inventories is centralized with the federal government, and there is no consolidated fixed assets register or management policy at the city level. However, BIs record the date, description, quantity and cost of acquisition, and usage of fixed assets. This



information is not consolidated and is dispersed over various budget organizations. Beginning 2016, there is an ILIC responsible for registering and maintaining records of all lands belonging to the city administration. Disposal of fixed assets is required by law to be published and conducted through public auction. Practice, however, demonstrates that obsolete assets are rather transferred to other public entities within the city administration.

269. The debt management process is centralized with the federal government and hence not applicable for the subnational level. The process of management of assets and liabilities is generally weak. Financial risk is not reported. PIM further puts the city government public finances exposed to political interest and not in the service of the public. The lack of adequate management of the public assets deprives the city government of additional sources of income.

#### ***Pillar IV: Policy-based fiscal strategy and budgeting***

270. The fiscal strategy and the budget are far from being prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

271. While there are certain processes in place, they are not comprehensive and sufficient for policy-based fiscal strategy and budgeting processes to enable the city government to plan and mobilize the use of resources in line with its fiscal policy and strategy.

272. The city government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years (PI-14 rated C+). This framework defines standard assumptions included into the budget documentation but does not ensure that the basis upon which fiscal forecasts are produced incorporate the policies of the city government. Micro-fiscal qualitative assessment of the impact of alternative macroeconomic assumption is prepared.

273. The city government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year (PI-15 rated D). Therefore the fiscal policy objectives are not articulated. The lack of fiscal strategy with specific quantitative and qualitative fiscal targets and constraints deprives the PFM system of a framework against which the fiscal impact of revenue and expenditure policy proposals can be assessed during the annual budget preparation process. Hence, budget policy decisions cannot be aligned with fiscal targets. This weakens the aggregate fiscal discipline and the allocation of resources to strategic priorities.

274. The MTEF is prepared on a three-year basis. The annual budget document presents estimates of expenditure by administrative, function or program, and economic type but for the budget year only. (PI-16 rated D+). Expenditure budgets are developed for the medium term within medium-term budget expenditure ceilings issued after the budget circular. The sector strategic plans are developed on a five-year basis and updated annually but medium-term budget estimates are prepared for only 12 percent of the budget entities in terms of share of total expenditure. Therefore, there is poor degree of alignment between medium-term budget estimates and strategic plans. The consistency of the budgets with the previous year estimates is good in the sense that the budget documents provide an explanation of the changes in expenditure estimates between the last medium-term budget and the current medium-term budget (PI-16.4 rated A).

275. A budget calendar exists and is partially respected and adhered to by some budget entities. Ceilings are decided by the cabinet after the issue of the budget circular but before the submission of the draft budget to the city council (PI-17 rated C). The annual budget proposal is submitted to the legislature at least one month before the start of the new year.

276. The scope of the legislative scrutiny of the budget covers only details of revenue and expenditure. The legislature procedures to review budget proposals are approved in advance and are adhered to. The procedures include specialized review committees and negotiation procedures but not public consultation or technical support. The city council has approved the annual budget before the start of the fiscal year in each of the last three years. The rules for budget adjustment allow for extensive administrative reallocations during the year of budget execution (PI-18 score D+).

#### ***Pillar V: Predictability and control in budget execution***

277. The budget is implemented within a system of not sufficiently effective standards, processes, and internal controls. Such implementation does ensure that the planned resources are obtained in good time and used as intended in the government strategies and plans. The revenue administration is comprehensive; the funds are allocated to the budget users in a predictable environment. There is accumulation of overdue payables.

278. The procedures applied by AARA in collecting and monitoring the city government revenues of 87 percent are well established (PI-19 rated B). They are clear and transparent providing the public with many channels of information and facilitating the payment of obligations.

279. Generally, the laws and regulations are comprehensive and easily understood by taxpayers.

280. AARA, being the only revenue collecting administration, has a redress system allowing for complaints to be filed and resolved in good manner and time. Risk management system is partially applied following an approach for assessing and prioritizing compliance risk. The planned revenue audits are implemented, and the routine inspection on detection of noncompliance appears to be nearly sufficient to deter evasion of regulation. Revenue arrears are properly managed, and the age of the arrears is monitored. The level of arrears at the end of FY2017/2018 was 10.4 percent of total revenue, while arrears older than 12 months were 7.3 percent of total revenue, thus indicating that there is a critical focus on the level and age of revenue arrears ensuring that the debt owed to the city government is managed actively so that the debts are collected before they become uncollectable.

281. The procedures for revenue accounting show that recording, consolidation, and reporting of revenue collections are rather adequate and performed on time through the TSA and reported upon (PI-20 rated C+). Revenue is collected in accordance with the relevant laws. This strengthens the fiscal discipline and allows allocation of budget resources to strategic priorities and development plans. The information on revenue collection and transfer is daily but without consolidated reporting on arrears produced on a monthly basis. Timely and accurate information on revenue permits the government to monitor the budget implementation, manage the cash flow, and make decisions on development and investment. The weak point is that the monthly reconciliation does not include assessments and arrears but only collections and transfers to the Treasury.

282. The city government is not able to forecast cash commitments following well-established practice (PI-21 rated C+). Reliable information on consolidation of cash balances is collected daily. Cash projections are forecasted based on procurement plans, and the cash flow is updated on actual cash on quarterly basis. Monthly basis monitoring and update of cash flow would rather be more favorable for the cash management function of the budget entities. More reliable and up-to-date forecast on availability of funds will be beneficial to the primary-level budget organizations. Information about the availability of funds and commitment ceilings is provided in advance to budgetary units for their service delivery obligations, but the three months' time they have to commit expenditure is not sufficient to encompass all their service delivery duties with due care and in time. This leads to frequent in-year budget adjustments. Cash flow is forecasted for the fiscal year and is updated monthly based on actual cash inflows and outflows.

283. Expenditure arrears are monitored and reported by Addis Ababa BoFED on an annual basis which is not sufficiently frequent (ideally on a quarterly basis) to manage and limit the accumulation of stock of arrears (PI-22 rated C). The value of arrears is monitored by two different groups of expenditure: (a) capital expenditure arrears and (b) sundry creditors' arrears. This information is monitored only at the end of the fiscal year. The stock of arrears incurred over the three years of assessment is within 10 percent in the three fiscal years of assessment.

284. Integrity of the internal control system is relatively well ensured by manual integration of the personnel module and the payroll module; however, the payroll audit is weak and cannot ensure reliability of the internal control system (PI-23 rated D+). Changes in the personnel database are reflected in the payroll by the 20th of the same month in which the change occurs. The retroactive adjustments are rare. The authority to change staff records and payroll is restricted, resulting in an audit trail, and is adequate to ensure full integrity of data through the system. Generally, the degree of integrity of the payroll control is high except for the payroll audits of all budget entities which are not strong and cover only about 1 percent of all budget users in the last three years. There is no strong payroll audit undertaken by the Office of Auditor General of the City Government either. It conducted a payroll audit very limited in coverage (1 percent) as part of the financial audit in the past three years.

285. Significant public spending takes place through the public procurement system (PI-24 rated C). Most of the BIs in the City Government of Addis Ababa maintain database or records for contracts with data on value and contract awards. The competitive methods approach has been reported as the predominant. Very little of the procurement information, only legal framework and bidding opportunities, is published and accessible to the public. The independence of the complaint resolution committee is not ensured with half of the members involved in procurement transaction and procurement decisions.

286. The effectiveness of general internal controls for non-salary expenditures is good (PI-25 rated A). Segregation of duties is formalized in the regulations and in the internal rules and procedures of the respective budget entity. Internal controls as described and incorporated in the management information system IBEX limit expenditure commitment based on the approved quarterly ceilings of the Treasury. The payment rules and regulations are generally respected with only less than 1 percent of the total expenditures reported as noncompliant.

287. The internal audit function does not provide regular feedback to management on the performance of the internal control systems (PI-26 rated D+). The internal audit of the city government fully covers all budget users. The international standards are recognized and applied but the internal audit does not focus on evaluating the effectiveness of the internal control system but is rather operational as financial compliance audit and control. The annual audit plan though well implemented with nearly all planned engagements completed (88 percent) is not based on preliminary risk assessment. Reporting and management response is rather strong (most) although with long time line of 12 months. The function is rather focused on assuring compliance to the rules, legislation, and procedures and not so much on adequacy and effectiveness of the internal control system.

#### ***Pillar VI: Accounting and reporting***

288. The key treasury accounts are reconciled at different times; even though they are all cleared by the end of the fiscal year (PI-27 rated B). Bank reconciliations for all the city government accounts take place monthly at the Treasury. There are no suspense accounts, and advance accounts are reconciled upon clearance only at year-end. The financial data integrity is not strong; despite the audit trail functionality, the management information system, IBEX, does not ensure timely and regular change of password for access to the system.

289. In-year budget execution reports prepared by the public bodies are consolidated by BoFED only on an annual basis. The reports include budget execution by detailed economic and functional classifications (PI-28 rated D+). The reports are produced at the payment (and not at the commitment) stage.

290. The annual financial report is generally complete, timely, and consistent (PI-29 rated C+). It is prepared based on modified cash basis double entry accounting system without following any specific international accepted accounting standards. They provide information on revenue and expenditure and are also accompanied by a balanced cash flow. They also provide a record of how resources were obtained and used and allow easy comparison with plans. The submission was late in only one of the three years of assessment. The annual financial report does not include information on tangible assets and on guarantees and other contingent liabilities. The timeliness of submission of reconciled year-end financial reports for external audit is a key indicator of the effectiveness of the accounting function.

### *Pillar VII: External scrutiny and audit*

291. The external audit and scrutiny by the legislature is not good enough to hold the government accountable for its fiscal and expenditure policies and their implementation (PI 30 rated D+). The Office of the Auditor General covers less than 50 percent of the BIs and makes review on the budget execution applying national standards (largely consistent with ISSAI), without focus on material issues and control risks.

292. The public finances are independently reviewed but the external follow-up on the implementation of recommendations for improvement by the executive has not been sufficiently efficient. While there is a formal response to the audit recommendations, most of the audit findings are found to recur from year to year. The audit reports are issued with delay. The ACOAG is independent from the executive and accountable to the president but fails to provide the resources needed for its operation.

293. The legislative scrutiny of the audit report follows the established practice by the law. The audit report is received with delay but reviewed by PAC within deadline. Hearings on key audit findings are conducted for more than 80 percent of the audited entities which received a qualified, adverse, or disclaimer opinion. PAC issues recommendation to the executives but has no follow-up mechanism. There are no records of public attendance at hearings, and the publication of the approved audit report is not easily accessible to the public.

## **4.2 Effectiveness of the internal control framework**

294. An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage.

295. **Control environment.** The Charter of the City Government and the various proclamations and regulations of the cities are the guiding frameworks for the control environment. Generally, rules and regulations are respected and management and staff have supportive attitudes toward internal control (PI-25). The centralized public service policy for organizational structure and compensation scheme helped form a standardized and transparent pay system throughout the city. However, the extended role of the public service in determining the structure and salary scales of the city auditor general has affected the independence of the auditor general (PI-30). Despite the commitment,

attracting and retaining of qualified personnel remain a challenge. The FEACC supporting role, the overall independence of the auditor general, a functioning internal audit system (PI-26), and the oversight role of the Regional Council, more specifically in audit follow-up, demonstrated the structural will of the government for internal control. The limited financial independence of the auditor general affected its audit coverage (PI-30). The revenue authority conducts effectively revenue audits and fraud investigation (PI-19).

296. **Risk assessment.** Organizational level risk assessment is very essential to ensure that the internal control in place is effective enough to ensure the internal control objectives. Though not fully structured and systematic, the application of risk assessment on some of the revenue categories helps the improvement of control over revenue collection (PI-19). BIs do not conduct periodical organizational-level risk assessments. Most of the internal audit and external audit functions are largely focused on compliance audit than systemic audit and are not based on a compressive risk analysis rating and strategy. The recurring nature of certain findings and recommendations from internal and external audit reflects partly the weakness of certain control activities in procurement, property administration, and asset management (PI-25, PI-26, and PI-30).

297. **Control activities.** The different manuals which stipulate the segregation of duties and procedures for preparation, review, and approval of payments and procurement and use of other resources are generally comprehensive and instrumental as internal control tools. In addition, monthly reconciliation of bank accounts, cash counts, annual physical counts, and ongoing internal and external audits strengthened the internal control. The use of SIGTAS and fingerprint identification systems for taxpayers strengthen the internal control over revenue collection (PI-19). The system for arrears monitoring is effective which lowers the year-end tax arrears to about 10 percent (PI-19).

298. Information and communication technology (ICT) role as a control activity within the PFM system is very limited. Most of the financial management procedures including disbursement, procurement, property administration, human resource, and payroll are not automated. It is not possible to get a daily consolidated cash balance of all entities including agencies and branches outside the Zero Balance Account (ZBA) and BIs with B type accounts (PI-21.1). IBEX is just a budget and expenditure management software. It is not in use for commitment control and does not prevent payments over budget unless payment transactions are entered into the system. Though budget transfers are conducted transparently, the frequent budget adjustments affect the strength of the control over budget (PI-21.4). The limited systematic audit and risk assessment exercises limited the opportunity for the revision and improvement of existing control activities. Manuals and procedures may not be updated on time. Most of the manuals were issued in 2011. The financial regulation is not yet updated based on the new Financial Administration Proclamation issued in 2017. The frequent structure changes within the city administration demand a swift update of the control activities to ensure their effectiveness.

299. **Information and communication.** Monthly financial reports and quarterly performance reports are produced and communicated to the management at BI level. The financial statements provide information on budget utilization, revenue collection, cash balances, receivables, and payables (PI-28.1). BI management submit annual financial reports to the auditor general for audit on time. Management of BIs also report to the council on their performances. Internal audit units produce and submit reports to their respective management and to BoFED. The auditor general submits their reports to the management and the council. Some of the internal audit units and the auditor general conduct performance audits and communicate their findings. The revenue authority uses various channels to inform the taxpayers about the rights and obligations (PI-19). Revenue collections are reported by the revenue authority to BoFED monthly (PI-20).

300. The accounting system is not in line with international accounting standard such as IPSAS. The financial statements do not provide information on tangible assets, contingent liabilities, loan, and notes to the accounts in the report (PI-29.1). Almost all of the BIs received qualified audit opinion and two of them received adverse opinion (PI-30.1). At the city level, consolidated budget execution reports are prepared only annually (PI-28.2); hence, deviation may not be acted upon on time. The audit report on the consolidated fund of the city government was not submitted on time (PI-30.2)

301. Information access to the public is yet to be developed. The rules and regulations of the city government are not easily accessible to the public. The audit report of the auditor general (PI-30) and the audit follow-up report of PAC (PI-31) are not published. Due to the similarity of the tax laws, the public has access to tax laws and procedures from the website of the federal revenue authority (PI-19). The city budget is shared through text message when approved, but the detailed approved budget is not available from the website of the city government. Fiscal risk monitoring in connection with SoEs is weak. Audited and unaudited financial statements are not published on time, and information on contingent liabilities is not produced and communicated (PI-10).

302. The internal control on PIM is yet to be developed to ensure economic and efficient application of public investments. Some projects undergo economic analysis, but results are not published. Only about 30 percent of the projects are selected based on economic analysis, and investment costs may not include recurrent costs. Though M&E activities are conducted, information on progress reports is not published (PI-11). Some of the nonfinancial assets are registered at BI levels, but consolidated information is not available at BoFED or city government level. The consolidated financial statement of the city administration does not contain a balance sheet and does not contain a disclosure on the value of the investment on SoEs (PI-12 and PI-30). Information is also not available on debt management (PI-13).

303. **Monitoring.** Different monitoring mechanisms are in place to ensure the efficiency and effectiveness of operation, fulfillment of accountability, compliances to rules and regulations, and safeguarding of resources. Management of BIs receive quarterly performance reports and also submit their performance reports to the council. The internal audit units and the city auditor general conduct audit and report. The council scrutinizes the audit reports. The Financial Transparency and Accountability Committee monitors the implementation of the audit findings and recommendations (PI-26, PI-30, and PI-31). The IASD monitors the implementation of internal audit recommendations. The lack of peer review on the performance and compliance of the city auditor general to international standards (PI-30), the limited application of the international standards on internal auditing (PI-26), and the institutional limitation of PAC are areas that need to be strengthened. Furthermore, the quality of in-year financial statements and AFSs are yet to be developed to enhance the monitoring component of the in-year budget reports and the financial reports (PI-28 and PI-29).

### 4.3 PFM strengths and weaknesses

#### *Aggregate Fiscal Discipline*

304. Overall, fiscal discipline is not good; most elements in the overall PFM system that contribute to achieving this result appear not to be sound. On both expenditure and revenue sides, performance is below the revenue and expenditure approved targets (PI-1, PI-2, and PI-3) with high variances in both expenditure and revenue as well as composition against the original budget because extensive administrative reallocations are permitted by the legislation (PI-18.4). The city government budget is not realistic and is not implemented as intended. There is no effective control of the total budget and measurement of fiscal risks.



305. The actual budget expenditure and revenue deviate from the original approved budget thus undermining the fiscal discipline and the ability of the city government to control the total budget and manage fiscal risks. This also prevents the government from allocating resources to strategic priorities and plans.

306. Poor budget credibility subsequently affects service delivery with contraction or suspension of services of expenditure of essential input for programs and projects, as is the case with the five-year plan for health and education (PI-8).

307. The good aspect is that the budget-related operations (PI-6) are reflected in the annual financial report. The budget discipline is further distorted by payment arrears, the stock of which is not very small (PI-22.1). The stock of expenditure arrears indicates that there are not sufficiently adequate commitment controls, efficient cash rationing, and reliable budget estimates on contracts. Accumulation of arrears can increase the costs of the government and thus have a significant impact on the fiscal discipline.

308. Budget classification is in accordance with international norms being based on administrative, economic, and functional classification of GFS/COFOG (PI-4 and PI-5).

309. Moreover, the various elements of the system concerned with budget execution—including internal controls—are not sufficiently sound to contribute to the attainment of aggregate fiscal discipline. The process of strict application of the segregation of duties (PI-25), procedures, and expenditure commitment control ensures that fiscal discipline is maintained on the level of the single budget entity, that is, at the micro level. Such a system is also indicative of the discipline on the macro level with a high degree of assurance that access and use of public funds is made under a strictly regulated and complied-with environment in which resources are used for the approved targeted purposes only.

310. A particular strength is the fact that there are limits set out for budget spending which are articulated in advance. The budget process is comprehensively designed with timed stages to cover all review procedures and approve the budget before the start of the fiscal year. The fact that the rules for budget adjustments were adhered to in all instances indicates discipline and respect of the rule of law.

### *Strategic allocation of resources*

311. The five indicators concerned with policy-based fiscal strategy and budgeting (PI-14 to PI-18) did not receive good overall ratings. Macroeconomic and fiscal forecasting (PI-14) and fiscal strategy (PI-15) did not score well because of the absence of multiyear forecasting and programming. Moreover, there is still no established process to allocate budgetary resources in accordance with the city government's declared strategic objectives (PI-16). Medium-term strategic plans are prepared for only 12 percent of total share of expenditure entities.

312. The lack of fiscal strategy with specific quantitative and qualitative fiscal targets and constraints deprives the PFM system of a framework against which the fiscal impact of revenue and expenditure and policy proposals can be assessed during the annual budget preparation process. Hence, budget policy decisions cannot be aligned with fiscal targets. This weakens the aggregate fiscal discipline and the allocation of resources to strategic priorities.

313. Another weakness to note is that PIM (PI-11) does not sufficiently reflect generally accepted good practice of project investment analysis, project selection based on strategic development goals, and project costing for full project life cycle. The public investment practice shows that resources are

allocated by political decisions rather than by strategic allocation considering specific social and economic development targets.

314. The good performance with reference to allocation of resources is the fact that there are budget ceilings (PI-17) which set the limit of spending. Although they are outlined and respected, the weakness is that the process is not well structured and planned to allow the budget entities take sufficient time in the preparation of their detailed estimates.

315. The other indicators that contribute to the strategic allocation of resources are generally functioning well. The indicators related to revenue collection (PI-19 and PI-20) perform fairly well except for revenue account collection (PI-20.3) which are reconciled only annually and revenue risk management (PI-19.2) where the procedures for prioritizing risk are only partially structured.

### *Efficient use of resources for service delivery*

316. The insufficient transparency of budget documentation (PI-5 and PI-9) does not support the achievement of targeted budget outcomes. Poor transparency prevents the public and civil society from having the information they need for public participation, which in turn affects the service delivery. The poor fiscal information and lack of access to such disrupts the service delivery and prevents stakeholders to examine fiscal strategy and to consider whether public resources are being allocated to the city's important social and development priorities (PI-8). Focus on increasing transparency will give a more prominent role to the government in service delivery. Public disclosure of information is becoming a critical feature of PFM systems especially with public participation initiatives demonstrating the government's willingness to discuss, take on board critical view and ideas, and facilitate scrutiny of government policies and programs by citizens. Poor transparency of public finances makes the government more susceptible to criticism, discontent, and generally public dissatisfaction.

317. The city government demonstrated weak performance of public asset management (PI-12) - resources are unlikely to be utilized efficiently or effectively and reach the public when it is not disclosed what assets are owned and maintained.

318. Integrity of the internal control system (PI-23) shows the following weaknesses that undermine efficient use of human resources: (a) manual integration of the personnel module and the payroll module and (b) 1 percent coverage of payroll audit. Manual update of both personnel database and payroll suggests that technical errors occur even when the changes made in the personnel data are immediately reflected in the payroll system.

319. A positive feature of the internal audit practice (PI-26) is that international standards are applied and full coverage of budget entities is ensured. The downside is that the focus is rather on financial compliance than evaluation of the effectiveness of the internal control system. There is no risk assessment in the preparation of the annual work plans, and hence, the controls are not sufficiently streamlined to evaluate processes and improve the effectiveness of risk management, control, and governance processes. Very insufficient amount of procurement information reaches the public. The lack of transparency on procurement information makes it incomplete and unreliable (PI-24).

320. Another weak point is that financial data integrity (PI-27) is ensured by limiting access to the management information system. The financial data are reviewed by internal audit, but the audit selection process is not risk based, yet, to ensure that areas vulnerable to risk are covered by annual scrutiny. This may affect the internal control system and make it break easily.



321. The external audit and scrutiny by the legislature (PI-30 and PI-31) as currently undertaken do not hold the city government accountable for its fiscal and expenditure policies and their implementation. They are scrutinized in good time, but effective hearings are not confirmed. Thus, the external audit is not effective to enable adjustments and corrections in the PFM system. The scrutiny by the legislature does not result in actions to be taken up by the executive, nor is their work transparent to the public.

#### 4.4 Performance changes since a previous assessment

322. Overall, there is no change in the performance between 2015 and 2018 for most of the indicators. Those that did change show that there are equal areas of improved and deteriorated performance. There are few omissions in previous scoring or indicators that are not directly comparable (for example, in the areas of suspense accounts, debt management, and guarantees) due to content changes in the 2016 PEFA framework. Therefore, seemingly, the score of the previous assessment may now generate either improvement or deterioration that is not effectively reflecting the PFM processes and practices. Such is the case of PI-24.2 (reference to 2011 PEFA framework) related to the timeliness of the issue of budget execution reports. They are now prepared only on annual basis as was the case in 2015, but the inexact score in 2015 wrongly suggests a deterioration from A to D.

##### *Aggregate fiscal discipline*

323. Aggregate fiscal discipline remains generally the same because there is no improvement in the overall budget credibility and budget execution processes with exception to the processes outlined below.

324. There is no change in performance in budget credibility since 2015 except for a deterioration in performance caused by an increment of actual expenditure charged to the contingency vote (PI-2.3), increasing from nil in 2015 to 7 percent in 2018. The calculation for the 2015 assessment, which uses the 2011 framework, excludes donor-funded project expenditure. The stock of arrears shows a decrease in score but not in performance. The discrepancy is caused by the fact that the 2015 assessment did not cover the complete arrears data excluding the 'sundry creditors' that constitute 2–10 percent of the total expenditure.

325. The budget has become more comprehensive by covering more information in the budget documentation. More required elements, namely 'previous year's budget outturn, presented in the same format as the budget proposal', are included in 2018 although with no impact on score.

326. A notable deterioration in performance is represented by the guidance on budget preparation (PI-17.2). In the period covered by the 2015 PEFA assessments, the ceilings were approved by the city cabinet before the BCC was issued to budgetary units. In 2018, the ceilings are approved after the distribution of the BCC. Another serious deterioration undermining the budget discipline is witnessed in payroll controls in view of the existence of payroll audits to identify control weaknesses (PI-18.4). Earlier, in 2015, the audits were undertaken annually, and that consistent practice has not been witnessed since then.

327. General improvement in the practice of management response to internal audit findings (PI-21.3) is noted having more and more managers acting upon and implementing the audit recommendations. This generally improves the internal control environment and reduces the risks of breaking the system. The quality of the in-year budget reports has been improved with the 2018 budget execution reports allowing direct comparison to the original budget (PI-24.1) which was not the case in the previous assessment.

328. Legislative scrutiny of external audit reports (PI-28) has improved with the audit reports being reviewed in less time (within two months). There is also positive change in the provision of recommendation, follow-up, and implementation of PAC recommendation.

### *Strategic resource allocation*

329. The strategic allocation of resources has not significantly improved because it did not benefit from the deployment of strategic multiyear programming tools as well as medium-term development frameworks and macro-budget forecasts, which is a new area of assessment in 2016 PEFA framework. Nevertheless, there is slight improvement in the rules of horizontal allocation of transfers which is a positive development in the transparency of public finances resulting in more than 90 percent of grant funds being subject to these transparent rules.

330. Deterioration has been noted in the following practices with no effective impact on the resource allocation: (ai) costed sector strategies (PI-12.3) were scored higher in 2015 due to coverage of capital expenditure only; (b) the transparency of taxpayer obligations (PI-13.2) scored lower in 2018 but it is rather due to the fact that AARA in 2015 was under the jurisdiction of the MoR and as such was using the readily available communication channels to address taxpayers, whereas in 2018, it is separated and is still in the process of establishing its own channels.

331. While there is deterioration in performance in the effectiveness in collection of tax payments (PI-15.1) with revenue arrears increasing as a percentage of total collection in 2018, there is an improvement in the frequency of revenue collection transfer between the CBE and AARA from 15 days in 2015 to daily in 2018.

### *Efficient use of resources for service delivery*

332. The performance of public services is not better managed, monitored, and controlled than during the previous assessment.

## 5. City government reform process

333. The City Government of Addis Ababa does not prepare a PFM reform strategy; all reform initiatives are designed by the federal government with a spillover effect on the city administration's PFM.

### 5.1 Approach to PFM reforms

334. The city government's PFM reform is largely dependent on the federal government's overall reform strategy. As such, any reform that the city plans to undertake must be in tandem with the federal government's PFM strategy. The city government, in some cases, makes input into the overall federal government reform strategy to ensure alignment. Officials of the city administration indicated that, where necessary, a cost-sharing framework is agreed between the federal and the city governments during implementation of the reform program.

### 5.2 Recent and ongoing reform actions

335. At present, there is no major PFM reform that is ongoing within the city administration. The federal government is however undertaking a major PFM reform program with World Bank support that includes the rollout of IFMIS to all federal BIs. It is envisaged that IFMIS will be rolled out to the city and all regional governments. Officials of the city administration have undergone some training on IFMIS. Again, training has been provided to city administrators on PBB, as the federal government has started the piloting and implementation of PBB.

#### *Donor coordination*

336. There is no direct relationship between DPs and the City Government of Addis Ababa. Discussions on development partner support to the city administration occur at the federal government, sometimes with the involvement of city officials at the highest level (city mayor). As observed at the federal government level, the weak donor coordination is likely to have repercussions at the city level in terms of duplication of demands.

### 5.3 Institutional considerations

#### *Government leadership and ownership*

337. All PFM reform initiatives are designed by the federal government and cascaded down to the city and regional governments. In the past decade, the city government has been undertaking various PFM reforms with the overall guidance of the federal government and has achieved notable improvements in improving the legal framework, revenue performance, budget preparation and management, cash management, accounting and reporting, procurement and asset management, internal audit, external audit, financial information systems, and transparency and accountability in PFM. The federal government has developed a 'comprehensive' PFM reform strategy for 2018–2022 although the current strategy does not include oversight functions as well as revenue administration.

#### *Coordination across government*

338. The reform process at the federal level is coordinated by the Expenditure Management and Control Reform Directorate. The strategy requires the formation of regional (state) steering committees to implement the strategy; however, this is yet to be formed at the city level. Progress of reforms and other PFM activities are reviewed at the biannual meetings of the federal and regional governments and the quarterly meetings of the PFM Sector Working Group which is composed of the

government and donors. Moreover, the progress is also reviewed at the biannual Joint Review and Implementation Support mission conducted by the federal and regional governments and donors.

### *A sustainable reform process*

339. Past reforms have been financed through the government budget, and donor support was also very significant. A series of trainings has been provided, but high staff turnover continues to undermine progress. The city government is envisaging to implement IFMIS and PBB, and training has been provided by the federal government. IFMIS is being rolled out at the federal government with World Bank support, but currently, the city has no clear plan about the implementation time line and funding.

### *Transparency of the PFM program*

340. The federal government PFM reform strategy for 2018–2022 includes a detailed action plan for the five-year period and the budget requirements. It is published on the MoF website ([www.mofed.gov.et](http://www.mofed.gov.et)); however, there is no evidence of engagement with civil society organizations.

# ANNEXES

## Annex 1: PI summary

No.	Indicator	2018 Score	Justification for 2018 Score
<b>HLG</b>	<b>Transfers from a higher-level government</b>	<b>NA</b>	
<b>HLG-1</b>	Outturn of transfer from higher-level government	<b>NA</b>	The City Government of Addis Ababa does not receive grants/subsidies from the federal government.
<b>HLG-2</b>	Earmarked grants outturn	<b>NA</b>	The City Government of Addis Ababa does not receive grants/subsidies from the federal government.
<b>HLG-3</b>	Timeliness of transfer from higher-level government	<b>NA</b>	The City Government of Addis Ababa does not receive grants/subsidies from the federal government.
<b>Pillar I: Budget reliability</b>			
<b>PI-1</b>	<b>Aggregate expenditure outturn</b>	<b>D</b>	Aggregate expenditure outturn was less than 85% in at least two of the last three years (69.2% in 2015/2016, 77.5% in 2016/2017, and 74.1% in 2017/2018).
<b>PI-2</b>	<b>Expenditure composition outturn</b>	<b>D+</b>	
2.1	Expenditure composition outturn by function	D	Expenditure composition variance by function for all of the last three was more than 15% (22% in 2015/2016, 21% in 2016/2017, and 17% in 2017/2018).
2.2	Expenditure composition outturn by economic type	D	Expenditure composition variance by economic type for all of the last three was more than 15% (28.2% in 2015/2016, 23% in 2016/2017, and 30.4% in 2017/2018).
2.3	Expenditure from contingency reserves	C	Average expenditure charged to contingency reserves for the last three years averaged 7% of the total expenditure.
<b>PI-3</b>	<b>Revenue outturn</b>	<b>D</b>	
3.1	Aggregate revenue outturn	D	Actual total revenue outturn for at least two of the last three years was less than 92% to 116% (86.5% in 2015/2016, 84.9% in 2016/2017, and 85.7% in 2017/18).
3.2	Revenue composition variance	D	Revenue composition variance for at least two of the three years was more than 15% (13.7% in 2015/2016, 19.5% in 2016/2017, and 17.6% in 2017/2018).
<b>Pillar II. Transparency of public finances</b>			
<b>PI-4</b>	<b>Budget classification</b>	<b>B</b>	Budget formulation, execution and reporting are based on administrative, economic, and functional classification at the GFS standard level of 3 digits and use functional classification of GFS/COFOG that can produce consistent documentation comparable with those standards.
<b>PI-5</b>	<b>Budget documentation</b>	<b>C</b>	Budget documentation fulfills at least 3 basic elements.
<b>PI-6</b>	<b>City government operations outside financial reports</b>	<b>A</b>	

No.	Indicator	2018 Score	Justification for 2018 Score
6.1	Expenditure outside financial reports	A	There is no unreported BCG revenue.
6.2	Revenue outside financial reports	A	There is no unreported BCG expenditure.
6.3	Financial reports of extra-budgetary units	NA	There are no EBUs at the level of the City Government of Addis Ababa.
<b>PI-7</b>	<b>Transfers to subnational government</b>	<b>B+</b>	
7.1	System for allocating transfers	A	The system for allocating horizontal transfers to sub-city governments, though complicated, is rule-based and transparent.
7.2	Timeliness of information on transfers	B	Sub-city administrations receive reliable information on transfers more than three months before the beginning of the new fiscal year; this allows for sufficient time to prepare their annual budgets. That said, there are significant delays in the transfer of actual funds to sub-cities and primary service delivery units.
<b>PI-8</b>	<b>Performance information for service delivery</b>	<b>D</b>	Scoring method M2
8.1	Performance information for service delivery	D	Information is prepared and published annually on the outcomes achieved for ministries accounting for 12% of total expenditure.
8.2	Performance achieved for service delivery	D	Information is prepared but not published annually on the outcomes achieved for ministries accounting for 7% of total expenditure.
8.3	Resources received by service delivery	D	Information on resources received in cash by frontline service delivery units is collected and recorded but not for resources received in kind. A report compiling the information is prepared at least annually.
8.4	Performance evaluation for service delivery	C	Midterm evaluations were carried out by both the Addis Ababa education and health bureaus in May 2018 and June 2018, respectively.
<b>PI-9</b>	<b>Public access to key fiscal information</b>	<b>D</b>	
	9.1 The comprehensiveness of fiscal information available to the public access to fiscal information	D	The Addis Ababa city government makes available to the public 3 basic elements and 2 additional elements.
<b>Pillar III. Management of assets and liabilities</b>			
<b>PI-10</b>	<b>Fiscal risk reporting</b>	<b>D</b>	
10.1	Monitoring of public corporations	D	The city government (through BoFEC) does not receive AFSs from these enterprises.
10.2	Monitoring of sub-national governments	D	All 10 sub-city governments submit AFSs to the city government within six months; both the unaudited financial statements and audited reports are not published on time. The most recent published report relates to EFY 2007 (FY 2014/2015).

No.	Indicator	2018 Score	Justification for 2018 Score
10.3	Contingent liabilities and other fiscal risks	D	The city government of Addis Ababa does not prepare and publish a fiscal risk report. In addition, it does not prepare and monitor both explicit and implicit contingent liabilities. The city Housing Agency has an outstanding loan portfolio of ETB 55.25 billion as at end February 2019.
<b>PI-11</b>	<b>Public investment management</b>	<b>C</b>	
11.1	Economic analysis of investment proposals	C	The city of Addis Ababa adopted the draft PIM manual that is being prepared by the federal level with the support of DFID and the World Bank dated November 2017. Most projects undergo economic analysis, but the results are not published.
11.2	Investment project selection	C	About 30% of capital projects are selected based on economic analysis; the remaining 70% are selected based on political consideration.
11.3	Investment project costing	C	It is estimated that 30% of the 2017/2018 capital budget relates to the road sector, which includes at least one-year maintenance cost.
11.4	Investment project monitoring	C	The M&E Directorate of BoFED in conjunction with the implementing budgetary unit undertakes quarterly physical inspection of capital projects. Quarterly and annual financial progress reports are also prepared. That said, they are not published. A summary project completion report is published on city notice boards.
<b>PI-12</b>	<b>Public asset management</b>	<b>D+</b>	
12.1	Financial asset monitoring	C	The consolidated AFSs of the city administration shows cash and bank balances; however, it does not disclose investment portfolios in both public and private enterprises.
12.2	Nonfinancial asset monitoring	D	There is no consolidated fixed assets register; fixed asset management is decentralized. That said, the decentralized asset register shows user information, cost of acquisition, and age of asset.
12.3	Transparency of asset disposal	C	Disposal of fixed assets within the city administration and allied BIs is regulated by Article 59 of the Addis Ababa Procurement and Property Administration Proclamation No. 9/2009 dated November 9, 2009. The law requires that disposals should be published and done through public auction. Available evidence shows transfer of obsolete assets to other public entities within the city administration. This information is included in the financial reports of the city government.
<b>PI-13</b>	<b>Debt management</b>	<b>D</b>	
13.1	Recording and reporting of debts and guarantees	D	The city government issues guarantees for agencies with government interest. That said, these guarantees are neither recorded nor monitored by the city government.



No.	Indicator	2018 Score	Justification for 2018 Score
13.2	Approval of debts and guarantees	D	As indicated under PI-13.1 above, the city government has issued guarantees for agencies with government interest. However, these guarantees are not reported and monitored by the city government. In addition, there are no documented policies that guide the issuance of these guarantees.
13.3	Debt management strategy	D	The city of Addis Ababa cannot borrow on its own accord however, it provides guarantees. The city does not prepare a medium-term debt strategy.
<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>			
<b>14</b>	<b>Macroeconomic and fiscal forecasting</b>	<b>C+</b>	
14.1	Macroeconomic forecasts	C	The Fiscal Policy and Revenue Study Directorate prepares forecasts of key macroeconomic indicators, which, with the underlying assumptions, are included in a summary version in the budget speech submitted to the council but are not submitted in full. These forecasts are updated at least once a year. The forecasts cover the budget year and the two following fiscal years. The projections have not been reviewed by a technical entity other than the preparing entity.
14.2	Fiscal forecasts	C	The Fiscal Policy and Revenue Study Directorate prepares through the MTFE forecasts of the main fiscal indicators, including revenue by type, aggregate expenditure, and the budget balance, for the budget year and two following fiscal years. These forecasts together with the underlying assumptions and the explanations of the main differences from the forecast made in the previous year's budget are included in a summary version in the budget speech submitted to the council but are not submitted in full.
14.3	Macro-fiscal sensitivity analysis	B	The Fiscal Policy and Revenue Study Directorate of BoFED prepares, for internal use, a range of fiscal forecasts based on alternative macroeconomic assumptions. The budget documents sent to the city council include a discussion of forecast sensitivities.
<b>15</b>	<b>Fiscal strategy</b>	<b>D</b>	
15.1	Fiscal impact of policy proposals	D	The city government does not prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policy for the budget year.
15.2	Fiscal strategy adoption	D	The city government does not prepare a current fiscal strategy that includes qualitative objectives for fiscal policy.
15.3	Reporting on fiscal outcomes	NA	The city government does not prepare an internal report on the progress made against its fiscal strategy.

No.	Indicator	2018 Score	Justification for 2018 Score
<b>16</b>	<b>Medium-term perspective in expenditure budgeting</b>	<b>D+</b>	
16.1	Medium-term expenditure estimates	D	The annual budget does not present expenditure for the two following fiscal years.
16.2	Medium-term expenditure ceilings	D	The aggregate expenditure ceilings for the budget year and the two following fiscal years are approved by the cabinet after the BCC is issued.
16.3	Alignment of strategic plans and budgets	D	Medium-term strategic plans are prepared for 12% of the bureaus in terms of share of total expenditure.
16.4	Consistency of budgets with previous year estimates	A	The budget documents provide an explanation of all changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the bureau level.
<b>PI-17</b>	<b>Budget preparation process</b>	<b>C</b>	
17.1	Budget calendar	C	An annual budget calendar exists, and some budgetary units comply with it and meet the deadlines for completing estimates.
17.2	Guidance on budget preparation	B	A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects the bureaus and agency ceilings submitted to the cabinet of the city government. The cabinet's approval took place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions.
17.3	Budget submission to the legislature	D	The executive has not submitted the annual budget proposal to the legislature at least one month before the start of the new year.
<b>18</b>	<b>Legislative scrutiny of budgets</b>	<b>D+</b>	
18.1	Scope of budget scrutiny	C	The legislature's review covers the details of expenditure and revenue.
18.2	Legislative procedures for budget scrutiny	D	The legislature's procedures to review budget proposals are not approved by the legislature in advance of budget hearings. The procedures include internal organizational arrangements, such as specialized review committees, and negotiation procedures. They do not include public consultation or technical support.
18.3	Timing of budget approval	B	The legislature has approved the annual budget before the start of the fiscal year in two of the last three years.
18.4	Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget amendments by the executive and are adhered to in all instances. Extensive administrative reallocations are permitted without total expansion of expenditure.
<b>Pillar V. Predictability and control in budget execution</b>			
<b>PI-19</b>	<b>Revenue administration</b>	<b>B</b>	

No.	Indicator	2018 Score	Justification for 2018 Score
19.1	Rights and obligations for revenue measures	B	AARA uses multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.
19.2	Revenue risk management	C	AARA uses partly structured and systematic approach for assessing and prioritizing compliance risks.
19.3	Revenue audit and investigation	B	The performance of tax audit was 103% of the plan, while investigation audit was 90% of the plan.
19.4	Revenue arrears monitoring	A	The arrears balance at the end of FY2017/2018 was 9.46% of total revenue, while arrears older than 12 months were 14% of total revenue.
<b>PI-20</b>	<b>Accounting for revenues</b>	<b>C+</b>	
20.1	Information on revenue collections	A	BoFED obtains revenue data at least monthly from entities collecting all city government revenue. This information is broken down by revenue type and is consolidated into a report.
20.2	Transfer of revenue collections	A	Revenue collections are transferred to treasury daily.
20.3	Revenue accounts reconciliation	C	The monthly reconciliation does not include assessments and arrears; reconciliation only covers collections and transfers to treasury.
<b>PI-21</b>	<b>Predictability of in-year resource allocation</b>	<b>C+</b>	
21.1	Consolidation of cash balances	C	The treasury department at BoFED uses a TSA to regulate bank balances of BIs on a daily basis. There are 90 bodies that are served using this account. The consolidation of cash balances is done on a monthly basis.
21.2	Cash forecasting and monitoring	B	Most public bodies prepare a cash flow forecast for a year, and the cash flow is updated based on actual cash flow on a quarterly basis and used to establish a monthly cash ceiling for BIs.
21.3	Information on commitment ceilings	B	BoFED provides quarterly expenditure commitment ceilings for public bodies after the annual budget proclamation is passed.
21.4	Significance of in-year budget adjustments	C	In-year budget adjustments appear to be frequent.
<b>PI-22</b>	<b>Expenditure arrears</b>	<b>C</b>	
22.1.	Stock of expenditure arrears	C	The stock of expenditure arrears is no more than 10% of total expenditure in at least 2 of the last 3 fiscal years.
22.2.	Expenditure arrears monitoring	C	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal year.
<b>PI-23</b>	<b>Payroll controls</b>	<b>D+</b>	
23.1	Integration of payroll and personnel records	B	The payroll is supported by a full documentation for all changes made to personnel records each month and checked against the previous month data. Staff hiring is controlled by a list of all approved staff positions.

No.	Indicator	2018 Score	Justification for 2018 Score
23.2	Management of payroll changes	A	Payroll changes are updated at least monthly in time for the following month's payment. Retroactive adjustments are rare and insignificant.
23.3	Internal control of payroll	B	Authority and basis for changes to personnel records and the payroll are clear and adequate to ensure high integrity of data.
23.4	Payroll audit	D	There is no a strong payroll audit system, and surveys have not been taken by Internal auditors. The Office of Auditor General of the City Government tries to conduct payroll audit as part of the financial audit but it has been limited in the past three years.
<b>PI-24</b>	<b>Procurement</b>	<b>C</b>	
24.1	Procurement monitoring	B	Most of the BIs in the City Government of Addis Ababa maintain records for contracts including data on what has been procured, the value of procurement, and who has been awarded contracts. They report to the city administration on procurement performance.
24.2	Procurement methods	B	The competitive method of procurement has been applied for 79% of the total procurement expenditure for the last completed fiscal year that is EFY 2010 (2017/2018).
24.3	Public access to procurement information	D	Only two of the key procurement information requirements have been met.
24.4	Procurement complaints management	D	Four of the six basic elements for procurement complaint management have been met but fail to meet criteria No. 1.
<b>PI-25</b>	<b>Internal controls on non-salary expenditures</b>	<b>A</b>	
25.1	Segregation of duties	A	Segregation of duties is in place and clearly laid down in the relevant financial management related proclamations, regulations, procedures, and guidelines.
25.2	Effectiveness of expenditure commitment controls	B	IBEX does not limit expenditure commitment due to unavailability of cash; it however limits expenditure commitment based on approved quarterly ceilings.
25.3	Compliance with payment rules and procedures	A	Payment rules and regulations are generally respected. Only less than 1% of the total expenditures are reported to be noncompliant to payment rules and regulations.
<b>PI-26</b>	<b>Internal audit</b>	<b>D+</b>	
26.1	Coverage of the internal audit	A	All BIs have a functioning internal audit unit and covers close to 100% of financial audits.
26.2	Nature of audits and standards applied	C	The internal audit largely follows the international internal audit standards for most of the procedures but largely focuses on financial compliance audit than systemic audit and risk-based audits.
26.3	Implementation of internal audits and reporting	C	Majority of the internal audit units accomplished their programmed audits.

No.	Indicator	2018 Score	Justification for 2018 Score
26.4	Response to internal audits	D*	Information was not available to the assessment team on the number of audit recommendations acted upon by management and the timing of action taken.
<b>Pillar VI. Accounting and Reporting</b>			
<b>PI-27</b>	<b>Financial data integrity</b>	<b>B</b>	
27.1	Bank account reconciliations	B	Bank reconciliation of all treasury accounts is done on a monthly basis within 4 weeks by the accounts department at BoFED.
27.2	Suspense accounts	NA	No suspense accounts are held both at BoFED and at bureaus and agencies.
27.3	Advance accounts	C	Advance accounts reconciliations at BoFED are done on an annual basis while preparing the AFSs.
27.4	Financial data integrity process	B	The IBEX system does not prompt for a change of password. Consequently, a given password can be used over a long period with no change. Nonetheless, there is an audit trail.
<b>PI-28</b>	<b>In-year budget reports</b>	<b>D+</b>	
28.1	Coverage and comparability of reports	B	Monthly detail budget execution reports are prepared by public bodies and submitted to BoFED. BoFED consolidates these reports on an annual basis. The reports include budget execution by detailed administrative, economic, and functional classifications.
28.2	Timing of in-year reports	D	Consolidated budget execution reports are prepared at the city level on annual basis. However, public bodies prepare financial reports that compare budget against actual and submit to BoFED on a monthly basis.
28.3	Accuracy of in-year budget reports	C	The data prepared both at city level and PBs is useful for budget execution analysis even though there are concerns over data accuracy. Expenditures are reported at the payment stage only.
<b>PI-29</b>	<b>Annual financial reports</b>	<b>C+</b>	
29.1	Completeness of annual financial reports	C	The AFSs for Addis Ababa city regional government for the last completed fiscal year 2017/2018 include information on budget, revenue, expenditure, and cash balances and are supported by a reconciled cash flow statement.
29.2	Submission of reports for external audit	B	The financial statement for 2017/2018(EFY 2010) was submitted on October 9,2018 to the auditors that is within six months after the end of the fiscal year, that is, July 7, 2018.
29.3	Accounting standards	C	There is no specific international accepted accounting standard applied in the preparation of the public accounts of the Addis Ababa city regional government.
<b>Pillar VII. External Scrutiny and Audit</b>			
<b>PI-30</b>	<b>External audit</b>	<b>D+</b>	

No.	Indicator	2018 Score	Justification for 2018 Score
30.1	Audit coverage and standards	D	The audit coverage with respect to financial audit represents less than 50% (the majority) of total expenditure and revenue in EFY 2008, EFY 2009 and EFY 2010. National auditing standards, largely consistent with ISSAI, have been applied.
30.2	Submission of audit reports to the legislature	C	Audit reports were submitted to the legislature within eight months by the ACOAG from receipt of the consolidated financial reports from BoFED for the EFY 2007, 2008, and 2009.
30.3	External audit follow-up	B	The ACOAG has an audit finding follow-up team responsible for follow-up of implementation of recommendation. Audited entities generally provide a written formal response on audit findings. Most of them took actions on time. Some of the findings recur from year to year.
30.4	Supreme Audit Institution independence	D	Out of the eight principles, five are met, two are partly met, and one is not met. SAI does not meet the key principle for independence with respect to procedures of appointment and removal of the head of SAI.
<b>PI-31</b>	<b>Legislative scrutiny of audit reports</b>	<b>C+</b>	
31.1	Timing of audit report scrutiny	A	PAC completes the scrutiny of the audit report within two months from the receipt of the audit report.
31.2	Hearing on audit findings	B	PAC conducts the hearing on key audit findings for more than 80% of the audited entities which received a qualified, adverse, or disclaimer opinion.
31.3	Audit recommendations by the legislature	C	PAC issues recommendation to the executives, but has no follow-up mechanism. The ACOAG does the follow-up and reports to PAC on the status of implementation. PAC revisits audited entities that failed to take action on time.
31.4	Transparency of the legislative scrutiny of audit reports	D	Though PAC scrutinizes the executives on key findings, the process is not open to the general public, and reports of PAC were not published for public access.

Note: PB = Public body.

## Annex 2: Summary of observations on internal control

An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (a) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (b) accountability obligations are fulfilled; (c) applicable laws and regulations are complied with; and (d) resources are safeguarded against loss, misuse, and damage.

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	<p>The Charter of the City Government and the various proclamations and regulations of the cities are the guiding frameworks for the control environment. Generally, rules and regulations are respected and management and staff have supportive attitudes toward internal control (PI-25). The centralized public service policy for organizational structure and compensation scheme helped form a standardized and transparent pay system throughout the city. However, the extended role of the public service in determining the structure and salary scales of the city auditor general has affected the independence of the auditor general (PI-30). Despite the commitment of the city administration, attracting and retaining qualified personnel remain a challenge. The FEACC supporting role, the overall independence of the auditor general, a functioning internal audit system (PI-26), and the oversight role of the City Council, more specifically in audit follow-up, demonstrated the structural will of the government for strengthening internal control. The limited financial independence of the auditor general affected its audit coverage (PI-30). The revenue authority conducts effectively revenue audits and fraud investigation (PI-19).</p>
<b>2. Risk assessment</b>	<p>Organizational level risk assessment is very essential to ensure that the internal control in place is effective enough to ensure the internal control objectives. Though not fully structured and systematic, the application of risk assessment on some of the revenue categories helps the improvement of control over revenue collection (PI-19). BIs do not conduct periodical organizational-level risk assessments. Most of the internal audit and external audit functions are largely focused on compliance audit than systemic audit and are not based on a comprehensive risk analysis rating and strategy. The recurring nature of certain findings and recommendations from internal and external audit reflects partly the weakness of certain control activities in procurement, property administration, and asset management (PI-25, PI-26, and PI-30).</p>
<b>3. Control activities</b>	<p>The different manuals which stipulate the segregation of duties and procedures for preparation, review, and approval of payments and procurement and use of other resources are generally comprehensive and instrumental as internal control tools. In addition, monthly reconciliation of bank accounts, cash counts, annual physical counts, and ongoing internal and external audits strengthened the internal control. The use of SIGTAS and fingerprints identification systems for taxpayers strengthen the internal control over revenue collection (PI-19). The system for arrears monitoring is effective which lowers the year-end tax arrears to about 10% (PI-19). ICT role as a control activity within the PFM system is very limited. Most of the financial management procedures including disbursement, procurement, property administration, human resource, and payroll are not automated. It is not possible to get a daily consolidated cash balance of all</p>

Internal control components and elements	Summary of observations
	<p>entities including agencies and branches outside the ZBA account and BIs with B type accounts (PI-21.1). IBEX is just a budget and expenditure management software. It is not in use for commitment control in relation to availability of actual cash for payment of expenditure but nonetheless, it limits commitment against approved budget. Though budget transfers are conducted transparently, the frequent budget adjustments affect the strength of the control over budget (PI-21.4). The limited systematic audit and risk assessment exercises affect the opportunity for the revision and improvement of existing control activities. Manuals and procedures may not be updated on time. Most of the manuals were issued in 2011. The financial regulation is not yet updated based on the new Financial Administration Proclamation issued in 2017. The frequent structure changes within the city administration demand a swift update of the control activities to ensure their effectiveness.</p>
<b>4. Information and communication</b>	
	<p>Monthly financial reports and quarterly performance reports are produced and communicated to the management at BI level. The financial statements provide information on budget utilization, revenue collection, cash balances, receivables, and payables (PI-28.1). BI management submit annual financial reports to the auditor general for audit on time. Management of BIs also report to the council on their performances. Internal audit units produce and submit reports to their respective management and to BoFED. The auditor general submits their reports to the management and the council. Some of the internal audit units and the auditor general conduct performance audits and communicate their findings. The revenue authority uses various channels to inform the taxpayers about the rights and obligations (PI-19). Revenue collections are reported by the revenue authority to BoFED monthly (PI-20).</p> <p>The accounting system is not in line with international accounting standard such as IPSAS. The financial statements do not provide information on tangible assets, contingent liabilities, loan, and notes to the accounts in the report (PI-29.1). Almost all the BIs received qualified audit opinion and two of them received adverse opinion (PI-30.1). At the city level, consolidated budget execution reports are prepared only annually (PI-28.2); hence, deviation may not be acted upon on time. The audit report on the consolidated fund of the city government was not submitted on time (PI-30.2)</p> <p>Information access to the public is yet to be developed. The rules and regulations of the city government are not easily accessible to the public (PI-9). The audit report of the auditor general (PI-30) and the audit follow-up report of PAC (PI-31) are not published. Due to the similarity of the tax laws, the public has access to tax laws and procedures from the website of the federal revenue authority (PI-19). The city budget is shared through text message when approved, but the detailed approved budget is not available from the website of the city government. Fiscal risk monitoring in connection with SoEs is weak. Audited and unaudited financial statements are not published on time, and information on contingent liabilities is not produced and communicated (PI-10).</p> <p>The internal control on PIM is yet to be developed to ensure economic and efficient application of public investments. Some projects undergo economic analysis, but results are not published. Only about 30% of the projects are selected based on economic analysis, and investment costs may not include recurrent costs. Though M&amp;E activities are conducted, information on progress reports is not published (PI-11). Some of the nonfinancial assets are</p>



Internal control components and elements	Summary of observations
	registered at BI levels, but consolidated information is not available at BoFED or city government level. The consolidated financial statement of the city administration does not contain balance sheet and does not contain disclosure on the value of the investment on SoEs (PI-12, PI-30).
<b>5. Monitoring</b>	
	Different monitoring mechanisms are in place to ensure the efficiency and effectiveness of operation, fulfillment of accountability, compliances to rules and regulations, and safeguarding of resources. Management of BIs receive quarterly performance reports and also submit their performance reports to the council. The internal audit units and the city auditor general conduct audits and issue reports accordingly. The council scrutinizes the audit reports. The Financial Transparency and Accountability Committee monitors the implementation of the audit findings and recommendations (PI-26, PI-30, and PI-31). The IASD monitors the implementation of internal audit recommendations. The lack of peer review on the performance and compliance of the city auditor general to international standards (PI-30), the limited application of the international standards on internal auditing (PI-26), and the institutional limitation of PAC, and the quality of in-year and AFSs largely affect effective monitoring.

## Annex 3A: Source of data per dimension/indicator

Indicator	Dimension	Data used
<b>I. Budget reliability</b>		
<b>PI-1 Aggregate expenditure outturn</b>	1.1 Aggregate expenditure outturn	<ul style="list-style-type: none"> <li>• Discussion with BoFED Budget Directorate and Accounts Directorate</li> <li>• Budget proclamation for 2015/2016, 2016/2017, and 2017/2018</li> <li>• BoFED audited accounts for 2015/2016 and 2016/2017</li> <li>• BoFED draft accounts for 2017/2018</li> </ul>
<b>PI-2 Expenditure composition outturn</b>	2.1 Expenditure composition outturn by function	<ul style="list-style-type: none"> <li>• Discussion with BoFED Budget Directorate and Accounts Directorate</li> <li>• Budget proclamation for 2015/2016, 2016/2017, and 2017/2018</li> <li>• BoFED audited accounts for 2015/2016 and 2016/2017</li> <li>• BoFED draft accounts for 2017/2018</li> </ul>
	2.2 Expenditure composition outturn by economic type	
	2.3 Expenditure from contingency reserves	
<b>PI-3 Revenue outturn</b>	3.1 Aggregate revenue outturn	<ul style="list-style-type: none"> <li>• Discussion with BoFED Budget Directorate and Accounts Directorate</li> <li>• Budget proclamation for 2015/2016, 2016/2017, and 2017/2018</li> <li>• BoFED audited accounts for 2015/2016 and 2016/2017</li> <li>• BoFED draft accounts for 2017/2018</li> </ul>
	3.2 Revenue composition outturn	
<b>II. Transparency of public finances</b>		
<b>PI-4 Budget classification</b>	4.1 Budget classification	<ul style="list-style-type: none"> <li>• City Government of Addis Ababa BoFED CoA. Annual budget of EFY 2011 and AFSs of EFY 2008, 2009, and 2010</li> </ul>
<b>PI-5 Budget documentation</b>	5.1 Budget documentation	<ul style="list-style-type: none"> <li>• Budget calls by BoFED to sectors and budget ceiling letters to sectors and BIs by BoFED of Addis Ababa for EFY 2009, 2010, and 2011</li> <li>• Recommended budget submitted to the City Council by the City Government of Addis Ababa BoFED. Covering letter dated EFY June 27, 2016, June 30, 2017, and June 8, 2018</li> <li>• EFY 2011 budget explanation to cabinet of the city council dated June 28, 2018</li> <li>• EFY 2011 budget speech to the city council dated July 10, 2018</li> </ul>
<b>PI-6 Central government operations outside financial reports</b>	6.1 Expenditure outside financial reports	<ul style="list-style-type: none"> <li>• Financial statements of FY2015/2016, 2016/2017, and 2017/2018 from BoFED Accounts Directorate and Government Finance Directorate.</li> <li>• Annual approved budget of FY2015/2016, 2016/2017, and 2017/18 from BoFED Budget Directorate.</li> </ul>

Indicator	Dimension	Data used
	6.2 Revenue outside financial reports	<ul style="list-style-type: none"> <li>Financial statements of FY2015/2016, 2016/2017, and 2017/2018 from BoFED Accounts Directorate and Government Finance Directorate.</li> <li>Annual approved budget of FY2015/2016, 2016/2017, and 2017/2018 from BoFED Budget Directorate.</li> </ul>
	6.3 Financial reports of extra-budgetary units	<ul style="list-style-type: none"> <li>Financial statements of FY 2015/2016, 2016/2017, and 2017/2018 from BoFED Accounts Directorate and Government Finance Directorate.</li> </ul>
<b>PI-7 Transfers to subnational government</b>	7.1 System for allocating transfers	<ul style="list-style-type: none"> <li>Grants/subsidies distribution formula (ECY 2010) for sub-city administration approved by the city cabinet with authority from city council</li> </ul>
	7.2 Timeliness of information on transfers	<ul style="list-style-type: none"> <li>Approved budget with ceilings for FY2017/2018 - dated March 27, 2017</li> </ul>
<b>PI-8 Performance information for service delivery</b>	8.1 Performance information for service delivery	<ul style="list-style-type: none"> <li>HSTP ,ESDP IV</li> </ul>
	8.2 Performance achieved for service delivery	<ul style="list-style-type: none"> <li>HIMS</li> </ul>
	8.3 Resources received by service delivery units	<ul style="list-style-type: none"> <li>Schools and health centers service delivery information report</li> </ul>
	8.4 Performance evaluation for service delivery	<ul style="list-style-type: none"> <li>Midterm evaluation of Addis Ababa health sector and midterm evaluation of the education sector</li> </ul>
<b>PI-9 Public access to key fiscal information</b>	9.1 The comprehensiveness of fiscal information available to the public access to fiscal information	
<b>III. Management of assets and liabilities</b>		
<b>PI-10 Fiscal risk reporting</b>	10.1 Monitoring of public corporations	<ul style="list-style-type: none"> <li>Data from 7 SoEs obtained from the ACOAG for FY2017/2018</li> </ul>
	10.2 Monitoring of subnational governments	<ul style="list-style-type: none"> <li>AFSs from 10 sub-city administrations plus dates of submission of AFSs to BoFED</li> </ul>
	10.3 Contingent liabilities and other fiscal risks	<ul style="list-style-type: none"> <li>Interview with officials of BoFED budget department; consolidated AFSs for FY2017/2018</li> </ul>
<b>PI-11 Public investment management</b>	11.1 Economic analysis of investment proposals	<ul style="list-style-type: none"> <li>Interview with officials from Planning Directorate of BoFED; data on 10 largest capital investment projects for FY2017/2018</li> </ul>
	11.2 Investment project selection	<ul style="list-style-type: none"> <li>Interview with officials from Planning Directorate of BoFED</li> </ul>
	11.3 Investment project costing	<ul style="list-style-type: none"> <li>Project documents on 10 largest investments for FY2017/2018</li> </ul>

Indicator	Dimension	Data used
	11.4 Investment project monitoring	<ul style="list-style-type: none"> <li>Progress and project completion reports from Planning Directorate of BoFED; performance audit report from Addis Ababa city auditor general</li> </ul>
<b>PI-12 Public asset management</b>	12.1 Financial asset monitoring	<ul style="list-style-type: none"> <li>Consolidated AFSs for 2017/2018</li> </ul>
	12.2 Nonfinancial asset monitoring	<ul style="list-style-type: none"> <li>Individual fixed assets register (decentralized) from sample city bureaus (education, health, and roads)</li> </ul>
	12.3 Transparency of asset disposal	<ul style="list-style-type: none"> <li>Article 59 of the Addis Ababa Procurement and Property Administration Proclamation No. 9/2009 dated November 9, 2009</li> </ul>
<b>PI-13 Debt management</b>	13.1 Recording and reporting of debts and guarantees	Not applicable
	13.2 Approval of debts and guarantees	Not applicable
	13.3 Debt management strategy	Not applicable
<b>IV. Policy-based fiscal strategy and budgeting</b>		
<b>PI-14 Macroeconomic and fiscal forecasting</b>	14.1 Macroeconomic forecasts	<ul style="list-style-type: none"> <li>MTFF for EFY 2009–2011, 2010–2012, and 2011–2013, from Policy and Revenue Study Directorate of BoFED</li> <li>EFY 2011 budget explanation to cabinet of the city council dated June 28, 2018</li> <li>EFY 2011 budget speech to the city council dated July 10, 2018</li> <li>City Government of Addis Ababa ESDP V; 2015/2016–2019/2020</li> <li>GTP II</li> </ul>
	14.2 Fiscal forecasts	<ul style="list-style-type: none"> <li>MTFF for EFY 2009–2011, 2010–2012, and 2011–2013, from Policy and Revenue Study Directorate of BoFED</li> <li>EFY 2011 budget explanation to cabinet of the city council dated June 28, 2018</li> <li>EFY 2011 budget speech to the city council dated July 10, 2018</li> <li>City Government of Addis Ababa ESDP V; 2015/2016–2019/2020</li> <li>GTP II</li> </ul>
	14.3 Macro-fiscal sensitivity analysis	<ul style="list-style-type: none"> <li>EFY 2011 budget explanation to cabinet of the city council dated June 28, 2018</li> <li>EFY 2011 budget speech to the city council dated July 10, 2018</li> </ul>
<b>PI-15 Fiscal strategy</b>	15.1 Fiscal impact of policy proposals	<ul style="list-style-type: none"> <li>EFY 2011 budget speech to the city council dated July 10, 2018</li> </ul>
	15.2 Fiscal strategy adoption	<ul style="list-style-type: none"> <li></li> </ul>
	15.3 Reporting on fiscal outcomes	<ul style="list-style-type: none"> <li>EFY 2011 budget speech to the city council dated July 10, 2018</li> <li>City Government of Addis Ababa BoFED consolidated annual report of EFY 2008, 2009, and 2010</li> </ul>

Indicator	Dimension	Data used
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	16.1 Medium-term expenditure estimates	<ul style="list-style-type: none"> <li>• MTFE for EFY 2009–2011, 2010–2012, and 2011–2013, from Policy and Revenue Study Directorate of BoFED</li> </ul>
	16.2 Medium-term expenditure ceilings	<ul style="list-style-type: none"> <li>• MTFE for EFY 2009–2011, 2010–2012, and 2011–2013, from Policy and Revenue Study Directorate of BoFED</li> <li>• Budget call and callings to sector bureaus and sub-cities for EFY 2009, , and 2011</li> </ul>
	16.3 Alignment of strategic plans and budgets	<ul style="list-style-type: none"> <li>• EFY 2011 approved budget of the city government, EFY 2010 actual expenditure from the financial statement of EFY 2010, and MTFE of 2011–2013</li> </ul>
	16.4 Consistency of budgets with previous year estimates	<ul style="list-style-type: none"> <li>• AFSs EFY 2008, 2009, and 2010 and approved budget of EFY 2008, 2009, and 2010</li> </ul>
<b>PI-17 Budget preparation process</b>	17.1 Budget calendar	<ul style="list-style-type: none"> <li>• Budget Administration Directive No. 05/2010</li> </ul>
	17.2 Guidance on budget preparation	<ul style="list-style-type: none"> <li>• Budget preparation directive to sector bureaus by BoFED dated FY March 30, 2010</li> <li>• Budget preparation directive to sub-cities by BoFED dated FY March 30, 2010</li> </ul>
	17.3 Budget submission to the legislature	<ul style="list-style-type: none"> <li>• Submitted letter by BoFED to the city council dated June 26, 2016, June 27, 2017 and June 8, 2018</li> </ul>
<b>PI-18 Legislative scrutiny of budgets</b>	18.1 Scope of budget scrutiny	<ul style="list-style-type: none"> <li>• Draft budget EFY 2011</li> </ul>
	18.2 Legislative procedures for budget scrutiny	<ul style="list-style-type: none"> <li>• Addis Negari Gazeta of the City Government of Addis Ababa</li> </ul>
	18.3 Timing of budget approval	<ul style="list-style-type: none"> <li>• Dates given from the city council</li> </ul>
	18.4 Rules for budget adjustments by the executive	<ul style="list-style-type: none"> <li>• City Government Finance Administration Proclamation No. 51/2016 Articles 22 and 26 as well as Annual Budget Proclamation No. 60/2018 Article No. 4.</li> </ul>
<b>V. Predictability and control in budget execution</b>		
<b>PI-19 Revenue administration</b>	19.1 Rights and obligations for revenue measures	<ul style="list-style-type: none"> <li>• Discussion with AARA, Addis Ababa Chamber of Commerce</li> <li>• Tax Administration Proclamation No. 983/2016</li> </ul>
	19.2 Revenue risk management	<ul style="list-style-type: none"> <li>• AARA annual audit plan</li> </ul>
	19.3 Revenue audit and investigation	<ul style="list-style-type: none"> <li>• AARA annual performance report for 2017/2018</li> </ul>
	19.4 Revenue arrears monitoring	
<b>PI-20 Accounting for revenue</b>	20.1 Information on revenue collections	<ul style="list-style-type: none"> <li>• Discussion with AARA</li> <li>• AARA monthly report submitted to BoFED</li> </ul>
	20.2 Transfer of revenue collections	<ul style="list-style-type: none"> <li>• AARA annual performance report for 2017/2018</li> </ul>
	20.3 Revenue accounts reconciliation	<ul style="list-style-type: none"> <li>• AARA revenue reconciliation</li> </ul>
<b>PI-21 Predictability of in-year resource allocation</b>	21.1 Consolidation of cash balances	<ul style="list-style-type: none"> <li>• Consolidated cash and bank balances reported in the month of January 2019</li> </ul>
	21.2 Cash forecasting and monitoring	<ul style="list-style-type: none"> <li>• Cash forecast for 2017/2018</li> </ul>

Indicator	Dimension	Data used
	21.3 Information on commitment ceilings	<ul style="list-style-type: none"> <li>Commitment ceilings 2017/2018</li> </ul>
	21.4 Significance of in-year budget adjustments	<ul style="list-style-type: none"> <li>In-year budget adjustments 2017/2018</li> </ul>
<b>PI-22 Expenditure arrears</b>	22.1 Stock of expenditure arrears	<ul style="list-style-type: none"> <li>AFSs of EFY 2008, 2009, and 2010 of the city government's BoFED and AFSs of BoE, AACRA, Addis Ababa Housing Agency for EFY 2008, 2009, and 2010</li> </ul>
	22.2 Expenditure arrears monitoring	<ul style="list-style-type: none"> <li>AFSs of EFY 2008, 2009, and 2010 of the city government's BoFED and AFSs of BoE, AACRA, AA Housing Agency for EFY 2008, 2009, and 2010. Cash flows statement of the city government of Addis Ababa BoFED</li> </ul>
<b>PI-23 Payroll controls</b>	23.1 Integration of payroll and personnel records	<ul style="list-style-type: none"> <li>Disbursement and payment directive No. 5/2010 of BoFED</li> <li>Letters written on changes of salary from HR to the FASP</li> <li>Time sheets and attendances submitted to HR from all departments</li> <li>Covering letter sent to the bank and the attached payroll copy</li> </ul>
	23.2 Management of payroll changes	<ul style="list-style-type: none"> <li>Disbursement and payment directive No. 5/2010 of BoFED</li> <li>Letters written on changes of salary from HR to the FASP</li> <li>Time sheets and attendances submitted to HR from all departments</li> </ul>
	23.3 Internal control of payroll	<ul style="list-style-type: none"> <li>Disbursement and payment directive No. 5/2010 of BoFED</li> <li>Letters written on changes of salary from HR to the FASP</li> <li>Time sheets and attendances submitted to HR from all departments</li> </ul>
	23.4 Payroll audit	<ul style="list-style-type: none"> <li>Eternal audit reports by the city auditor general in the last three years</li> <li>Internal audit reports by the city government internal auditors for the last three years</li> <li>Internal audit reports of BoE, BoH, AACRA, and Addis Ababa Housing Agency</li> </ul>
<b>PI-24 Procurement</b>	24.1 Procurement monitoring	<ul style="list-style-type: none"> <li>City Council Procurement and Property Administration Proclamation No. 17/2009</li> <li>Annual performance report of EFY 2018, 2009, and 2010 of Procurement and Property Administration Directorate of the city BoFED</li> <li>Annual performance report of EFY 2018, 2009, and 2010 of Procurement and Property Disposal Agency</li> </ul>
	24.2 Procurement methods	<ul style="list-style-type: none"> <li>Annual performance report of EFY 2018, 2009, and 2010 of Procurement and Property Administration Directorate of the city BoFED</li> <li>Annual performance report of EFY 2018, 2009, and 2010 of Procurement and Property Disposal Agency</li> </ul>
	24.3 Public access to procurement information	<ul style="list-style-type: none"> <li>Website of the Addis Ababa city government BoFED <a href="http://www.aaBoFED.gov.et">www.aaBoFED.gov.et</a>, newspaper, brochures</li> </ul>

Indicator	Dimension	Data used
	24.4 Procurement complaints management	<ul style="list-style-type: none"> <li>• City Council Procurement and Property Administration Proclamation No. 17/2009</li> <li>• City Council Procurement and Property Administration Directive No. 3/2009</li> <li>• Application of complaint and minutes of the compliant resolution committee</li> <li>• Letter of the decision made by the committee</li> </ul>
<b>PI-25 Internal controls on non-salary expenditure</b>	25.1 Segregation of duties	<ul style="list-style-type: none"> <li>• The Financial Administration Proclamation (No. 51/2017)</li> <li>• Procurement and Property Administration Proclamation (No. 17/2009)</li> <li>• Manual for the administration of budget (3/2011)</li> <li>• Manual for cash management (4/2011)</li> <li>• Cash disbursement manual (5/2011)</li> <li>• Accounting procedure (6/2011)</li> <li>• Financial accountability (7/2011)</li> <li>• Internal Audit Manual (8/2011)</li> <li>• Internal control standards (9/2011)</li> <li>• Property administration (10/2011)</li> <li>• Handover procedure (11/2011)</li> <li>• Procedure on guarantor (12/2011)</li> <li>• Guideline/manual for the procurement of goods and services (2/2011)</li> </ul>
	25.2 Effectiveness of expenditure commitment controls	<ul style="list-style-type: none"> <li>• Audit report on the consolidated financial statements of the Addis Ababa city government for the EFY 2007 (2014/2015), EFY 2008 (2015/2014), and EFY 2009 (2016/2017)</li> <li>• Internal audit reports issued by the BoE, BoH, AACRA, AAWSA, and Housing Agency</li> <li>• Interview with Addis Ababa Chamber of Commerce and Sectoral Association</li> <li>• Interview with the auditor general</li> </ul>
	25.3 Compliance with payment rules and procedures	<ul style="list-style-type: none"> <li>• Audit report on the consolidated financial statements of the Addis Ababa city government for the EFY 2007 (2014/2015), EFY 2008 (2015/2014), and EFY 2009 (2016/2017)</li> <li>• Internal audit reports issued by the BoE, BoH, AACRA, AAWSA, and Housing Agency.</li> </ul>
<b>PI-26 Internal audit</b>	26.1 Coverage of the internal audit	<ul style="list-style-type: none"> <li>• Internal audit reports collected from the visited BIs including BoE, BoH, Housing Agency, Road Authority, and Water Authority</li> <li>• The annual report of the IASD</li> <li>• Previous PEFA report</li> </ul>
	26.2 Nature of audits and standards applied	<ul style="list-style-type: none"> <li>• Review of the annual audit plan</li> </ul>

Indicator	Dimension	Data used
		<ul style="list-style-type: none"> <li>• Interview on the application of internal audit standards with the internal audits of visited BIs</li> <li>• The audit review report by the IASD</li> <li>• Interview with the auditor general</li> <li>• The internal audit manuals</li> <li>• Review of internal audit reports</li> </ul>
	26.3 Implementation of internal audits and reporting	<ul style="list-style-type: none"> <li>• The annual performance report of the internal audit unit of BoE, BoH, Housing Agency, Road Authority, and Water Authority</li> <li>• Annual report of the IASD</li> <li>• Interview with the auditor general</li> </ul>
	26.4 Response to internal audits	<ul style="list-style-type: none"> <li>• Sample management responses to audit findings from the BoE, BoH, Housing Agency, and Road Authority</li> <li>• Interview with internal auditors of the visited BIs</li> <li>• Annual performance report of the IASD</li> </ul>
<b>VI. Accounting and reporting</b>		
<b>PI-27 Financial data integrity</b>	27.1 Bank account reconciliations	<ul style="list-style-type: none"> <li>• Monthly bank reconciliations statement for 2017/2018</li> </ul>
	27.2 Suspense accounts	<ul style="list-style-type: none"> <li>• Financial statements for 2017/2018</li> </ul>
	27.3 Advance accounts	<ul style="list-style-type: none"> <li>• Financial statements for 2017/2018</li> </ul>
	27.4 Financial data integrity process	
<b>PI-28 In-year budget reports</b>	28.1 Coverage and comparability of reports	<ul style="list-style-type: none"> <li>• Monthly detailed budget execution reports</li> </ul>
	28.2 Timing of in-year reports	<ul style="list-style-type: none"> <li>• Annual consolidated budget execution reports</li> </ul>
	28.3 Accuracy of in-year budget reports	<ul style="list-style-type: none"> <li>• Monthly and annual budget execution reports</li> </ul>
<b>PI-29 Annual financial reports</b>	29.1 Completeness of annual financial reports	<ul style="list-style-type: none"> <li>• The Addis Ababa city financial administration by Proclamation No. 16/2009. EFY 2015/2016, 2016/2017, and 2017/2018</li> </ul>
	29.2 Submission of reports for external audit	<ul style="list-style-type: none"> <li>• Letter of submission to external auditors</li> </ul>
	29.3 Accounting standards	<ul style="list-style-type: none"> <li>• The financial management manual and the Addis Ababa city financial administration by Proclamation No. 16/2009</li> </ul>
<b>VII. External scrutiny and audit</b>		



Indicator	Dimension	Data used
<b>PI-30 External audit</b>	30.1 Audit coverage and standards	<ul style="list-style-type: none"> <li>The audit reports on the consolidated fund of the city government for EFY 2009 (2016/2017), 2008 (2015/2016), and 2007 (2014/2015)</li> <li>Interview with the auditor general and team</li> <li>The budget data on the audited entities</li> </ul>
	30.2 Submission of audit reports to the legislature	<ul style="list-style-type: none"> <li>Covering letters for submission of the consolidated fund financial statements by BoFED</li> <li>Covering letters on the submission of the audit report on the consolidated fund of the city government</li> <li>Proclamation No. 29/2012 on the Establishment of the Office of the Auditor General of Addis Ababa City Government</li> </ul>
	30.3 External audit follow-up	<ul style="list-style-type: none"> <li>Report of outstanding audit findings issued by the auditor general</li> <li>Interview with the auditor general and team</li> <li>Sample response letters received from audited entities</li> <li>Audit reports of the auditor general</li> </ul>
	30.4 Supreme Audit Institution independence	<ul style="list-style-type: none"> <li>Charter of the Addis Ababa City Government (Proclamation No. 361/2003)</li> <li>Proclamation No. 29/2012 on the Establishment of the Office of the Auditor General of Addis Ababa City Government</li> <li>Interview with the auditor general and his/her team</li> <li>International standard on Supreme Audit Institution, as stipulated in the Mexico Declaration on SAI Independence</li> </ul>
<b>PI-31 Legislative scrutiny of audit reports</b>	31.1 Timing of audit report scrutiny	<ul style="list-style-type: none"> <li>Copies of letter heads received by PAC along with the audit report</li> <li>Report submitted by the auditor general</li> </ul>
	31.2 Hearings on audit findings	<ul style="list-style-type: none"> <li>Interview with the auditor general</li> <li>Interview with PAC members</li> <li>Report of PAC on their reviews</li> </ul>
	31.3 Audit recommendations by the legislature	<ul style="list-style-type: none"> <li>Sample letters of issues by the speaker of the city council to the executives on the implementation of findings</li> <li>PAC supervision reports</li> <li>Report issued by PAC chairwoman</li> </ul>
	31.4 Transparency of legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>Interview with PAC members</li> <li>Interview with the auditor general</li> </ul>
Internal control framework		<ul style="list-style-type: none"> <li>The interview with the FEACC</li> <li>Report of Transparency International <a href="https://www.transparency.org/country/ETH#">https://www.transparency.org/country/ETH#</a></li> </ul>

Indicator	Dimension	Data used
		<ul style="list-style-type: none"> <li>• <a href="http://www.doingbusiness.org/en/data/exploreconomies/ethiopia">http://www.doingbusiness.org/en/data/exploreconomies/ethiopia</a></li> <li>• Review reports from public domains of the websites of Freedom House, Transparency International, the World Bank, and GAN Integrity</li> <li>• Interview with PAC</li> <li>• Interview with the Chamber of Commerce</li> <li>• The audit reports</li> <li>• The Charities and Civil Societies Proclamation</li> </ul>
City government economic background		<ul style="list-style-type: none"> <li>• MTFE for EFY 2009–2011, 2010–2012, and 2011–2013, from Policy and Revenue Study Directorate of BoFED. EFY 2011 budget explanation to cabinet of the city council dated June 28, 2018</li> <li>• EFY 2011 budget speech to the city council dated July 10, 2018</li> <li>• City Government of Addis Ababa ESDP V; 2015/2016–2019/2020</li> <li>• GTP II</li> <li>• Report of the Central Statistics Agency of the Federal Democratic Republic of Ethiopia</li> </ul>

## Annex 3B: List of stakeholders interviewed

Name	Organization	Position	Telephone	Email
<b>Addis Ababa BoFED</b>				
Mebratu Gabre	Addis Ababa BoFED	Budget director	+251-91-1892996	Mdibaba39@gmail.com
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Demozie Mechoi	Addis Ababa BoFED	Director	+251-91-1668408	demeziem@yahoo.com
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<b>Addis Ababa City Administration ILIC</b>				
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Name	Organization	Position	Telephone	Email
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<b>Addis Ababa City - Wondirad Preparatory School</b>				
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<b>Addis Ababa City Transport Authority</b>				
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Name	Organization	Position	Telephone	Email
<b>Addis Ababa City Revenue Authority</b>				
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<b>Addis Ababa City Roads Authority</b>				
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<b>Addis Ababa Housing Bureau/Agency and Projects</b>				
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Name	Organization	Position	Telephone	Email
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<b>Civil society organizations/non-State actors</b>				
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<b>Addis Kirkos Health Center</b>				
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<b>Addis Dil Frie Health Center</b>				
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## Annex 4: Tracking change in performance based on 2011 PEFA framework

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
<b>A. PFM-outturns: Credibility of the budget</b>				
<b>HLG-1 Transfers from a higher-level government</b>	NA	NA	City government does not receive grants from federal government.	<b>No change.</b>
<b>PI-1 Aggregate expenditure outturn compared to original approved budget</b>	D	D	Aggregate expenditure outturn was less than 85% in at least two of the last three years (70% in 2015/2016, 78% in 2016/2017, and 74% in 2017/2018).	<b>No change.</b> Even though aggregate expenditure outturn has shown an improvement from the previous assessment, it is still significantly below budget.  The calculation for 2011 framework excludes donor-funded project expenditures.
<b>PI-2 Expenditure composition outturn compared to original approved budget</b>	<b>D+</b>	<b>D+</b>		<b>Deterioration due to Dimension (ii)</b>
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	D	Expenditure composition variance by function for all of the last three was more than 15% (22% in 2015/2016, 21% in 2016/2017, and 17 in 2017/2018).	<b>No change.</b> The calculation for 2011 framework excludes donor-funded project expenditures.
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	C	Average expenditure charged to contingency reserves for the last three years averaged 7% of the total expenditure.	<b>Deterioration in performance.</b> Actual expenditure charged to contingency shows an increment from the previous assessment.
<b>PI-3 Aggregate revenue outturn compared to original approved budget</b>	D	D	Actual total revenue outturn for at least two of the last three years was less than 92% to 116% (87% in 2015/2016, 85% in 2016/2017, and 85.7 in 2017/2018).	<b>No change.</b> External finance is excluded from the 2011 framework calculation.
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>B+</b>	<b>C+</b>		<b>No change</b>

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Stock of expenditure payment arrears and a recent change in the stock	A	C	The stock of arrears constitutes 2–10% of total expenditure, and there is no evidence that it has been reduced significantly in the last two years.	<b>No change in performance despite the score deterioration.</b>  The previous assessment did not take into consideration the sundry creditors that account for the largest share of total arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	B	B	Data on the stock and composition of expenditure arrears is generated annually at the end of each fiscal period.	<b>No change.</b>
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>				
<b>PI-5 Classification of the budget</b>	B	B	Budget formulation and execution based on CoA which supports consistent economic, administrative, and COFOG functional classifications.	<b>No change.</b>
<b>PI-6 Comprehensiveness of information included in budget documentation</b>	C	B	4 of the applicable 7 benchmarks are met	<b>Improvement in performance.</b>  Three information elements were met in 2015 and 4 are met in 2018.
<b>PI-7 Extent of unreported government operations</b>	C+	C+		<b>No Change</b>
(i) Level of unreported government operations	A	A	There is no unreported revenue or expenditure in the government's budget and financial statements.	<b>No change.</b>
(ii) Income/expenditure information on donor-funded projects	C	C	Information on loan-financed projects is included in fiscal reports, but not grant-financed projects.	<b>No change.</b>
<b>PI-8 Transparency of intergovernmental fiscal relations</b>	A	A		<b>No change in overall score even though there is improvement in dimension (i).</b>
(i) Transparency and objectivity in the horizontal allocation among SNG	B	A	More than 90% by value of grant allocation is transparent and rule-based.	<b>Improvement in performance</b>



Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Timeliness and reliable information to SNGs on their allocations	A	B	Sub-cities receive reliable information from BoFED for the preparation of their detailed budget estimates at least three months before the start of the new fiscal year, but the budget calendar is adhered by the majority of the budgetary units.	<b>No change.</b> The practice is the same as in the 2015 assessment.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Within six months after the end of the previous fiscal year, BoFED received and consolidated all sub-cities financial information.	<b>No change.</b>
<b>PI-9 Oversight of aggregate fiscal risk from other public sector entities</b>	<b>C+</b>	<b>C+</b>		<b>No Change</b>
(i) Extent of government monitoring of autonomous entities and public enterprises	C	C	About 65.3% by value of autonomous city government and public entities submit AFSs to BoFED (and the city auditor general) annually; however, a consolidated fiscal risk report is not prepared.	<b>No change.</b>
(ii) Extent of government monitoring of SNGs' fiscal position	A	A	Sub-cities and woredas have no legal power to contract loans; they do not generate fiscal liabilities.	<b>No change.</b>
<b>PI-10 Public access to key fiscal information</b>	<b>A</b>	<b>C</b>	The government makes available to the public only one of the six elements of information: external audit reports.	<b>No change in performance.</b> The previous assessment overrated the indicator as the other information elements were also not made public in 2015.
<b>C. BUDGET CYCLE</b>				
<b><i>C(i) Policy-based budgeting</i></b>				
<b>PI-11 Orderliness and participation in the annual budget process</b>	<b>B+</b>	<b>B</b>		<b>Deterioration due to dimension (ii)</b>

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Existence of, and adherence to, a fixed budget calendar	C	C	A clear budget calendar exists and allows enough time (6 weeks) for the budget units to meaningfully complete their estimates but it is not adhered to as most units submitted their proposals late.	<b>No change.</b>
(ii) Guidance on the preparation of budget submissions.	A	B	A comprehensive and clear budget circular is issued to BIs, but the ceilings are approved by the city cabinet once the BCC has already been distributed to budget units.	<b>Deterioration.</b>
(iii) Timely budget approval by the legislature.	A	A	The budget has been approved before the start of the fiscal year for the last three years.	<b>No change.</b>
<b>PI-12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting</b>	<b>B</b>	<b>C+</b>		<b>Deterioration due to dimension (iii)</b>
(i) Multiyear fiscal forecasts and functional allocations	A	A	Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, and links between multiyear estimates and subsequent budget ceilings are clear.	<b>No change.</b>
(ii) Scope and frequency of debt sustainability analysis	NA	NA	The only formal debt is held by the Housing Development Project Office, a public enterprise that constructs affordable housing, and the Water and Sewerage Authority, a public enterprise within the city accounts. Debt sustainability analysis hardly applies to the city government.	<b>No change.</b>
(iii) Existence of costed sector strategies	C	D	Costed strategies exist for sectors representing less than 25% of primary expenditure.	<b>Deterioration in performance.</b>  In 2015, sector strategies were prepared for several sectors but cover capital expenditure only.

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iv) Links between investment budgets and forward expenditure estimates	C	C	Many investment decisions have weak links to sector strategies, and their recurrent cost implications are included in forward budget estimates in only major cases.	<b>No change.</b>
<b><i>C(ii) Predictability and control in budget execution</i></b>				
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>A</b>	<b>B+</b>		<b>Deterioration due to dimension (ii)</b>
(i) Clarity and comprehensiveness of tax liabilities	B	B	Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority.	<b>No change.</b>
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	B	AARA uses multiple channels to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights including, as a minimum, redress processes and procedures.	<b>Deterioration in performance.</b>  During the 2015 assessment, AARA was under the Jurisdiction of the MoR and was using the communication channels of the MoR to address taxpayers. Now, it is separated and is establishing its own channels such as website, radio, and so on.
(iii) Existence and functioning of a tax appeal mechanism	A	A	A tax appeals system of transparent administrative procedures is functional.	No change.
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>B</b>	<b>B</b>		<b>No Change</b>
(i) Controls in the taxpayer registration system	B	B	Taxpayers are registered in a complete database with some links to trade licensing and company registration systems.	No change
(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	B	B	Penalties exist but are not always effective due to inconsistent administration.	No change.

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	B	Tax audits and fraud investigations are managed and reported according to a documented audit plan with clear risk assessment criteria.	No change
<b>PI-15 Effectiveness in collection of tax payments</b>	<b>D+</b>	<b>D+</b>		<b>No overall change although deterioration in dimension (i) and improvement in Dimension (ii)</b>
(i) Collection ratio for gross tax arrears	A	D	The average tax arrears collection ratio was 51%, and arrears balance was on average 10% of total collections for the for 2016/2017 and 2017/2018.	<b>Deterioration in performance.</b>  Revenue arrears have increased as a percentage of total collection, and the arrears collection ratio decreased.
(ii) Effectiveness of transfer of tax collections to the treasury by the revenue administration	B	A	Revenue collections are transferred to treasury daily.	<b>Improvement in both score and performance.</b>  An MoU signed between AARA and CBE is revised to allow the transfer of collections to treasury from 15 days to daily.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the treasury	D	D	Complete reconciliation of tax assessed, collected, and transferred and arrears is not done.	<b>No change.</b>
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>C+</b>	<b>C+</b>		<b>No change</b>
(i) Extent to which cash flows are forecasted and monitored	B	B	Cash flow is updated quarterly.	No change.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure.	B	B	BoFED provides quarterly ceilings to public bodies.	No change.

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	C	C	In-year budget adjustments are frequent.	<b>No change</b>
<b>PI-17 Recording and management of cash balances, debt, and guarantees</b>	<b>A</b>	<b>D+</b>		<b>Deterioration</b>
(i) Quality of debt data recording and reporting	A	D	The city government issues guarantees for agencies with government interest. That said, these guarantees are neither recorded nor monitored by the city government.	Deterioration
(ii) Extent of consolidation of the government's cash balances	B	C	The consolidation of cash balances is done on a monthly basis.	No change. 2015 assessment was overrated.
(iii) Systems for contracting loans and issuance of guarantees	A	D	The city of Addis Ababa cannot contract loans directly. Loans are on-lent from the federal government .However, guarantees are provided for which there are no procedures.	Deterioration
<b>PI-18 Effectiveness of payroll controls</b>	<b>B+</b>	<b>D+</b>		<b>Deterioration in score and performance due to dimension (iv).</b>
(i) Degree of integration and reconciliation between personnel records and payroll data	B	B	Personnel and payroll data are not directly linked but payroll changes are fully documented and used for reconciliation with the previous month's payroll.	No change.
(ii) Timeliness of changes to personnel records and the payroll	A	A	Personnel records and payroll are updated at least monthly and retroactive adjustments are rare.	No change.
(iii) Internal controls of changes to personnel records and the payroll	B	B	Authority and basis for changes to personnel records and the payroll are clear and adequate.	No change.

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	D	No significant payroll audit has been undertaken in the past three years.	<b>Deterioration in score and performance.</b>  Audits were undertaken annually in the period covered by the 2015 Assessment.
<b>PI-19 Competition, value for money, and controls in procurement</b>	<b>B</b>	<b>C</b>		<b>Deterioration in performance due to dimension (iii)</b>
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework	B	B	Five of the six requirements are met. These are (i), (ii), (iii), (iv), and (vi).	<b>No change.</b>
(ii) Use of competitive procurement methods	B	B	The competitive methods are used for 79% of the value of contracts awarded and 21% was contracted with direct procurement.	<b>No change.</b>
(iii) Public access to complete, reliable, and timely procurement information	C	D	Only one element out of four (2011 PEFA framework) is met. Only the bidding opportunities are published.	<b>Deterioration in performance.</b>  Only the bidding opportunities are published, and though the procurement plans of the respective BIs were submitted to BoFED, the consolidated procurement plan for the last fiscal year was not published.
(iv) Existence of an independent administrative procurement complaints system	B	D	The procurement complaints system meets criteria (i), (iii), (iv), (v), and (vii).	<b>No change in the performance.</b>  The previous assessment does not discuss the option of having complaints resolved by the tendering BI.
<b>PI-20 Effectiveness of internal controls for non-salary expenditure</b>	<b>B</b>	<b>B</b>		<b>No change</b>

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Effectiveness of expenditure commitment controls	B	B	Commitment is entered only against cash availability as approved by the quarterly cash flow forecast and the monthly drawing limit setting process, but with some exceptions.	<b>No change.</b>
(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures	B	B	Internal control rules and regulations are comprehensive. Staff members have all the manuals and guidelines in softcopy, training is provided—it has been reported by the auditor general that few irregularities occur with turnover of executives and staff.	<b>No change.</b>
(iii) Degree of compliance with rules for processing and recording transactions	B	B	Generally, rules and regulations in transaction processing and recording are respected. There are few irregularities in procurement, property administration, budgetary controls, and payments.	<b>No change.</b>
<b>PI-21 Effectiveness of internal audit</b>	<b>C+</b>	<b>C+</b>		<b>Improvement due to dimension (iii)</b>
(i) Coverage and quality of the internal audit function	C	C	All BIs have internal audit units. Despite a wider coverage of financial audits, the audit largely focuses on compliance audit than systemic audit.	<b>No change.</b>
(ii) Frequency and distribution of reports	B	C	Audit reports are distributed to the head of BIs and to the IASD. It is not legally required to report to the auditor general. Internal audit reports are available to auditors of the ACOAG upon request.	<b>No change</b>  Performance has not deteriorated; rather the 2015 PEFA assessment was overrated. There was no procedure where the SAI receives internal audit reports.

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iii) Extent of management response to internal audit function	C	B	Auditees take quick action on internal audit findings. The follow-up of the IASD and the increasing audit coverage by the ACOAG increases the responsiveness of the management to audit findings.	<b>Improvement in performance.</b>  Many of the managers take action on audit findings.
<b><i>C(iii) Accounting, recording, and reporting</i></b>				
<b>PI-22 Timeliness and regularity of accounts reconciliation</b>	<b>B</b>	<b>C+</b>		<b>Not comparable.</b>
(i) Regularity of bank reconciliation	B	B	Bank reconciliations are done on a monthly basis.	<b>No change.</b>
(ii) Regularity and clearance of suspense accounts and advances	B	NC	There are no suspense accounts reported in the consolidated financial statements. The advance accounts are reconciled at year-end.	Not directly comparable.  These suspense accounts are given separate dimension in 2016 framework.
<b>PI-23 Availability of information on resources received by service delivery units</b>	A	D	Routine data collection provides reliable information on resources received in cash by both primary schools and health clinics but not on resources received in kind. Information on resources in cash is compiled only for education sector.	<b>No change.</b>  The previous assessment overrated the indicator as information was also only collected for resources in cash and not in kind in 2015 and only compiled in the education sector.
<b>PI-24 Quality and timeliness of in-year budget reports</b>	<b>C+</b>	<b>D+</b>		<b>Improvement in performance due to dimension (i)</b>
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	B	The current report prepared allows direct comparison to the original budget.	<b>Improvement in performance.</b>
(ii) Timeliness of the issue of reports	A	D	Consolidated budget execution reports are prepared at the city level on an annual basis.	<b>No change in performance.</b>  The current situation also existed since 2015. The 2015 assessment appears to have overrated this dimension.



Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iii) Quality of information	C	C	The data prepared both at the city and PB level is useful for budget analysis.	<b>No change.</b>
<b>PI-25 Quality and timeliness of annual financial statements</b>	<b>C+</b>	<b>C+</b>		<b>Improvement in performance.</b>
(i) Completeness of the financial statements	B	C	The AFSs for Addis Ababa city government for the last completed fiscal year include information on budget, revenue, expenditure, and cash balances and are supported by a reconciled cash flow statement.	<b>No change.</b>  The lower score suggests deterioration of practice but it is given to misunderstanding in the previous assessment. Financial assets and liabilities are not included in the AFSs.
(ii) Timeliness of submissions of the financial statements	C	B	The financial statements are submitted to the auditors within six months.	<b>Improvement both in the score and performance.</b>
(iii) Accounting standards used	C	C	No applications of international standard	<b>No change.</b>
<b>C(iv) External Scrutiny and Audit</b>				
<b>PI-26 Scope, nature, and follow-up of external audit</b>	<b>D+</b>	<b>C+</b>		<b>Improvement in both performance and score</b>
(i) Scope/nature of audit performed (including adherence to auditing standards)	D	C	The audit standard is largely following ISSAI. The audit coverage is about 65% of the total expenditure and revenue of the city government.	<b>Performance improved.</b>  This was due to increase in audit coverage.
(ii) Timeliness of submission of audit reports to the legislature	C	B	The ACOAG submitted the annual audited financial statement to the legislature within 8 months from the receipt of the audit report.	<b>Performance improved.</b>  This was due to timeliness of submission.
(iii) Evidence of follow up on audit recommendations	A	A	The ACOAG consistently deploys its team to follow up the implementation of its recommendations and reports on status of implementation.	<b>No change.</b>
<b>PI-27 Legislative scrutiny of the annual budget law</b>	<b>D+</b>	<b>C+</b>		<b>No change</b>

Indicator/Dimension	Score - previous assessment 2015	Score - current assessment 2018	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Scope of the legislature scrutiny	C	C	The FEDC review covers detailed estimates of revenue and expenditure but only at a stage in which these have been finalized.	<b>No change in performance.</b> The previous assessment overrated the third dimension.
(ii) Extent to which the legislature's procedures are well established and respected	B	B	The legislature's procedures are well established and respected.	<b>No change.</b>
(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 (time allowed in practice for all stages combined)	D	C	The city council has at least a month to review the latest budget approved (FY 2011 budget). The score is different than for PI-17.3 as PI-17.3 is assessed over three fiscal years and PI-27 (iii) over the last FY.	<b>Performance has improved.</b> For the last budget sent to the City Council for the 2015 PEFA Assessment, the time allowed for the legislature's review is significantly less than one month (though if assessed over 3 years as in the 2016 model, the score is still a D).
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	B	B	Clear rules exist and are respected but allow extensive administrative reallocations.	<b>No change.</b>
<b>PI-28 Legislative scrutiny of external audit reports</b>	<b>D+</b>	<b>B+</b>		<b>Improvement in performance and score</b>
(i) Timeliness of examination of audit reports by the legislature	C	A	The legislature scrutinizes the audit report within two months from the receipt of the audit report.	<b>Performance improved.</b> This is due to timely review of audit reports.
(ii) Extent of hearing on key findings undertaken by the legislature	A	A	In-depth hearing is conducted on most audits with qualified or adverse opinion; the audited officers are invited.	<b>No change.</b>
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	B	PAC issues recommendations, and some of its recommendations have been implemented by the executive.	<b>Performance improved.</b> There is a significant change in terms of provision of recommendation, follow-up, and implementation of PAC recommendations.

Note: PB = Public body.

## Annex 5: Data used for scoring PI-1, PI-2, and PI-3 (2016 methodology)

### CALCULATION SHEETS FOR PI-1, PI-2.1, AND PI-2.3

#### Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

#### Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,034	1,162	697	464	464	66.6
Justice and legal affairs	1,353	1,192	912	281	281	30.8
General service	1,689	1,765	1,138	626	626	55.0
Public procurement and property disposal	16	43	11	33	33	308.1
Agriculture	229	185	154	31	31	19.8
Natural resource	5,447	2,301	3,672	-1,371	1,371	37.3
Trade and industry	840	521	566	-45	45	7.9
Transport and communication	938	172	632	-461	461	72.9
Construction	8,413	5,303	5,671	-368	368	6.5
Education	3,518	2,433	2,372	62	62	2.6
Culture and sport	528	474	356	118	118	33.3
Health	2,022	1,402	1,363	39	39	2.9
Social affairs	612	424	412	12	12	2.9
Budget support	312	336	211	126	126	59.7
Miscellaneous	20	8	13	-6	6	43.9
Administration and general service	1,305	1,095	879	216	216	24.6
Economy	1,236	1,025	833	192	192	23.1
Social	185	175	125	51	51	40.6
Allocated expenditure	29,697	20,018	20,018	0	4,500	
Interests						
Contingency	2,108	1,995				
Total expenditure	31,805	22,013				
Aggregate outturn (PI-1)						69.2
Composition (PI-2) variance						22.5
Contingency share of budget						6.27

**Data for year = 2016/2017**

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,176	1,078	889	189	189	21.2
Justice and legal affairs	1,536	1,319	1,162	157	157	13.6
General service	1,698	1,072	1,284	-212	212	16.5
Public procurement and property disposal	21	21	16	5	5	31.7
Agriculture	395	165	299	-134	134	44.8
Natural resource	5,675	4,110	4,291	-181	181	4.2
Trade and industry	1,124	713	850	-137	137	16.1
Transport and communication	1,524	886	1,152	-266	266	23.1
Construction	8,188	4,717	6,191	-1,474	1,474	23.8
Education	4,029	4,172	3,046	1,126	1,126	37.0
Culture and sport	945	577	715	-138	138	19.3
Health	2,247	1,800	1,699	101	101	5.9
Social affairs	548	397	414	-17	17	4.0
Budget support	448	401	338	62	62	18.4
Miscellaneous	25	747	19	728	728	3851.4
Administration and general service	1,479	1,264	1,119	146	146	13.0
Economy	1,292	1,013	977	36	36	3.7
Social	181	144	137	7	7	5.4
Allocated expenditure	32,533	24,597	24,597	0	5,115	
Interests						
Contingency	2,867	2,831				
Total expenditure	35,400	27,428				
Aggregate outturn (PI-1)						77.5
Composition (PI-2) variance						20.8
Contingency share of budget						8.00

**Data for year = 2017/2018**

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,440	1,201	1,052	149	149	14
Justice and legal affairs	1,824	1,566	1,333	233	233	17
General service	2,477	2,267	1,810	456	456	25
Public procurement and property disposal	35	83	25	58	58	228
Agriculture	322	145	235	-90	90	38
Natural resource	5,976	2,580	4,368	-1,788	1,788	41
Trade and industry	1,339	1,106	978	127	127	13
Transport and communication	1,844	1,608	1,347	261	261	19
Construction	8,258	5,631	6,036	-405	405	7
Education	4,858	3,529	3,551	-22	22	1
Culture and sport	1,023	746	748	-2	2	0
Health	2,738	2,192	2,001	191	191	10
Social affairs	925	666	676	-10	10	1
Budget support	900	825	658	167	167	25
Miscellaneous	0	44	0	44	44	-
Administration and general service	1,416	1,425	1,035	390	390	38
Economy	1,502	1,362	1,097	265	265	24
Social	283	181	207	-26	26	13
Allocated expenditure	37,160	27,158	27,158	0	4,684	
Interests						
Contingency	3,340	2,855				
Total expenditure	40,500	30,013				
Aggregate outturn (PI-1)						74.1
Composition (PI-2) variance						17.2
Contingency share of budget						7.05

**Results matrix**

Year	For PI-1	For PI-2.1	For PI-2.3
	Total expenditure outturn (%)	Composition variance (%)	Contingency share (%)
2015/2016	69	22	
2016/2017	77	21	7
2017/2018	74	17	

## CALCULATION SHEETS FOR PI-2.2

## Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

## Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Compensation of employees	6,181	5,624	4,278	1,346	1,346	31.5
Use of goods and services	4,952	4,057	3,428	629	629	18.4
Consumption of fixed capital	16,927	9,952	11,716	-1,764	1,764	15.1
Grants, contributions, and subsidies to institutions and enterprises	511	1,231	354	877	877	248.0
Compensation to individuals and institutions	806	792	558	234	234	41.9
Grants and gratuities to individuals	55	52	38	14	14	36.7
Miscellaneous payments	2,372	306	1,642	-1,336	1,336	81.4
<b>Total expenditure</b>	<b>31,805</b>	<b>22,013</b>	<b>22,013</b>	<b>0</b>	<b>6,200</b>	
Composition variance						28.2

## Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Compensation of employees	7,291	8,087	5,482	2,605	2,605	47.5
Use of goods and services	6,429	5,161	4,834	327	327	6.8
Consumption of fixed capital	16,646	11,554	12,515	-960	960	7.7
Grants, contributions, and subsidies to institutions and enterprises	549	528	413	115	115	27.9
Compensation to individuals and institutions	1,264	935	950	-16	16	1.6
Grants and gratuities to individuals	82	79	62	17	17	27.6
Miscellaneous payments	3,139	271	2,360	-2,088	2,088	88.5
<b>Total expenditure</b>	<b>35,400</b>	<b>26,614</b>	<b>26,614</b>	<b>0</b>	<b>6,128</b>	
Composition variance						23.0

**Data for year = 2017/2018**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent age
Compensation of employees	10,277	10,367	7,607	2,760	2,760	36.3
Use of goods and services	7,218	5,878	5,343	535	535	10.0
Consumption of fixed capital	17,151	10,621	12,696	-2,075	2,075	16.3
Grants, contributions, and subsidies to institutions and enterprises	964	1,497	713	783	783	109.8
Compensation to individuals and institutions	973	1,186	720	466	466	64.7
Grants and gratuities to individuals	68	64	50	14	14	27.7
Miscellaneous payments	3,850	367	2,850	-2,483	2,483	87.1
<b>Total expenditure</b>	<b>40,500</b>	<b>29,979</b>	<b>29,979</b>	<b>0</b>	<b>9,115</b>	
Composition variance						30.4

**Results matrix**

Year	Composition variance
2015/2016	28.2
2016/2017	23.0
2017/2018	30.4

**Fiscal years for assessment**

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

**Data for year = 2015/2016**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Tax revenues						
Tax on income, profit, and capital gain	15,659	13,836	13,540	296	296	2.2
VAT	104	0.3	90	-90	90	99.7
VAT on services	6,478	5,970	5,602	368	368	6.6
Excise taxes on locally manufactured goods	31	18	27	-9	9	32.4
Sales turnover tax on locally manufactured goods	437	431	377	53	53	14.2
Service turnover tax	220	189	190	-1	1	0.7
Stamp sales and duty	48	244	41	202	202	489.6
Nontax revenue						
Administrative fees and charges	261	80	225	-145	145	64.4
Sales of public goods and services	288	212	249	-37	37	14.8
Government investment income	2,345	2,034	2,027	6	6	0.3
Miscellaneous revenue	44	399	38	361	361	948.6
Subsidy revenue	50	48	44	4	4	9.7
Municipality revenue						
Municipality tax revenue	42	445	36	409	409	1119.2
Municipality rent revenue	288	199	249	-49	49	19.8
Municipality service charge	344	210	297	-88	88	29.5
Sale of goods and city services	2,316	840	2,002	-1,162	1,162	58.0
Other capital revenues	0	31	0	31	31	-
External assistance						
Multilateral institutions	212	32	183	-151	151	82.5
Bilateral assistance	0	0.2	0	0.2	0.2	-
<b>Total revenue</b>	<b>29,167</b>	<b>25,219</b>	<b>25,219</b>	<b>0</b>	<b>3,464</b>	
Overall variance						86.5
Composition variance						13.7



**Data for year = 2016/2017**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
<b>Tax revenues</b>						
Tax on income, profit, and capital gain	16,751	15,037	14,228	809	809	5.7
VAT	142	0.2	121	-121	121	99.8
VAT on services	7,291	6,466	6,192	273	273	4.4
Excise taxes on locally manufactured goods	39	45	33	12	12	37.1
Sales turnover tax on locally manufactured goods	584	452	496	-44	44	8.9
Service turnover tax	361	198	306	-108	108	35.3
Stamp sales and duty	44	188	37	150	150	400.7
<b>Nontax revenue</b>						
Administrative fees and charges	148	87	126	-38	38	30.6
Sales of public goods and services	455	239	387	-148	148	38.3
Government investment income	2,488	2,674	2,113	561	561	26.5
Miscellaneous revenue	279	810	237	573	573	241.7
Capital revenue	0	0.06	0	0.06	0.06	-
Subsidy revenue	50	66	43	23	23	54.5
<b>Municipality revenue</b>						
Municipality tax revenue	29	342	24	318	318	1295.6
Municipality rent revenue	871	201	740	-539	539	72.9
Municipality service charge	309	237	262	-25	25	9.5
Sale of goods and city services	3,440	1,205	2,922	-1,717	1,717	58.8
Other capital revenues	0	33	0	33	33	-
<b>External assistance</b>						
Multilateral Institutions	42	23	35	-12	12	34.6
<b>Total revenue</b>	<b>33,324</b>	<b>28,303</b>	<b>28,303</b>	<b>0</b>	<b>5,505</b>	
Overall variance						84.9
Composition variance						19.5

**Data for year = 2017/2018**

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
<b>Tax revenues</b>						
Tax on income, profit, and capital gain	20,201	18,645	17,309	1,336	1,336	7.7
VAT	1,390	0.09	1,191	-1,191	1,191	100.0
VAT on services	7,882	6,805	6,754	51	51	0.8
Excise taxes on locally manufactured goods	49	26	42	-16	16	38.2
Sales turnover tax on locally manufactured goods	631	558	541	17	17	3.1
Service turnover tax	394	215	337	-123	123	36.4
Stamp sales and duty	49	295	42	252	252	595.7
<b>Nontax revenue</b>						
Administrative fees and charges	149	83	128	-45	45	34.9
Sales of public goods and services	416	258	356	-98	-98	27.5
Government investment income	2,616	2,432	2,239	192	192	8.6
Miscellaneous revenue	349	1,216	299	916	916	306.0
Subsidy revenue	67	13	58	-44	-44	76.7
<b>Municipality revenue</b>						
Municipality tax revenue	896	519	768	-249	249	32.5
Municipality rent revenue	391	218	335	-117	117	34.9
Municipality service charge	234	279	200	78	78	39.1
Sale of goods and city services	2,860	1,439	2,450	-1,012	1,012	41.3
Other capital revenues	0	73	0	73	73	-
<b>External assistance</b>						
Multilateral institutions	43	15	37	-22	22	59.9
<b>Total revenue</b>	<b>38,616</b>	<b>33,087</b>	<b>33,087</b>	<b>0</b>	<b>5,833</b>	
Overall variance						85.7
Composition variance						17.6

**Results matrix**

Year	For PI-3.1	For PI-3.2
	Total revenue deviation	Composition variance
2015/2016	86.5	13.7
2016/2017	84.9	19.5
2017/2018	85.7	17.6

## Annex 6: Data used for scoring PI-1, PI-2, and PI-3 (2011 methodology)

### CALCULATION SHEETS FOR PI-1, PI-2 (i), AND PI-2 (ii)

#### Fiscal years for assessment

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

#### Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,034	1,162	701	461	461	66
Justice and legal affairs	1,353	1,192	917	275	275	30
General service	1,689	1,765	1,145	620	620	54
Public procurement and property disposal	16	43	11	32	32	296
Agriculture	229	185	155	30	30	19
Natural resource	5,236	2,280	3,551	-1271	1,271	36
Trade and industry	840	521	570	-49	49	9
Transport and communication	938	172	636	-464	464	73
Construction	8,413	5,303	5,705	-402	402	7
Education	3,518	2,433	2,386	47	47	2
Culture and sport	528	474	358	116	116	32
Health	2,022	1,402	1,371	31	31	2
Social affairs	612	424	415	9	9	2
Budget support	312	336	212	124	124	59
Miscellaneous	20	8	14	-6	6	41
administration and general service	1,305	1,095	885	210	210	24
Economy	1,236	1,025	838	187	187	22
Social	185	175	125	50	50	39
Allocated expenditure	29,486	19,995	19,995	0	4,382	
Contingency	2,108	1,995				
Total expenditure	31,594	21,990				
Aggregate outturn (PI-1)						70
Composition (PI-2 (i)) variance						22
Contingency share of budget						6

**Data for year = 2016/2017**

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,176	1,078	889	189	189	21
Justice and legal affairs	1,536	1,319	1,162	157	157	14
General service	1,698	1,072	1,284	-212	212	17
Public procurement and property disposal	21	21	16	5	5	32
Agriculture	395	165	299	-134	134	45
Natural resource	5,634	4,087	4,261	-174	174	4
Trade and industry	1,124	713	850	-137	137	16
Transport and communication	1,524	886	1,153	-267	267	23
Construction	8,188	4,717	6,193	-1476	1,476	24
Education	4,029	4,172	3,047	1125	1,125	37
Culture and sport	945	577	715	-138	138	19
Health	2,247	1,800	1,699	101	101	6
Social affairs	548	397	414	-17	17	4
Budget support	448	401	339	62	62	18
Miscellaneous	25	747	19	728	728	3851
Administration and general service	1,479	1,264	1,119	145	145	13
Economy	1,292	1,013	977	36	36	4
Social	181	144	137	7	7	5
Allocated expenditure	32,490	24,573	24,573	0	5,110	
Contingency	2,867	2,831				
<b>Total expenditure</b>	<b>35,357</b>	<b>27,404</b>				
Aggregate outturn (PI-1)						78
Composition (PI-2 (i)) variance						21
Contingency share of budget						8

**Data for year = 2017/2018**

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of state	1,440	1,201	1,053	148	148	14
Justice and legal affairs	1,824	1,566	1,334	232	232	17
General service	2,477	2,267	1,811	456	456	25
Public procurement and property disposal	35	83	26	57	57	224
Agriculture	322	145	235	-90	90	38
Natural resource	5,934	2,566	4,340	-1774	1,774	41
Trade and industry	1,339	1,106	979	127	127	13
Transport and communication	1,844	1,609	1,349	260	260	19
Construction	8,259	5,631	6,040	-409	409	7
Education	4,858	3,529	3,553	-24	24	1
Culture and sport	1,023	746	748	-2	2	0
Health	2,738	2,193	2,002	191	191	10
Social affairs	925	666	676	-10	10	2
Budget support	900	825	658	167	167	25
Miscellaneous	0	44	-	44	44	-
Administration and general service	1,416	1,425	1,036	389	389	38
Economy	1,502	1,362	1,098	264	264	24
Social	283	181	207	-26	26	13
Allocated expenditure	37,119	27,145	27,145	0	4,670	
Contingency	3,340	2,855				
Total expenditure	40,459	30,000				
Aggregate outturn (PI-1)						74
Composition (PI-2 (i)) variance						17
Contingency share of budget						7

**Results matrix**

Year	For PI-1	For PI-2 (i)	For PI-2 (ii)
	Total exp. Outturn	Composition variance	Contingency share
2015/2016	70	22	
2016/2017	78	21	7
2017/2018	74	17	

**Annex 6B CALCULATION SHEETS FOR PI-3****Fiscal years for assessment**

Year 1 =	2015/2016
Year 2 =	2016/2017
Year 3 =	2017/2018

Data for year = Economic head	2015/2016			2016/2017			2017/2018		
	budget	actual		budget	actual		budget	actual	
Tax revenues									
Tax on Income, Profit and Capital Gain	15,659	13,836	88	16,751	15,037	90	20,202	18,645	92
VAT	104	0	0	142	0	0	1,390	0	0
VAT On Services	6,478	5,970	92	7,291	6,466	89	7,882	6,805	86
Excise Taxes on Locally Manufactured Goods	31	18	58	39	45	116	49	26	53
Sales Turnover Tax On Locally Manufactured Goods	437	431	99	584	452	77	631	558	88
Service Turnover Tax	220	189	86	361	198	55	394	215	55
Stamp Sales and Duty	48	244	510	44	188	425	49	295	596
Nontax Revenue									
Administrative Fees and Charges	261	80	31	148	87	59	149	83	56
Sales of Public Goods and Services	288	212	74	455	239	52	416	258	62
Government Investment Income	2,345	2,034	87	2,488	2,674	107	2,614	2,432	93
Miscellaneous Revenue	44	399	907	279	810	290	349	1,216	348
Capital Revenue	0	0	-	0	0	-	0	0	-
Subsidy Revenue	50	48	95	50	66	131	67	13	20
Municipality Revenue									
Municipality Tax Revenue	42	445	1054	29	342	1185	896	519	58
Municipality Rent Revenue	288	200	69	871	201	23	391	218	56
Municipality Service Charge	344	210	61	309	237	77	234	279	119
Sale of Goods and City Services	2,316	840	36	3,440	1,205	35	2,860	1,439	50
Other Capital Revenues	0	31	-	0	33	-	0	73	-
<b>Total revenue</b>	<b>28,955</b>	<b>25,187</b>		<b>33,282</b>	<b>28,280</b>		<b>38,573</b>	<b>33,073</b>	
overall variance			87			85			86

**Results Matrix**

Year	Total revenue deviation
2015/2016	87
2016/2017	85
2017/2018	85.7

## Annex 7: Service delivery pilot

### 1. Context for the assessment

1. In the context of undertaking the 2018 PEFA Assessments for Ethiopia federal government, city of Addis Ababa, and five regional governments (Amhara, Oromia, Somali, SSNPR, Tigray), the World Bank in agreement with DPs and the PEFA Secretariat decided to pilot two modules in four of the seven administrations. The pilots are the GRB, which was applied to the federal government, Addis Ababa City, Oromia, and SSNPR and the Service Delivery Module in the health and education sectors, which was applied to the federal government, Addis City, Oromia and Somali regions.

2. The motivation for the service delivery pilot was to acquire a clearer and deeper understanding of the flow of funds and the bottlenecks to service delivery than cannot be delivered by a regular PEFA Assessment alone.

3. The initial scope for the service delivery pilot work, discussed and agreed with PEFA Secretariat, was consequently expanded to assess the indicators as listed in Table A7.1 in the health and education sectors. The approach employed for the expanded scope has been discussed and agreed with the TTL, Rafika Chaouali, Lead Governance Specialist, Public Financial Management, and Ana Bellver, Senior Public Sector and Governance Specialist, the World Bank.

4. The PEFA framework has been applied to review the PFM processes with implication to service delivery units in health and education sectors in Addis Ababa City. The scope of the service delivery assessment is focused on the financial operations of health and education sectors (schools and health centers) and the related oversight and accountability institutions (bureaus and external audit). The Service Delivery Module (see Annex 7) presents facts relevant for the frontline service delivery units by PEFA PIs and draws conclusions by PEFA pillar. It should be noted that the sample taken is too small to provide overall conclusion for the sectors, however is able to provide insight into the situation at the service delivery unit level.

**Table A7.1: Service delivery indicators**

Ethiopia PEFA Addis City Assessment 2018 Module for service delivery in health and education	
Indicator	
<b>HLG - Transfers from higher-level government</b>	
<b>Pillar I: Budget reliability</b>	
PI-1 Aggregate expenditure outturn	
PI-2 Expenditure composition outturn	
<b>Pillar II: Transparency of public finances</b>	
PI-6 City government operations outside financial reports	
PI-7 Transfers to subnational governments	
PI-8 Performance information for service delivery	
PI-9 Public access to fiscal information	
<b>Pillar III: Management of assets and liabilities</b>	
PI-11 Public investment management	
PI-12.2 Public asset management	
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>	
PI-16.2 and PI-16.3 Medium-term perspective in expenditure budgeting	
PI-17 Budget preparation process	
<b>Pillar V: Predictability and control in budget execution</b>	



Ethiopia PEFA Addis City Assessment 2018 Module for service delivery in health and education	
PI-21.3	Predictability of in-year resource allocation
PI-22	Expenditure arrears
PI-23.4	Payroll controls
PI-24.1 and PI-24.2	Procurement
PI-25	Internal control on non-salary expenditure
PI-26	Internal audit
<b>Pillar VI: Accounting and reporting</b>	
PI-29	Annual financial reports
<b>Pillar VII: External scrutiny and audit</b>	
PI-30	External audit

5. Addis Ababa City, according to the Ethiopian Constitution and its charter, has the power of self-administration. The BoE and BoH are responsible for the implementation of the Addis Ababa City's education and health policy, respectively. Both bureaus have a direct relation with the respective federal government line ministries when it comes to national-level policies and strategies. The heads of the sub-cities report to the city mayor and the sub-city councils. In addition, regional bureaus implement national-level projects led by line ministries. Addis Ababa City has 10 sub-cities and 116 woredas. Both the education and health sectors are operational at all three levels of government structure, that is, at city government level, sub-city level (10 sub-cities), and woreda level (116 woredas). The city is independent in terms of budget and does not receive subsidies from the central government (Federal Government of Ethiopia).

## 2. Institutional arrangements for the health and education sectors

6. The Ethiopian health service is structured in a three-tier system: primary, secondary and tertiary level of care with defined catchment populations. The primary level of care includes primary hospital (serves 60,000–100,000 people), health centers (serves 25,000 people), and health posts (3,000–5,000 people in rural areas). The primary hospital, health center, and health posts form a PHCU. Secondary-level health care, that is, general hospitals, serve 1–1.5 million people. It provides inpatient and ambulatory services and helps as a referral center for primary hospitals. The third tier, tertiary-level health care or specialized hospitals, serves 3.5–5.0 million people and serves as referral center for general hospitals.

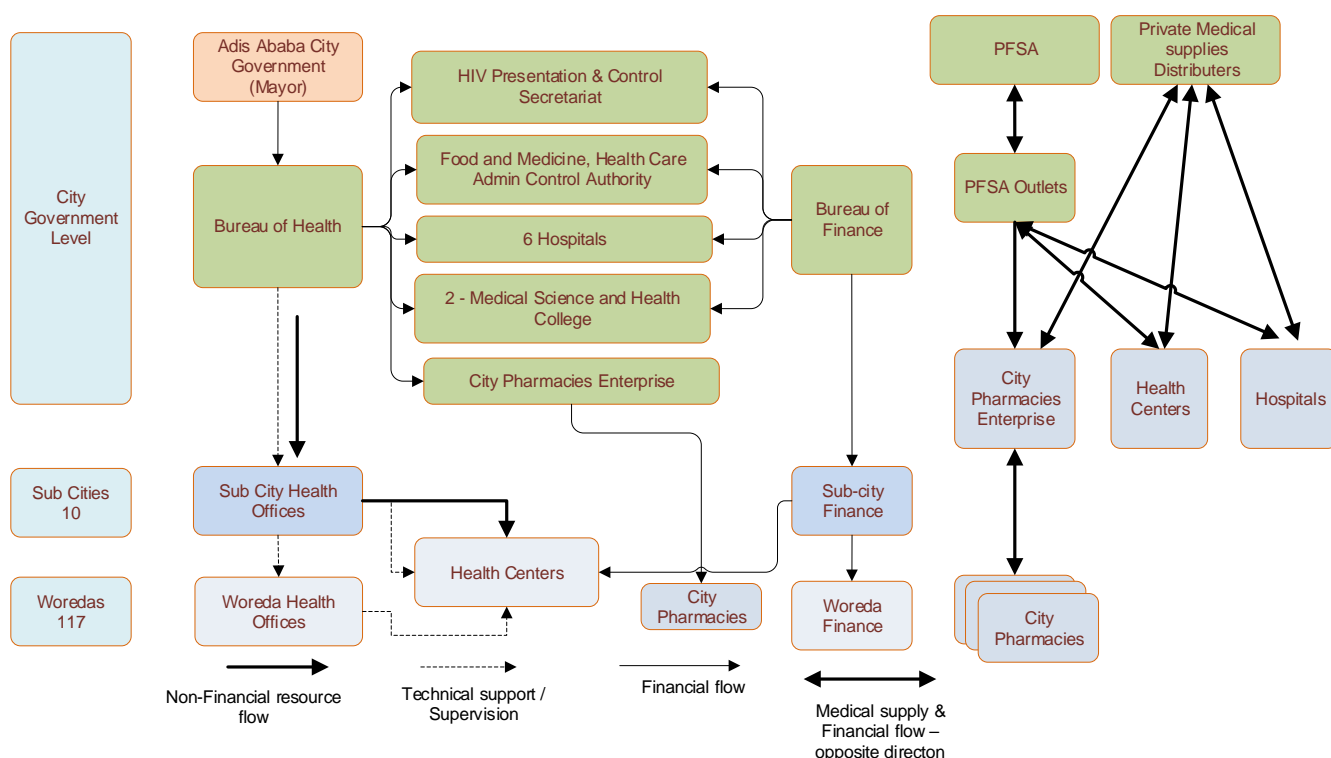
7. The education structure of Ethiopia is composed of three years of preprimary education, eight years of primary education (first cycle: grades 1–4, second cycle: grades 5–8), two years of general secondary education (grades 9–10), two years of preparatory secondary education, and higher education (college or university). Implementation and management of primary education and (in most cases) junior (general) secondary education are managed by Woreda Education Office, accountable to the woreda cabinet and BoE. Regions manage senior (preparatory) secondary education, TVET, and universities under their jurisdiction, as well as the institutions training teachers for primary and junior secondary education. Regions are also responsible (within the framework of federal guidelines) for curriculum development in primary education, the choice of the language of instruction, and textbook provision at primary level. The Federal Government is responsible for the management of higher education which is under the MoE. The MoE is also responsible for formulating education policy, development of curriculum for secondary and higher education, and training of teachers for secondary and higher education.

8. The Addis Ababa health administration structure follows the administrative structure of the city, where there is Health Bureau at the city level and health offices at the sub-city and woreda levels.

The PHCUs, that is, the woreda health centers, are reporting to the woreda health offices while the secondary and tertiary health care, city pharmacies, and health college report to the city Health Bureau. At the city level, there are two bodies responsible for education, Technical and Vocational Education Training Agency, which is responsible for technical and vocational training, and Education Bureau, which is responsible for general education. There are also sub-city and woreda education offices under the Education Bureau. The Addis Ababa Metropolitan University is managed by the Education Bureau while secondary schools (general and preparatory schools) are managed by the sub-cities. Preprimary and primary schools are reporting to the woreda education offices.

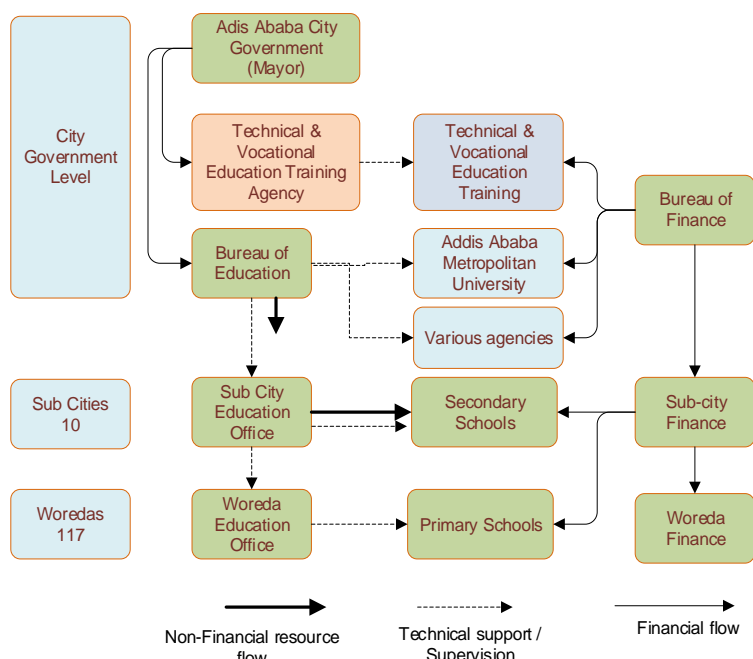
9. Figure 7A.1 and Figure 7A.2 outline the service delivery arrangements for both the health and education sectors.

**Figure 7A.1: Institutional arrangements for health**



Source: Drawing by PEFA team based on interviews with BoH, health centers, and BoFED.

Figure 7A.2: Institutional arrangements for education



Source: Drawing by PEFA team based on interviews with BoE, BoFED, and visited schools.

### 3. Addis Ababa City - institutional arrangements

#### 3.1 Health

10. The BoH is the institution responsible for the health sector activities within the city. The head of the BoH reports to the mayor and is also a member of the city cabinet. The bureau oversees the performance of health offices at the level of sub-cities and agencies, including (a) HIV Prevention and Control Secretariat; (b) Food and Medicine, Health Care Administration and Control Authority and hospitals; (c) City Pharmacy Enterprise; and (d) medical colleges. Each public body is responsible for the preparation of its budget. Health centers are structured at the woreda level as well. Some of the health centers serve multiple woredas. BoFED transfers approved budgets to the BoH and its agency directly and also to sub-cities. Sub-cities transfer the budget to woredas and their respective health centers. Unlike other regional governments, health centers receive their budget directly from the sub-cities (not from woredas). Table A7.2 summarizes service delivery responsibility of the main actors in the health sector.

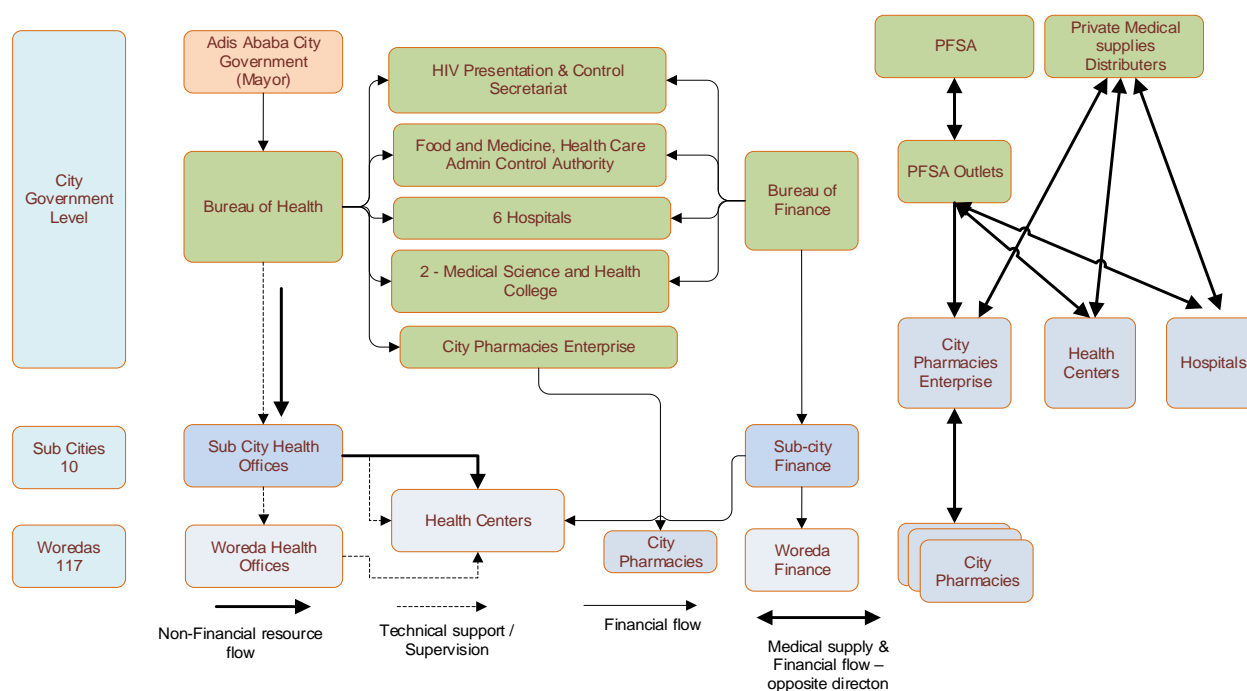
Table A7.2: Responsibilities in service delivery, health

No.	Entity	Responsibility
1	BoH	Responsible for development of sector strategy for the city. The bureau is also responsible for capital projects including construction of health centers within the city.
2	Sub-cities - health offices	Coordinate the health services issues at sub-city level. Ensure implementation of health policies. Provide technical guidance to woreda health offices. Each sub-city coordinates the budget of health centers.
3	Sub-city administration	The sub-city administration is responsible for the implementation of capital projects in health centers.
4	Woreda health offices	Provide technical advice and support to health clinics including supervision and coordination of health service delivery at their jurisdiction.

No.	Entity	Responsibility
5	City pharmacies	Sell pharmaceutical products to the public on commercial basis. The retail outlets are managed by the City Pharmacy Enterprise.
6	Pharmaceutical Fund Supply Agency	This agency is an entity belonging to the Federal Government of Ethiopia. It also supplies medical supplies to health facilities from its distribution hubs and pharmaceutical products to health facilities (including health centers and hospitals). It provides project-financed pharmaceutical products (mainly donor funded) on a commercial basis. Health centers and hospitals buy pharmaceutical products from other private suppliers when such supplies are not available at PFSA.
7	BoFED	BoFED is responsible for the overall public planning, budgeting, treasury management, accounting, and reporting of the city. It directly disburses approved budget based on cash flow forecast and request of the BoH, city-level agencies, hospitals, and sub-cities.
8	Sub-city finance office	Sub-city finance offices are responsible for transfer of cash resources to health centers.
9	Woreda finance office	Woreda finance office does not have a role in the accounting, cash transfer, and budgeting of health centers. It coordinates woreda activities.
10	Health centers	Provide health services to the community. They are responsible for determining the remuneration of their staff (salaries) and operational budgets based on the approved budget allocated. They are also responsible for the procurement of medical supplies from PFSA and private suppliers. Their revenue streams are the budget transfers from a sub-city finance office and their own source revenue. Health centers submit performance report on key performance indicators to their respective sub-cities monthly.

11. Figure 7A.3 shows the relationship across levels of governments in the city of Addis Ababa. The thick line shows the nonfinancial resource flows, the thin line shows the financial flow, and the broken line shows technical supports.

Figure 7A.3: Service delivery relationships across government



12. The city-level health sector budget proposal includes the budget for health centers, woreda health offices, sub-city health offices, the BoH and its agencies, and hospitals. BoFED communicates the approved budgets to sub-cities, the BoH and its agencies, and hospitals to prepare their detailed budget requests. BoFED transfers the fund accordingly, based on their cash flow requirements as shown in Figure 7A.3. Sub-cities finance offices also communicate the approved block budget to sub-cities health offices, woreda health offices, and health centers so that they can prepare their detailed budgets. Sub-city finance offices are responsible for transfer of cash to the health centers. All transfers are unconditional.

13. The actual expenditure outturn of health sector expenditure is lower than the approved budget for the last three years—between 22 percent and 30 percent. The expenditure shortfall is attributed to the revenue shortfall of about 15 percent on average annually and foreign currency constraints that hampered procurement operations. The actual expenditure on the health sector increased by 20 percent and 30 percent during 2016/2017 and 2017/2018, respectively. The share of health sector expenditure within the city budget increases from 5.1 percent in 2015/2016 to 8.1 percent in 2017/2018. Table A7.3 shows the share of the health sector budget in the city budget.

Table A7.3. The city and the health sector budgets in ETB, billions

	2017/2018				2016/2017				2015/2016			
	Budget	Actual	Share of health %	Budget shortfall %	Budget	Actual	Share of health %	Budget short %	Budget	Actual	Share of health %	Budget short %
City	40.50	30.01		25.9	38.66	30.18		22.1	31.80	22.01		30.8
Health sector	2.74	2.42	8.1	11.5	2.25	2.01	6.7	10.7	2.25	2.01	5.1	23.7

Source: Budget execution report, annual accounts, BoFED, and team calculations.

14. Of the capital budget (ETB 422 million) of the health sector, 83 percent goes to service delivery units (health centers, hospitals, and health colleges).

**Table A7.4: Share of the budget on health sectors going to service delivery units (health centers, hospitals, and health colleges)**

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Total health budget</b>	2.74	2.42	2.25	2.01	2.02	1.54
Health bureau, health offices, and agencies	0.80	0.31	0.795	0.314		
Hospitals and medical colleges	0.90	1.07	0.85	0.78	0.68	0.45
Health centers	1.05	1.04	1.045	1.046		

### 3.2 Education

15. The BoE is the institution responsible for the education sector activities within the city. The head of the BoE reports to the mayor and is also a member of the city cabinet. The bureau oversees the performance of education offices at the level of sub-cities and agencies including Addis Ababa Metropolitan City. In addition, the Bureau of Technical and Vocational Education and Training oversees TVETs in the city. BoFED transfers the approved budgets to the BoE and its agency directly and to sub-cities. Sub-cities transfer the budget to woredas and schools. Unlike other regional governments, schools received their budget from sub-cities (not from woredas). Table A7.5 summarizes service delivery responsibility of main actors.

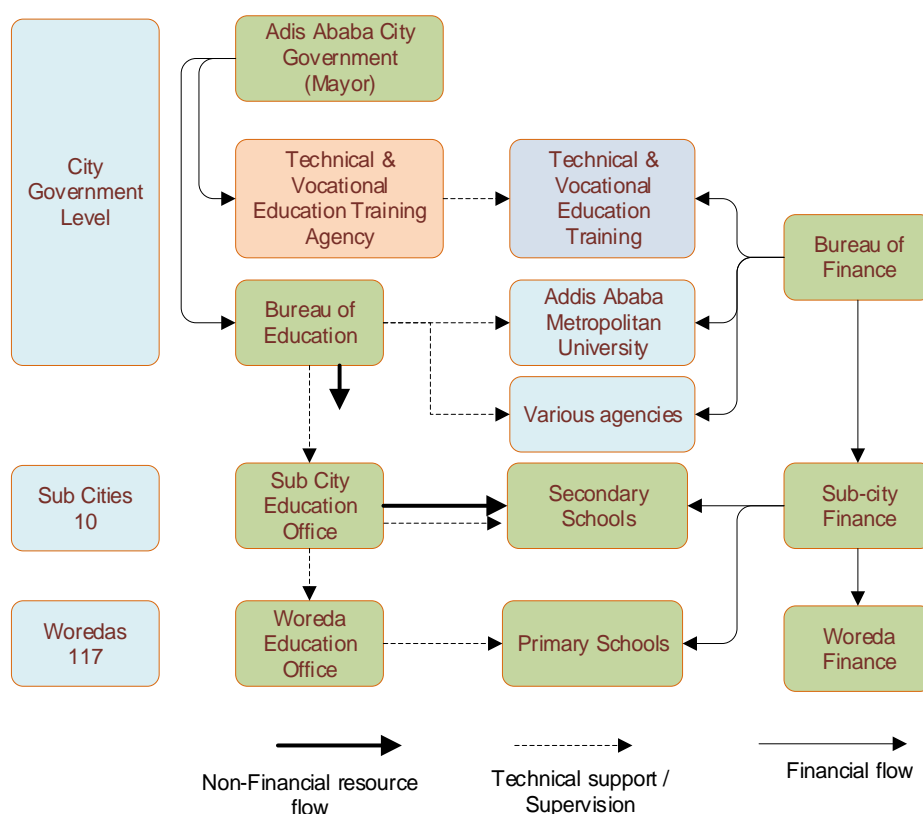
**Table A7.5: Responsibilities in service delivery, education**

No.	Entity	Responsibility
1	BoE	Responsible for development of education sector strategy for the city, setting of city-level education standards and policies. The bureau is also responsible for capital projects including construction of schools.
2	Sub-cities- education offices	Coordinate the education services issues at sub-city level. Ensure implementation of education policies. Provide technical guidance to woreda education offices. Each sub-city coordinates the budget of schools under its jurisdiction. Sub-cities are also responsible for the distribution of student text books to schools they received from BoE. Sub-cities also coordinate the transfer of donor-funded resources to schools (for example, GQUIP).
3	Sub-city administration	The sub-city administration is responsible for the implementation of capital projects at school level including construction of schools' fences and major renovation works.
4	Woreda education offices	Provide technical advice and support to schools including supervision and coordination of education services at their jurisdiction.
5	BoFED	BoFED is responsible for the overall Public planning, budgeting, treasury management, accounting, and reporting of the city. It directly disburses approved budget based on cash flow forecast and request of the BoE, metropolitan university, and sub-cities.
6	Sub-city finance office	Sub-city finance offices are responsible for transfer of cash resources to schools and woreda finance offices.
7	Woreda finance office	Unlike other regional governments, woreda finance offices do not have role in the accounting, cash transfer, and budgeting of schools.

No.	Entity	Responsibility
8	Schools and metropolitan university	Provide service delivery. They are responsible for determination of their detail salaries and operational budgets based on the approved budget allocated to them. They are also responsible for the procurement of operational supplies, chalks, stationery items, and other small items. They receive books from the BoE, through sub-city education office. Schools submit performance report on key performance indicators to their respective sub-cities monthly.

16. Figure 7A.4 shows the relationship across levels of governments in the city of Addis Ababa. The thick line shows the nonfinancial resource flows, the thin line shows the financial flow, and the broken line shows technical support.

Figure 7A.4: Service delivery relationships across government



17. The city-level education sector budget includes the budget for the BoE, health offices at sub-city and woreda level, schools, TVET Bureau, TVETs, and other agencies under BoE. Each public body (including schools) is responsible for the preparation of their budget based on the ceiling received from BoFED or sub-cities as applicable. Public bodies including service delivery units revise their budget based on the approved block budget approved at city and sub-city level as applicable. Schools receive their budget from sub-city finance offices.

18. As indicated above, for the last three years, the city actual expenditure outturn was lower than budgeted expenditure by an average of 25 percent. Except for 2016/2017, the education sector expenditure is lower than the approved budget by 13 percent and 8.9 percent during 2017/2018 and 2015/2016, respectively. Despite the revenue fall in 2016/2017, the actual expenditure for the education sector was higher than the budget by 15.4 percent.

**Table A7.6: The city and the education sector budgets in ETB, billions**

	2017/2018				2016/2017				2015/2016			
	Budget	Actual	Share of health %	Budget short %	Budget	Actual	Share of health %	Budget short %	Budget	Actual	Share of health %	Budget short %
<b>City</b>	<b>40.50</b>	<b>30.01</b>		25.9	<b>38.66</b>	<b>30.18</b>		22.1	<b>31.80</b>	<b>22.01</b>		30.8
Education	4.86	3.9	13.0	19.7	4.03	4.65	15.4	-15.5	3.52	2.68	8.9	23.9

Source: Budget execution report, annual accounts, BoFED, and team calculations.

**Table A7.7: Share of the budget on the education sectors going to service delivery units (schools)**

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
<b>Total education budget</b>	2.74	2.42	2.25	2.01	2.02	1.54
Education Bureau			0.173	0.252		
TVETs and Metropolitan College	1,249	804.49	900.98	515.58	500.03	292.28
Schools			1.318	1.364		

Source: Budget execution report, Annual Accounts, BoFED, team calculations.

#### 4. Objectives and scope

19. The entities selected for the standard PEFA assessment comprise the federal government, four big regions, one emerging region, and one city administration, which is Addis Ababa City. The assessments will cover the seven key pillars in PEFA and two additional components pertaining to impact of the prevailing PFM system on service delivery performance, and gender considerations. Both the gender and service delivery components are pilot assessments. The service delivery assessment is focused on the health and education sectors in selected areas: the Federal Government of Ethiopia, Addis Ababa City, Oromia, and Somali. The pilot assessments review the flow, the use, and the efficiency of the use of funds in the sectors and between the levels of government to identify bottlenecks, to shed light on the efficiency of the funding allocation process. This assessment is the one focused on Addis Ababa City.

20. Addis Ababa city government has one metropolitan university, 14 colleges, 2,147 schools,<sup>18</sup> 112 health centers, and 6 hospitals. For this assessment, four schools, four health clinics, and Arada sub-city were assessed. The principle of sample selection was mostly random given the limited time frame, proximity of units, and feasibility in terms of data collection. Additional city-level data were captured from BoFED, BoE, and BoH and Arada sub-city. The assessment was conducted between February and June 2019.

21. As indicated above, the scope of the service delivery assessment covers the education and health sectors. The actual expenditure during 2017/2018 for the education and health sectors was ETB 3.9 billion and ETB 2.41 billion, respectively. The expenditure for education and health represents 13 percent and 8.1 percent of the total city government expenditure in 2017/2018, respectively. Table A7.8 shows expenditures of the two sectors by capital and recurrent expenditure in 2017/2018.

<sup>18</sup> 1,075 kindergarten, 58 '0' class, 795 primary schools, and 219 secondary schools.



**Table A7.8: Capital and recurrent expenditures of health and education sectors, city of Addis Ababa**

	Sector	Total expenditure in ETB, billions	Capital expenditure	Share of capital budget %	Recurrent	
					Salaries and benefits	Operating expenses
1	Education	2.41	0.613	25.4	2.12	0.82
2	Health	3.9	0.165	4.2	1.44	0.95

22. The following service delivery units were visited:

- i. Schools:
  - (i) Jemo #2 Primary School
  - (ii) Ethio-China Primary School
  - (iii) Wondirad Secondary School
  - (iv) Hizbawi Serawit Elementary School
- ii. Health centers:
  - (i) Kotebe Woreda 9 Health Center
  - (ii) Jan Meda Health Center
  - (iii) Kirkos Health Center
  - (iv) Dil Fire Health Center.
- iii. Arada sub-city (one of the ten sub-cities of Addis Ababa)

23. The service delivery PEFA assessment focuses on the financial operations of the education and health sectors and includes budgetary units of the education sector and related oversight and accountability institutions. However, there are no EBUS at the Addis Ababa City level. Significant amounts of the revenue for schools, universities, and health centers come from the government budget. Their regular internal (own source) revenues are reported and are part of the budget. The revenue collected above the approved budget is not used during the period and is accounted for in the budget for the following year. Parents in some schools may contribute for the construction of dining halls or provision of school furniture.<sup>19</sup> If the spending is made directly by the parents committee, then such expenditure is not reported. However, the sums involved are so incidental that it does not alter the finding that there is no extra-budgetary expenditure. If parents deposit the money into the accounts of the school and the school procures the goods and services, the income and expenditure are reported. Table A7.9 shows the units covered by the service delivery assessment.

**Table A7.9: Main government and public sector units of the education and health sectors to be covered by the service delivery assessment**

Budgetary units	EBUS	Public corporations <sup>a</sup>
Office of the mayor	Not Applicable. Internal revenues are reported and are part of the budget.	Not applicable for service delivery
BoFED		
Arada sub-city government		
BoE		
BoH		
Health centers		

<sup>19</sup> Hizbawit Serawit Primary School used to collect contributions from Parents which were used for upgrading of play field and cobble stone works. It is no longer collecting due to instruction from the Sub-city not to collect money from parents.

Budgetary units	EBUS	Public corporations <sup>a</sup>
Primary schools and secondary schools <sup>b</sup>		
Health centers		

*Note:* a. Only include institutional units within the scope of the assessment. For assessments of SNGs, such units would be only those owned and controlled at the subnational level; b. Health centers and schools collect cash and are permitted to use those funds together with the budget they receive from the government. The revenue collected is part of the budget. The extent of their internal revenue is indicated in the analysis section of this report.

## 5. Methodology

24. The approach employed for this Service Delivery Module has been requested, discussed, and agreed with the TTL, Rafika Chaouali, Lead Governance Specialist, Public Financial Management, and Ana Bellver, Senior Public Sector and Governance Specialist, the World Bank. A team of independent consultants, the same hired to carry out the regular PEFA Assessment—Elena Morachiello (lead consultant), Elisaveta Teneva, and Getnet Haile—carried out the fieldwork and prepared this report. The team of independent consultants also developed the theoretical framework for the service delivery module under the guidance of Ana Belver and with feedback from Rafika Chaouali and Meron Tadesse. The PEFA framework has been applied to review the PFM processes and their implications on service delivery units in the health and education sectors in Addis Ababa City. This involved visits, interviews, and documents review in sub-city administration and primary service delivery units in both sectors. This service delivery PEFA assessment is focused on the financial operations with implication to services in the health and education sectors' PFM-related areas. The assessment presents the facts relevant to service delivery units by PEFA PIs and draws conclusions by PEFA pillar. Table A7.10 below shows the PIs that are covered in the assessment:

**Table A7.10: PEFA PIs covered by the Service Delivery Module**

Pillars	Included	Not included
HLG		
<u>I.</u> Budget reliability	PI-1 and PI-2	PI-3
<u>II.</u> Transparency of public finances	PI-6, PI-7, PI-8, and PI-9	PI-4 and PI-5
<u>III.</u> Management of assets and liabilities	PI-11 and PI-12.2	PI-10 and PI-13
<u>IV.</u> Policy-based fiscal strategy and budgeting	PI-16.2 and PI-16.3 and PI-17	PI-14, PI-15, and PI-18
<u>V.</u> Predictability and control in budget execution	PI-21.3, PI-22, PI-23, PI-24, PI-25, and PI-26	PI-19 and PI-20
<u>VI.</u> Accounting and reporting	PI-29	PI-27 and PI-28
<u>VII.</u> External scrutiny and audit	PI-30	PI-31

## 6. Introduction to the service delivery units of the assessment

- (a) Schools:
  - (i) Jemo #2 Primary School
  - (ii) Ethio-China Primary School
  - (iii) Wondirad Secondary School
  - (iv) Hizbawi Serawit Elementary School
- (b) Health Centers:
  - (i) Kotebe Woreda 9 Health Center

- (ii) Jan Meda Health Center
- (iii) Kirkos Health Center
- (iv) Dil Fire Health Center.

25. Arada sub-city is one of the ten administrations within Addis Ababa City entrusted with municipal function in accordance with the principle of decentralization and in conjunction with Addis Ababa City. It administers 10 woredas and ensures the observance of law and order. There are 10 health centers and 33 schools (22 primary and 11 secondary). The higher schools and universities are under the jurisdiction of Addis Ababa city administration, and the primary and secondary schools are under the sub-city administrations. The sub-city council, among many others, has the power to (a) endorse the socioeconomic development and municipal services plans, (b) reallocate the budget approved by the city council, (c) endorse annual and periodic reports, and (d) issue directive for the activities of the sub-city council.

## 7. Service delivery assessment

### 7.1 Higher level government (HLG) - Transfers from higher-level government

26. Addis Ababa city government receives no subsidy/grant from the federal government. Therefore, this indicator is not applicable.

### 7.2 Pillar I: Budget Reliability

#### 7.2.1 PI-1 Aggregate expenditure outturn

#### Health

27. The actual budget expenditure for the last three years in the overall health sector is below the approved original budget. Table A7.11 shows the original, revised, and actual budget expenditure for the three assessment years. The reason for this low performance is the absorption capacity of the health centers triggered by various factors such as unrealistic budgeting process, late cash transfers, underutilization of budget execution, and a lack of analysis of this pattern and its underlying reasons. This implies that risk is not well managed and that not all allocated resources reach the public, thus also affecting the strategic policy priorities in the sector.

**Table A7.11: Aggregate expenditure outturn of the health sector**

Fiscal year	Original budget	Revised budget	Actual expenditure	Unused budget	Aggregate expenditure outturn % against the original budget
2017/2018	2,738,056,132	3,168,571,493	2,423,033,348	745,538,146	88
2016/2017	2,247,140,804	2,319,600,877	2,007,049,650	240,091,154	89
2015/2016	2,022,344,046	1,933,325,963	1,542,081,573	480,262,473	76

28. Nevertheless, the sample of two out of four health centers visited shows that the sampled health centers actually spend more than their approved original budget. The link with health policies and priorities is weak. The additional funds were allocated as a result of redistribution within the health sector budget units. This was necessitated by the need for strategic restructuring and purchase of medical equipment.

**Table A7.12: Aggregate expenditure outturn of the four visited health centers**

Health centers	Original budget	Actual expenditure	Aggregate expenditure outturn % against the original budget
Jan Meda Health Center <sup>a</sup>	9,900,000	13,578,041	137
Kotebe Woreda 9 Health Center	13,164,825	13,871,798	105
Dil Firie Health Center	10,850,193	8,323,960	77
Kirkos Health Center	10,362,730	10,032,377	97

Note: a. The budget sources for the approved budget of EFY 2010 (2017/2018) for Jan Meda Health Clinic was a subsidy of ETB 8.2 million and internal revenue of ETB 1.7 million. Actual transfer from sub-city was ETB 12.7 million, and internal revenue was ETB 1.59 million.

## Education

29. Schools and colleges received a significant part of their budget from the city government. They also collect internal revenue (own source revenue), which is part of the budget and is reported in their financial statements. The usual sources of own source revenue include (a) fees for student ID card replacement, (b) request for transcript, (c) transcript authentication service, (d) extension of students' registration and tuition fees, (e) re-exam fees, and (f) parents' contribution and grants. Some schools have sales and café services to students. All the visited schools are responsible for the preparation of salaries and the budget for operating expenses. The BoE is responsible for the capital budget, and the sub-cities are responsible for the implementation of capital projects at the school level.

30. The aggregate actual expenditure outturn of the education sector against the original budget in 2015/2016, 2016/2017 and 2017/2018 was 76 percent, 115 percent, and 80 percent, respectively.

**Table A7.13: Actual aggregate expenditure outturn in education sector**

Fiscal year	Original budget	Revised budget	Actual expenditure	Unused budget	Aggregate expenditure outturn % against the original budget
2017/2018	4,858,426,489	5,293,708,142	3,900,179,634	1,393,528,508	80
2016/2017	4,029,252,875	5,502,382,892	4,652,481,706	(623,228,831)	115
2015/2016	3,518,287,879	4,100,572,383	2,675,866,463	842,421,416	76

31. The aggregate budget outturn against original budget varies from school to school. Table A7.14 shows the budget outturn percentage of the visited schools for 2017/2018. Jemo #2 Primary School expenditure outturn has been significantly high (284 percent) mainly due to the much larger number of student enrolment than anticipated. Enrolment should be easily predicted, and this finding underlines again how the reality of service delivery on the ground does not match sectoral policies.

**Table A7.14: Aggregate budget outturn for three schools**

Schools	Original budget	Actual expenditure	Aggregate expenditure outturn % against the original budget
Jemo #2 Primary School	2,085,325	5,916,581	284
Wondyirad Secondary and Preparatory School	13,595,086	14,003,136	103
Ethio-China Primary School	6,898,119	6,898,119	100
Hizbawi Serawit Primary School	7,808,330	7,937,747	102

32. Aggregate expenditure outturns in both health and education sectors are not good. Being more than 20 percent in two out of the last three completed fiscal years.

### 7.2.2 *PI-2. Expenditure composition outturn*

33. Budget transfers from one line item to another budget line item are very common in all visited institutions. It is not allowed to transfer from the capital budget to the recurrent budget. As a matter of fact, schools and health clinics do not have the access to the capital budget as it is managed by the sub-cities. The capital budget is determined by the sub-city BoH based on the input and information on investment requirement provided by the health centers. The BoH is responsible for setting the priorities and determine the capital budget at each primary health care level. The same process on expenditure composition and in-year reallocation holds true for the education sector. There are no reallocations of the approved budget from category/service to another in Arada sub-city. However, there are supplementary budgets that are funded from contingency of ETB 50 million allocated every year in the administration of the sub-city.

34. Health centers and the schools are not entitled to make reallocations of expenditure; this is performed at sector level at the respective sub-city. Therefore, this indicator is not applicable because budget reallocations do not emanate from primary service delivery institutions.

## 7.3 *Pillar II: Transparency of public finance*

### 7.3.1 *PI-6. City government operations outside financial reports*

#### Education

35. Internal revenue generated by schools and health centers is recorded and reported. It is part of the budget. The assessment team learned that a community contribution for small capital expenditures is reported and recorded if schools and health centers receive the money. If expenditures are directly controlled and spent by a donor or parents, this will not be captured and reported, but this is less than 1 percent of expenditure, including parents' contributions in kind. There is no record of in-kind contributions, and it is not possible to determine the magnitude.

36. The Addis Ababa city government started a school feeding program for selected students,<sup>20</sup> those identified as poor. The city government allocated about ETB 80 million, and the program commenced in January 2019. One of the schools (Jemo #2) discontinued the program due to tax issues with the service providers. The service providers are a group of elderly women organized among them for this service. The daily fee for the meal (breakfast and lunch) is ETB 14. The women claimed that they cannot afford to sustain the service if the fee is tax inclusive.

37. Some of the schools receive funding from GEQIP.<sup>21</sup> The utilization of the fund is reported monthly to sub-cities and consolidated at BoFED level. The total expenditure from this fund in 2017/2018 was ETB 40.49 million out of which the school grant portion (including admin costs to sub-city and woreda level health offices) was ETB 21.2 million. The remaining spending (ETB 19.2 million) attributed to procurement of training services (ETB 15.2 million) and other salaries and operating costs at the level of bureaus. Schools receive text books from the BoE through sub-cities. The financial reports of the schools do not contain information on the value of books received during the period. Expenditure for the purchase or printing of books is captured at the BoE.

<sup>20</sup> 68 students are supported in the school feeding program in Jemo #2 primary schools, and 140 students in Ethio-China primary school. Hizbawit Serawit School has used internal revenue from cafeteria income to fund school /feeding program (in 2017/2018). The city school feeding program became operational in 2018/2019, and beneficiary number increased to 230 students (with a total budget of ETB 336,988).

<sup>21</sup> Hizbawit Serawit School received ETB 96,575 and fully used for it electric line maintenance.

## Health

38. Internal revenues for health centers include training fees, sales of medicines, and medical examination fees. Health centers receive project-funded medical supplies through PFSA. The financial reports of health centers do not contain information on the value of medical supplies received in kind. For example, Jan Meda Health Center received furniture and software application called Smart Care that was worth about ETB 400,000. The value of this grant is not included in the financial report of the health center. This implies that they may also not be recorded as assets and thus fall out of the overall assets and liabilities management. The financial reports contain only the value of medical supplies purchased from the operating budget of the health centers.

39. The revenue sources for the health sector in Arade sub-city include

- (a) Subsidies and grants in kind from donors (furniture and computers);
- (b) The U.S. Center for Disease Control and Prevention (known as CDC)—a U.S. global health organization saving lives around the world by detecting and controlling outbreaks at their source. CDC is focused to prevent, detect, and respond to health threats. CDC in Ethiopia is involved in construction of health centers and building pharmacies (five built so far in Arada). It also provides grants for training and procurement of medication; and
- (c) Community contribution.

40. Information was provided by the sub-city of Arada on revenue outside financial reports for both education and health. This is revenue generated from indirect tax. However, the total revenue for health and education of the sub-city is not available.

**Table A7.15: Expenditure outside financial reports**

Sub-city sector	Type of expenditure	Estimated amount outside financial reports for the year 2010 EC	Total expenditure	Share (%)
Health	For procurement of medicine equipment such as tablets	18,530,625	102,758,458	18
Education	For procurement of educational materials such as books and periodicals	8,627,562	193,523,739	4

41. Revenues of health and education sector schools and clinics visited that are not part of financial reports are more than 10 percent average for both sectors and less than 1 percent of BoFEC total revenues.

### 7.3.2 PI-7. Transfers to subnational governments

#### System for allocating transfers

42. Sub-cities and woredas have confirmed that the allocation formula for grants/subsidies is based on unit cost approach, population, and level of development. Therefore, the rules are known to everybody and are thus transparent. The system for allocating transfers associated with education and health coincides with the system employed for overall transfers. The transfers are not earmarked rather a lump sum per sector. The transfers are disbursed on a quarterly basis.

### Timeliness of information on transfers

43. Woredas receive timely information (at least two months in advance) from the sub-cities for the preparation of their annual budget estimates. The woreda finance office informs sector offices (such as education and health) on the submission of their budget request; the woreda finance office consolidates the budget proposals and submits to the woreda council for approval before the start of the new fiscal year.

44. In spite of the timeliness of information on budget allocations, delays of up to two months are experienced in receiving actual transfer of funds from BoFED to sub-cities, and subsequently to primary service delivery units. Delays are only reported between the level of service delivery unit and that of sub-city and cover only for the first quarter of the fiscal year. This affects primary service delivery. As at June 2018, subsidies arrears to sub-cities stood at ETB 1.67 billion. Such delays in transfers also affect budget reliability. It is to be reminded that there is no subsidy to Addis Ababa City but only to its structure of sub-cities.

45. The sub-cities communicated the approved budget for 2018/2019 to health centers and schools on July 24 (within 16 days after the commencement of the new fiscal year). In addition, schools and health centers are required to submit quarterly cash flow requirements to their respective sub-cities. Cash flows request are actually submitted to the sub-cities, and they are used to determine the cash transfer for each service delivery unit.

46. The rule is that transfers are recorded from the city to the sub-city level. While there are generally no delays in Arada sub-city in EFY 2011 (2018/2019), there are often delays in the first quarter transfer which is the usual time when arrears can occur. As for EFY 2012 (2019/2020), the transfers were approved with the approved budget on July 17, 2019. This fiscal year budget is not approved yet at the city council. The first transfer was disbursed on July 24 in good time so that all funds reach the respective levels in the administration and thereto the service delivery units.

47. The system of horizontal allocation of all grants is transparent and rule-based. It is based on unit cost approach, population, and level of development. Primary service delivery units receive timely information for the preparation of their budget; it allows at least two months for the completion of their budget proposals.

#### 7.3.3 PI-8. Performance information for service delivery

48. Performance plans in service delivery: health and education sectors are guided by five-year strategy plans, that is, HSTP<sup>22</sup> and ESDP V, for health and education sectors, respectively. The plans provide information about past performance and future plans on service delivery.

49. Health centers and schools prepare strategic plans.<sup>23</sup> The strategic plans of 25 percent of the units may not contain costs, but they generally state the baseline data on key performance indicators (KPIs) and the target KPIs to be achieved during the planning period. The sector strategy of the city government is the basis for the preparation of the strategic plans at the lower budget unit level. Health centers prepare a monthly report on KPIs. They also feed monthly performance data on KPIs into an online platform called District Health Information Software 2 (DHIS2).<sup>24</sup> The server is based at the Ministry of Health. The health centers can also generate their own report from the system. The system

<sup>22</sup> Covering the period from 2015/2016 to 2019/2020.

<sup>23</sup> Hizbawit Serawit, Kotebe HC, Jan Meda HC, Wondyirad, and Ethio-China prepared a three-year strategy plan. Annual plans also includes performances.

<sup>24</sup> DHIS2 is an open source software developed and maintained by the University of Oslo's Health Information Systems Program. It is used in more than 60 countries around the world. [www.wikipedia.org](http://www.wikipedia.org), <https://thepump.jsi.com/>.



enables access to key health KPIs at the national level. health centers invite communities during performance review discussion (70 to 100 people attend the meeting). Some of the schools have a biannual performance review (for every semester).

50. Schools are evaluated periodically by woreda and education offices and by assessors from the BoE. Health centers are also reviewed by woreda and sub-city health offices. After assessment, schools are provided with the scoring (for example, Hizbawit Serawit scored 3 out of 4).

51. Each month, service delivery units visited prepare reports on financial resources received from the sub-cities and also on their own internal revenue. The last month report of a fiscal year contains a 12-month cumulative financial report that includes the actual cash transfer and spending. Health centers also report the medical supplies they purchased from PFSA and other suppliers using the HIMS. HIMS is accessed by the BoH and used to produce a consolidated report. The BoH produces quarterly, semiannual, and annual reports by detailed KPIs. Information on the HIMS can be drilled down by sub-city and facility levels. HIMS is not published. Demographic and Health Survey 2016 published by the Ethiopian Statistical Agency provides key health KPIs about Ethiopia including the city of Addis Ababa.

52. It is to be noted that based on the information from the visited service delivery unit, all transfers were received in cash. The units are required to report on the receipts. There is evidence that the books and the donated medical supplies transferred are actually received by service delivery units. This is the goods receiving report also referred to as Model 19.

53. The Annual Education Statistics Abstract contains detailed information for KPIs for multiple years on the education sector. Information includes number of schools, teachers, enrolment rates, and key ratios. The data are segregated by age, sex, sub-cities, and grades. Schools do not have a single set of reports which shows the overall resources they received during the period both in cash and in kind. However, they submit separate financial and activity reports to sub-cities. All visited schools do not report the total number of books they received and distributed to students. Midterm evaluation was conducted in 2018 by BoFED, BoE, and BoH.

54. **Arada sub-city.** There are two types of capital projects, which are approved centrally at the bureau level for the health sector. The first group of such projects is in the so-called five-year Health Transformation Plan (2016–2020), where projects are elaborated with specific sector-related PIs, planned outputs, and outcomes. Based on the five-year plan, each year, an annual action plan is drawn up using the performance metric of the Balanced Score Card method to measure and improve internal functions related to the project implementation. The second group of projects includes such activities that are discussed with the public in consultation with 50 people (community-based organizations by sex and region) in each woreda.

55. There are project performance reports with outputs and outcomes in the education sector which are issued to monitor progress achieved on quarterly, six-month, and annual basis. There are also performance evaluation reports on efficiency and effectiveness of the implemented projects in the health sector. For example, a nine-month progress Report for EFY 2011 was provided. The performance reports are results-oriented elaborating on the targets achieved and providing details of planned versus actual output such as (a) distribution of condoms - 51,000/400,000 pieces (783 percent), (b) out-patient service - 266,000/140,000 people (53 percent), (c) emergency service - 29,000/28,000 (97 percent), (d) minor surgery - 480,000/387,000 (81 percent), and (e) support for HIV positive people - 383,000/166,000 (43 percent).

56. There is a five-year strategy plan developed at Addis Ababa City level for the education sector. It is based on the sub-city strategic plan and the national five-year sector development plan, known as GTP2. It is considered for the budget and the midterm evaluation of the strategy and the ESDP.



Each annual plan is followed by a performance report with output and outcomes and output indicators. The performance evaluation in the education sector is represented by annual and quarterly reports providing performance data with key indicators (enrolled students, number of students who passed/failed exam, drop-out, Water Closet facilities, playgrounds, and equipment).

57. Capital Project Performance Report (2011). Strategy Plan for 2008–2012 for the sub-cities education office. Based on this, each school prepares its own plan. Currently, the strategic planning is required from each school for a period of three years.

58. KPIs exist for primary service delivery units, but they are not published. Information on performance achieved is also prepared annually, but again, this is not published. In terms of reporting on resources received, the schools and clinics visited prepare monthly financial reports indicating resources received in cash. However, they do not prepare reports on resources received in kind. Financial reports are posted on public notice boards.

#### 7.3.4 PI-9. Public access to fiscal information

59. Transparency at the sub-city, woreda, and primary service delivery units level (schools and clinics) is much better than at the city government level. While websites are not the main means of information and dissemination, the sub-city and woredas use the public notice boards to inform the public.

60. The team visited two schools and two clinics and one woreda. The public notice boards displayed the approved budget allocated to each woreda sector office. In addition, each month, a summarized copy of the monthly budget execution report is posted on the notice board; the AFS is also posted. There is no separate audit report for woredas. Budget proposals are not posted for public access. However, schools and health centers post their approved annual budget on notice boards, and some of the finance units of service delivery units posted the budgets on the wall so that visitors can see them. Most of the health centers and some schools used visible banners (Ethio-China School). Some of the visited health centers conduct quarterly meetings with public representatives (representing mass community organizations) and share service performance reports. In addition, some of the health centers post key performance results. Health centers post information about the processes and time required to get the various health services, which is referred to as 'A Citizen Chart'. Kotebe Health Center and Janmeda Health Center have Facebook accounts to share information to the community.<sup>25</sup>

61. Both interim and annual budget execution reports of primary service delivery units are not shared with the public. There is a practice of sharing financial reports with teachers. Some of the schools distribute copies of budget execution report to all teachers, and others just present the report. Some share budget execution reports with the Parent Teacher Association. This practice is not comprehensive as it excludes the public and the local communities from having access to budget information. Audit reports at service delivery level are not available for public access, even by the ACOAG other than the brief citation of the findings in the consolidated audit report.

62. The public access to fiscal information is very limited. Only the approved budget and the monthly budget execution reports are posted on public notice boards. Actual annual budget execution reports, AFSs, and annual audit reports are not made public.

<sup>25</sup> <https://www.facebook.com/kotebehealth.centre>; <https://www.facebook.com/makbel2010/>.

## 7.4 Pillar III: Management of assets and liabilities

### 7.4.1 PI-11. PIM

63. Most of the investments in the city with regard to education and health are projects related to construction and rehabilitation of facilities. At the city level, capital project requests are reviewed based on MTEF and GTP of the city. Sector bureaus are responsible for the preparation of documentation for their project requests including the study, land ownership issues, and construction designs. The Capital Project Monitoring and Evaluation Directorate (CPMED) is responsible for the M&E of projects once approved and budgeted for their initial year project period. The CPMED monitored and evaluated about 800 construction related projects out of over 1,700 construction projects that the city has in 2011 (GC 2019). The remaining project is not monitored due to capacity constraints.

64. Capital expenditure represents about 53 percent of the overall budget of the city (2017/2018). Capital expenditure for education and health represents about 7 percent and 2 percent, respectively. Overall expenditure outturn for capital budget in 2017/2018 was 67 percent. The capital expenditure outturn for the education and the health sector is 40 percent and 33 percent, respectively (Table A7.16).

**Table A7.16: Capital expenditure for education and health sector in ETB, millions, for Gregorian fiscal year 2017/2018**

	Approved budget	Adjusted budget	Actual expenditure	Over/under	Share of capital budget (%)	Expenditure outturn against original budget (%)
City total	21,536	22,494	14,524	7,969	100	67
Education	1,519	1,711	613	1,098	7	40
Health	507	780	165	615	2	33

Source: Budget execution Report - July 7, 2018.

### Health

65. A capital budget for the construction of three hospitals was not utilized in 2017/2018<sup>26</sup> (refer to Table A7.17). The capital budget expenditure outturn for existing hospitals is 70 percent; the capital budget utilization performance of health centers is 47 percent.

**Table A7.17: Capital budget outturn for health centers, 2017/2018**

	Approved budget	Adjusted budget	Actual expenditure	Over/under	Expenditure outturn against original budget (%)
Three new hospital constructions	185.87	381.02	—	381.02	0
60 buildings and other capital items for health centers	126.46	125.59	58.96	66.63	47
Capital project for hospitals	110.12	151.12	77.49	73.62	70

Source: BoH.

<sup>26</sup> One of the hospital project construction commenced in 2018/2019. The lengthy process for securing a title deed (for more than a year) for land is said to be a factor the delay. The procurement was cancelled for this reason.

## Education

66. Capital budget requests may be initiated from sub-cities. The BoE is responsible for the capital projects including renovation of existing buildings and fences. There is an overall policy at city level as to the number of schools and health facilities that should be available in line with the population of sub-cities. No in-depth project proposal is prepared and presented to support capital projects. No in-depth analysis is carried out on the economic viability of school projects conducted. Due to the poor project implementation practices, BoE only request basic prerequisites such as availability of land for eligibility for expansion projects. According to the BoE, about 70 percent of capital projects are not implemented on time. Some of the school expansion projects did not consider the resettlement of certain neighborhoods in the heart of the city where some schools are suffering from a lower level of student enrolment than they used to have.

67. The BoH and BoE will no longer be responsible for the construction activities. The Bureau of Construction will be responsible for construction activities of all sector offices from 2019/2020. This arrangement is still in process of being established. The reason is partly due to the fact that the Bureau of Construction has the expertise and the capacity to monitor and undertake construction activities. This transition of function was decided in EFY 2012 such that all construction activities shall be managed from a single point instead of by each sector bureau. Tigray Region has a similar arrangement where the Bureau of Road and Building Construction is responsible for all sector bureaus construction works.

68. In 2017/2018, a capital budget was allocated for 19 primary schools, 8 secondary schools, and 15 colleges apart from education offices and other agencies and training centers. As shown in Table A7.18 the expenditure outturn is generally low but, at primary school level, it is higher (58 percent) than the performance in colleges (24 percent). The additional budget adjustment, which increased the approved budget, was not justified by the budget utilization rate.

**Table A7.18: Capital budget outturn for schools and colleges in ETB, millions**

	Approved budget	Adjusted budget	Actual expenditure	Over/under	Expenditure outturn against original budget (%)
Primary schools	8.50	9.24	4.95	4.29	58
Secondary schools	5.92	6.27	2.10	4.17	35
Colleges	1,116.46	1,245.45	267.21	978.24	24

Source: BoE.

69. The statistical abstract issued by the BoE indicated that the average pupils to class room ratio(PSR) in 2017/2018 was 55 for government primary schools and 30 for private schools. The national standard (requirement) is 50. The disparity of PSR on visited schools is very high. Ethio-China Primary School has a PSR rate of 55, Jemo #2 primary School has a rate of 69, and Hizbawit Serawit 61. Some of the schools received capital projects long time ago.<sup>27</sup>It is obvious that the quality of education will be affected. The low level of capital investment for the education center appears to be continuing as the PSR is declining over the years (Annex 2).

70. In Arada sub-city, every school every year is supposed to define and submit to the respective sector bureau their capital budget activities. The bureau is responsible for the capital project budget for consolidation and submission to the city level. The capital projects activities are evaluated by specialist from another sub-city. This input of the BoE for the capital project budget is assessed in February in accordance with KPIs developed by the Ministry of Health. The capital project budget for

<sup>27</sup> The last capital project received by Hizbawit Serawit School was in 2011.

2012–2014 is ETB 26 million. The sub-city education sector monitors the implementation of the capital project annually. A Capital Project Performance Report with evidence and pictures of the constructed sites is prepared. The usual problems disclosed are that after contract signing and advance payment, the contractors disappear. These are usually small and micro enterprises where projects are awarded to them with the objective of overall government intention to support microenterprises. Some of these microenterprises are without good track record and unable to produce bank guarantee for the advance payment. Nevertheless, PIM is not the prerequisite of primary service delivery units (schools and clinics).

71. Overall the function of PIM is weak. Economic analysis is conducted to assess the major investment projects, but the results are not published. The proposed investment projects are selected based on KPIs developed by the federal MoE. There is no information about the projects costing and its inclusion in the budget documentation. The sub-city education sector monitor the implementation of the capital project annually. A Capital Project Performance Report with evidence and pictures of the constructed sites is prepared annually.

72. There is high demand for capital investment and low level of implementation rate of capital projects. Addis Ababa City has the ambition to have more hospitals in the city but failed to use the approved budget for three hospitals during EFY 2010 due to poor procurement process. Moreover, it happens in the education sector that capital budget funds are misused by unreliable contractors. There should be rigorous procedures in the selection of construction service providers.

#### 7.4.2 *PI-12. Public asset management*

73. Some of the health centers<sup>28</sup> have medical equipment that is not functional due to the lack of consumables compatible to the specific equipment. One of the health centers was unable to use a complete blood count machine due to lack of consumables. The only supplier no longer imports the consumables. As the health centers did not have a backup of the same (or a similar) machine, patients were forced to get the service from other service providers. Generally, all visited service delivery units do not have an asset replacement plan.

74. Some of the visited service delivery units maintain a fixed asset register, and some of their assets are linked with an identification number. That said, the practice of numbering and categorizing is not systematic and comprehensive. One of the visited health centers indicated that it is not able to use a fully automated chemistry machine (costing ETB 400,000) due to lack of space to deploy it.

75. Books received from sub-cities are provided and evidenced by a Goods Receiving Note (Model 19) by the receiving entities. Books are issued from warehouse to students using store issue voucher. A homeroom teacher signs the store issued voucher and distributes to students with a distribution list to be signed by students. Students are required to return the used books by the end of the year. Students are made to refund the value of the book if it is lost. In all visited schools, the internal control procedure on books is very weak or simply nonexistent. There is no system of independent verification and actual tracing of books issued from sub-cities, actual delivery of books to students, and the actual books left at the warehouse. Textbooks are also distributed to private schools in Addis Ababa. Private schools are required to pay for the cover price of the textbooks. Textbooks are sold at bookshops (though they are in principle not for sale) at more than double the price. The team learned that the issue was also a concern for the BoE. One of the schools visited (Jemo# 2) does not maintain stock taking documentation nor does it have people who can do the stock taking. No stock control audit has ever been conducted by the internal audit unit. The absence of annual external audit also adds to the lack of control situation, which could have been detected by an annual audit.

<sup>28</sup> Jan Meda Health Center and Kotebe Health Center.

76. The Health Commodity Management Information System (HCMIS) is used to track medical supplies movements. The system has a feature to prompt the user for stocks below the minimum stock level and items with over stock level. It also issues alert on items, which are close to expiry date. The system generates monthly medical supplies consumption reports. The holding period for one batch of supplies at the warehouse is four months. Near to expiry, supplies are distributed to the needy health centers within the city. It is to be noted that the health centers do not use expired medication. The practice is that a health center would distribute excess stock of 'near to expiry date' to other health centers with low or no stock. This redistribution from center to center is undertaken to minimize the volume of the expired medical supplies.

77. Health centers communicate to PFSA well in advance (seven months ahead of a fiscal year) about their medical supplies' requirements. For example, Jan Meda HC sent its requirement list on the November 24, 2018 for the 2019/2020 budget year. Medical supplies are classified as vital and essential. During budget allocation, priority is given to critical products. Health centers source about 50 percent of the total medical supplies' requirement from PFSA. By legal directive, they should get an 'Out of stock' clearance from PFSA to source from other suppliers.

78. The health centers do not use expiry products. It happens that a health center may distribute excess stock of 'near to expiry products' to other health centers with low or no stock. This purpose of redistribution is to minimize the volume of expired medical supplies.

79. The asset management in Arada sub-city is like that witnessed in the primary-level service delivery unit. There is asset register with each service delivery unit, inventory is taken both for fixed and non-fixed assets, depreciation is done by book value, and the fixed asset disposal procedure relevant for the federal government is applied. However, there is no information on acquisition or disposal assets in the annual financial accounts.

80. All visited health centers' internal audit units indicated that they did not conduct a comprehensive audit of medical supplies. Most of them said that the complexity of variants of packaging (tin, strips, piece, injections, tables, and so on) makes it difficult for them to conduct stock count and reconcile against movement of medical supplies from receipts through warehouse, dispensary, and distribution to patients. None of the visited health centers were audited by the ACOAG. The annual audit of the ACOAG indicated that some of the health centers do not maintain bin cards including even the BoH.

81. According to the audit findings of the ACOAG on public asset management, almost all of the audited seven service delivery units (hospitals, health clinics, and colleges) did not have fixed asset registers, and if they have, it is not updated and well prepared. Most of the assets are not provided with an asset identification number. Some do not undertake an annual physical inventory. Those that conduct an annual inventory do not reconcile the count against a register.

82. One of the visited schools is poorly equipped with the necessary school facilities including the laboratory. The library is not complete and friendly enough to be accessible to students (it is a shared one between the staff and students without sufficient number of standard books).

83. The function of public assets management is not good. Fixed asset registers exist in some primary service delivery units, but these are poorly kept and, in most cases, not updated. There were no disposals of fixed assets at schools and clinics visited.

## 7.5 Pillar IV: Policy-based fiscal strategy and budgeting

### 7.5.1 PI-16 Medium-term perspective in expenditure budgeting

84. Sub-cities and woredas are not responsible for approving medium-term expenditure ceilings. This is the prerogative of the city government. Medium-term expenditure ceilings are approved by cabinet after the BCC is issued. For the preparation of 2011 EFY Budget, the BCC was issued on April 8 EFY 2010. For the preparation of the budget for the FY 2011 EC and FY 2018/2019, the MTEF was approved by the cabinet of the city government in the month of April FY 2018 after the BCC was issued. The BoH and BoE annual plans derived from the multiyear strategies were also approved after the BCC was issued.

85. Guided by the sector strategies of the respective bureaus, some of the visited service delivery units prepare a strategic plan. Some of the strategic plans are costed. For example, the Strategic Plan of Jan Meda Health Center (2015/2016–2019/2020) costed ETB 37.72 million is based on the past four years outturn and estimation of the 2019/2020; the cost is expected to be around ETB 57 million, which will be an increase of about 50 percent. The annual budget of Kirkos Health Center for EFY 2011 was submitted to the sub-city on May 14, 2018. In addition, the budget prepared by Kirkos Health Center was based on a model that includes targeted KPIs to be achieved during the budget year.

86. The city of Addis Education Bureau has a five-year medium-term costed strategy. The primary and preparatory school (the Ethio-Chinese Elementary School and the Dejazmach Wondyirad Preparatory School) visited prepared a three-year costed strategic plan and an annual plan derived from the strategy. The Health Bureau also has a five-year costed strategic plan. The two health centers visited (Kirkos and Dil Fire Health Centers) also have a three-year costed strategy and an annual plan. Medium-term strategic plans are thus prepared for 100 percent of the units that are in the scope of the pilot (health and education).

87. As far as the bureau-level strategies are concerned, the expenditure policy proposals in the MTEF are aligned with the strategic plans. The over spending of 284 percent in one of the schools mentioned above, namely Jemo #2 Primary School, is due to the not so comprehensive budget preparation process and weak link between the budget and the sector policy needs.

88. As part of the regional-level MTEF preparation process, some of the visited service delivery units prepare an MTEF annually. The MTEF includes the next year budget estimates and two more years of revenue and expenditure forecast. The MTEF is prepared in November and December every year. Table A7.19 shows the MTEF estimate and actual budget approved for the MTEF 2009 by Jan Meda Health Center. Service delivery units do not receive their share of the MTEF after the city cabinet approves it. As shown in the table, the deviation between the MTEF forecast ranges between 15 percent and 52 percent. The actual budget is higher than the budget forecasted in the MTEF.

**Table A7.19: MTEF forecasts versus actual approved budget - Jan Meda Health Clinic**

	EFY 2009	EFY 2010	EFY 2011
MTEF forecast (end of EFY 2008)	7,272,000	8,726,400	10,471,680
Approved budgets	8,376,856	13,271,339	13,005,260
Difference	1,104,856	4,544,939	2,533,580
Deviation between MTEF forecast and approved budget	15%	52%	24%

Source: Jan Meda Health Center's MTEF report and approved annual budget notifications.

89. The alignment of annual expenditure plans to medium-term strategies is an indication that service providers have a clear focus on what they intend to do right from the beginning. Nonetheless, the main PEFA report (under PI-2.1 and PI-2.2 rated D) identifies budget reallocations between votes



and across votes as a weakness, potentially having a negative impact on the original policy intents for efficient service delivery, as budgets are redirected for unintended purposes. The difference between the MTEF and the approved budget figures is due to in-year adjustments taking into account new and emerging needs and priorities that were not anticipated during the preparation of the MTEF. The fact that the deviation is so high, especially in the second year (EFY 2010), suggests that the MTEFs are not sufficiently comprehensive and realistic.

90. The annual budgets of primary service delivery units do not present expenditure for the two following fiscal years. There are no medium-term expenditure estimates. While there are no medium-term expenditure ceilings, the medium-term strategic plans are prepared and costed. There is high rate of alignment of expenditure proposals with the strategic plans.

### 7.5.2 PI-17: Budget preparation process

#### Budget calendar

91. The budget calendar for the woreda education and health offices is the same as that described under PI-17.1 in the main PEFA report. It allows six weeks for the BIs to complete the submissions (see Table 3.14 of main PEFA report). The health clinics and the schools received their ceiling on August 10, EFY 2010 for the preparation of the EFY 2011 budget and submitted their proposal two weeks later. The education and health offices submitted their proposals on time. That said, the health centers and the clinics had less than six weeks. If the same scoring criteria than those for the bureaus are to be applied to the level of the service delivery units, that would result in a D score. That said, if service delivery units were given six weeks also, the bureaus would need more time for consolidation of the proposals, and that would allow too much time at the expense of the time allowed for budget scrutiny with a negative impact on the scoring of PI-17.3.

92. The Education Bureau and the Health Bureau and related BIs answered on time to the BCC for the preparation of the EFY 2011 budget (refer to Table A7.20).

**Table A7.20: Budget requests submission dates**

Budget code	Name of public body	Submission date (FY)	Actual expenditure EC 2010, FY2017/2018 in ETB, millions
311	Education Bureau	30/5/2018	2,721,126,840
315	Kotebe Metropolitan University	29/5/2018	176,574,723
341	Health Bureau	29/05/2018	1,386,766,092
345	HIV Prevention and control office	28/05/2018	15,866,127
346	Zewditu Memorial Hospital	22/05/2018	146,297,297
347	Gandhi Memorial Hospital	31/05/2018	106,186,439
348	Tirunesh Beijing Hospital	17/05/2018	121,195,726

#### Guidance on budget preparation

93. A comprehensive budget circular is issued to budgetary units, which covers total budgetary expenditure for the full fiscal year. The budget reflects the woreda offices and administrative ceilings submitted to the woreda cabinet government. The cabinet's approval takes place after the distribution of the BCC to budgetary units but before budgetary units have completed their submissions. The same circular is sent to service delivery units and it also includes ceilings (not yet approved by cabinet).

94. Budget ceilings are communicated to health centers and schools in the beginning of the 11th month of the fiscal year (second week of May). According to the Budget and Planning Directorate of BoFED, operating budgets are estimated based on unit cost approach. The unit cost is based on

previous year actual costs. The number of patients served and the number of students are key parameters for setting the ceiling for operating budget. Salaries and allowances are budgeted based on available approved positions and applicable salary scales. Capital projects are budgeted at sector bureau level. Service delivery units often submit their detail budget within 10 days (around third week of May). The city approves the budget by the end of the fiscal year (July 7). Sub-cities often communicate their budgets in the second or third week of July.

95. Public participation at Dil Fire Health Center. Representatives of public organization (youth league, women league, and city dwellers forum), about 100 people, attended a meeting for draft budget discussion and the quarterly performance evaluation sessions.

96. Public access to information is provided at Kirkos Health Center. The quarterly budget performance reports are posted on notice board where the public can access it.

97. While the budget allocations are communicated on time, transfers encounter a lag of few months and thus predictability with regard to the actual receipt of their allocation is affected by these delays.

### Budget submission to the legislature

98. This dimension is the same as for PI-17.3 in the main PEFA report. The new fiscal year starts on July 8. Table A7.21 presents the dates of the budget submission. The executive has not submitted the annual budget proposal to the legislature at least one month before the start of the new year.

**Table A7.21: Dates of submission of the budget to the legislature**

Ethiopian calendar	European calendar	Dates of submission
2011	2018/2019	June 8, 2018
2010	2017/2018	June 27, 2017
2009	2016/2017	June 23, 2016

99. A comprehensive annual calendar exists which is also applicable to service delivery units. However, they submitted their budget proposals two weeks late. With reference to guidance on budget preparation, the cabinet's approval takes place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions. The same circular is sent to service delivery units, and it also includes ceilings (not yet approved by cabinet). The budget was submitted to the legislature with delay. In 2016/2017 and 2017/2018, annual budgets were submitted to the council within one and two weeks, respectively, before the start of the new fiscal year. In 2018/2019 however, it was done one month before the start of the new fiscal year.

## 7.6 Pillar V: Predictability and control in budget execution

### 7.6.1 PI-21. Predictability of in-year resource allocation

100. Service delivery units prepare annual cash flow plans. Cash flow forecast is updated quarterly based on actual inflow and outflow of cash and submitted to the city government, but cash transfer is made monthly. Sub-city finance office and woreda finance offices provide quarterly ceilings to woreda health and education units for expenditure commitment. Some of the visited service delivery units use the budget ledger (handwritten) to control commitment. Commitments are related to operating expenses only as capital expenditures are handled by sub-cities. Payment obligations are all within the approved budget limit. However, it is common to transfer a budget from one line item to another line item to respond to changes in price and priority. There are no expenditure arrears as a result of cash shortage. There is no practice of purchasing goods and services on credit. In times of cash shortages



(when internal revenue outturns are lower than the budget), the service delivery units request transfers from the sub-city. Budget adjustments are common to address unprecedented situations. For example, the budget of Jemo #2 Primary School increased significantly during the last year due to a large number of enrolments. Ethio-China School requested additional resources to maintain the school feeding program.

101. Sub-city finance office and woreda finance offices provide quarterly ceilings to woreda health and education units for expenditure commitment. These quarterly ceilings are in line with the approved expenditure for the year.

102. **Arada sub-city.** Cash flow forecast and planning as a budget implementation tool is not in use. What the finance team referring as a cash flow report is just a cash requirement request form summarizing the cash flow requests collected from woredas and service delivery units. Arada sub-city does not prepare a cash flow plan taking into account its cash balances to show the cash deficit for the period it requests for. The sub-city finance office may not often consider its cash balances when submitting cash requirement request to BoFED. The sub-city and all lower-level administrations and service delivery unit prepare cash flow plans that are updated on a quarterly basis. Monthly cash flow requests are filed for disbursement from the respective administrative structure level. Generally, the poor collection of revenue and unrealistic revenue plans result in cash flow shortages. It happens that BoFED may not send the required cash flow. There are three factors that may affect the receipt of requested cash flow: (a) when the monthly financial accounts are not closed in the IBEX system and submitted to BoFED by 7th of the following month; (b) if there is unaccounted budget variance, it needs to be cleared before the time of the next month transfer; and (c) if there is high cash balance in the accounts of the sub-city. Usually cash transfers are delayed by maximum 15 days, and this can occur each month depending on the conditions for cash receipt. In any event, all planned and requested cash is transferred at year-end. The sub-city does not prepare cash flow plans. They simply consolidate the cash flow request coming from lower-level units.

103. Sub-city finance office and woreda finance offices provide quarterly ceilings to woreda health and education units for expenditure commitment. This is in line with the adjusted budget due to in-year changes to the original budget. These quarterly ceilings are in line with the approved expenditure for the year.

104. Primary service delivery units prepare annual cash flow forecasts; these are updated quarterly based on actual inflow and outflow of cash. So, there is good practice of cash forecasting and monitoring. Information on commitment ceilings is received good time in advance—quarterly from BoFED. The predictability of in-year resource allocation is however jeopardized by significant and frequent budget virements.

#### 7.6.2 *PI-22. Expenditure arrears*

105. Service delivery units submit annual cash flow forecasts to the sub-cities after they receive the information on the approved budget. In addition, service delivery units submit quarterly cash flow requests, which are the basis for the actual cash transfers. In most of the cases, the service delivery units do not receive the operating budget for the first and second months of the fiscal year (Hamle - July) and (Nehassie - August). They receive them in the last week of August and the first week of September, that is, about two months later. For regular and urgent payments such as utilities, sub-cities transfer small amounts of money for immediate settlement. The approved budget for salaries is released monthly upon submission of the approved payroll sheets to sub-cities. Sub-cities transfer the payment to the accounts of the service delivery units, and the service delivery units transfer the salary to the bank accounts of the employees. There is no significant delay in cash transfer for recurrent expenditure other than the usual issues for the first and second month of every fiscal year.

106. As capital expenditure is not handled at the level of service delivery units (except hospitals and colleges), arrears do not occur. There are no arrears due to capital spending. There are also no expenditure arrears as a result of cash shortages because recurrent expenditure is always handled in a timely manner.

107. Procurement commitments are made only based on confirmation of cash availability. There are no arrears due to lack of cash. The ACOAG however indicated that there are long outstanding credit balances with insufficient supporting document to determine who the beneficiaries are. There is no evidence that the outstanding balances are associated to arrears.

108. **Arada sub-city.** During the year, there are no records of unpaid liabilities. Occasionally, short-term arrears (grace period payables) may incur at year-end when a contactor invoiced at time close to year-end. In any case, all due is paid by July 22. Therefore, there are no arrears and no aging of liabilities in the sub-city administration. It is to be noted (see regular PEFA, PI-22) that grace period payables can accumulate only from unpaid invoices to procurement contacts. The sub-cities are not allowed to borrow, and there are delayed payments to personnel. In case of cash flow shortages, salaries are priority payment funded from internal revenue sources.

109. There is no evidence of stock of expenditure arrears.

### 7.6.3 *PI-23. Payroll controls*

110. Service delivery may be affected by human resource management in the following cases:

- (a) When payroll payments are not timely
- (b) When newly recruited staff may require a couple of months to be entered in the payroll database
- (c) When the system does not prevent ghost workers and absentees to get paid

111. Strong internal controls over payroll expenditure contribute to the quality of service delivery. In this regard, there is no delay in the payment of payroll for new and existing staff, as a result of the payroll system in place. Terminated people do not continue to receive payments. However, no comprehensive payroll audit was conducted by external and internal audit functions. Payroll transaction audits are conducted as part of the financial audit mainly focusing on the accuracy of payroll computation and sometimes including a random verification of personnel records. The effectiveness of payroll controls in place is not subject to audit. The manual attendance system widely used does not guarantee that employees were on duty at the required time for delivering services.

112. BoFED is currently implementing a biometric attendance system, only at BoFED. The intention is to roll it out to other sector bureaus and woredas. Biometric attendance may ensure at least physical presence of employees. One critical element reported is high staff turnover. The key reason reported is internal transfers within the administration. Nevertheless, this affects efficient service delivery as new recruits have to be trained; training becomes expensive in terms of service unit cost. The usual update of payroll concerns only cases when staff is transferred to another location or service within the administration.

113. Payroll preparation starts on 15th day of the month. Some of the HR units issue a staff list to the Finance Unit and others do not. A payroll sheet is submitted to sub-cities on the 17th day of the month. Sub-cities transfer the cash to service delivery units by check. Service delivery units pay employees between 25–28 of the month. Changes to payroll data are communicated by HR in the same month. According to the ACOAG, the personnel file and database of some of the service delivery

units is not well organized, and there is a poor link between attendance control and payroll. No payroll audits are conducted. Salaries are paid on time. Staff turnover is also an issue at health centers.

114. **Arada sub-city.** There are 1601 teachers. The teachers are one of the groups of professionals that are known to have low remuneration. The salaries of the teachers are ETB 3100 per month, and other staff are paid ETB 2700. Support staff is paid ETB 2,000. Recently, with the introduction of fringe benefits for the teachers in the private and secondary schools, there are more and more teachers who stay in the profession, and there are even people migrating from the regions to Addis Ababa City to work as public schools' teachers. Another trend is the movement of teachers from private to the public schools. Of the teachers in Arada sub-city, 56 percent live in government-owned condominium houses. They pay rent significantly below market price—about 15 percent of the market price for a two-bedroom flat. The remaining 44 percent are expected to be housed under the same conditions in September this year. There are two buses, owned by the city government that teachers can ride free of charge.

### School grant

115. Arada sub-city receives school grants from GEQIP program. The budget allocated to the sub-city directly goes to schools. School grants are mainly received from GEQIP (a multi-donor trust fund) and UNICEF. As shown in Table A7.22, school grants are used for curriculum, (a) textbooks, assessment and examinations; (b) Teacher Development Program; (c) School Improvement Program; (d) System Management and Capacity Building Program; (e) ICT for Education Program; (f) program coordination, M&E, and communication.

**Table A7.22: School grants received by Addis Ababa city administration in ETB, millions**

	2015/2016	2016/2017	2017/2018
UNICEF	5.3	3.0	2.6
GEQIP	26.7	43.1	43.4
School grants	18.5	24.9	21.2
Other than schools	8.1	18.2	22.2

Source: Education statistics – Addis Ababa BoE.

116. The staff turnover in the health sector is low about 2 percent and it affects mostly nonprofessional staff. The salaries in the health sector are significantly better than in education. Professional staff is paid between ETB 7,000 and ETB 10,000, nurse – ETB 5,000, support staff –ETB 2,000, head of health center – ETB 7,000.

117. The integration of payroll and personnel records is good even if there is no direct link between personnel and payroll record. That said, the payroll is fully supported by appropriate and approved documentation, and any changes are done within the same month. Changes to personnel and payroll records are done monthly and do not result in retroactive adjustments. There are internal control rules which are applied with respect to the changes to the personnel database and the payroll. Both are modified with the authority of the head of service delivery unit. Payroll audit needs strengthening. Only partial payroll audits have been conducted; these are done as part of the usual internal and external financial audits.

### 7.6.4 PI-24. Procurement

118. There is a clear procurement threshold at service delivery level. More than 65 percent of the recurrent budget at service delivery units is allocated for salaries. Procurement value represents about 25 percent to 35 percent of the recurrent budget. All visited service delivery units have a procurement committee in charge of evaluating bid documents. Procurement expenditure is associated with

operating expenses such as school supplies, medical supplies, and certain services. About 50 percent of pharmaceutical products and supplies are purchased from PFSA on a direct (single) sourcing method. The remaining 50 percent is sourced from private suppliers mainly on competitive bidding. However, it is common to buy from a single source for vital medical supplies if they are out of stock at PFSA. This means that competitive tendering is not the usual method of procurement at health centers. Tender opportunities are posted on national circulated newspapers (mainly Addis Zemen) and evaluation results are posted at the notice board of the service delivery units.

119. Some of the service delivery units (25 percent) prepare annual procurement plans and submit them to sub-cities. They also submit quarterly procurement performance reports. Only some (25 percent) of the visited service delivery units prepare a procurement register (Hizbawi Serawit). Procurement complaints are managed at the service delivery level, and then escalated to the city government level, which is not an independent body.

**Table A7.23: Procurement method data for health and education sector in ETB for EFY 2010 (Gregorian FY2017/2018)**

		Open tender	Restricted	Request for quotation	Single source	PFSA	Total	% of open tender
1	Jan Meda Health Center	965,252	788,984		118,605	1,624,003	3,496,844	28
2	Hizbawit Serawit Primary School	722,698	62,123		225,927	—	1,010,749	72
4	DilFre	1,334,542		58,188		408,229	1,802,971	74
3	Kotebe Health Center	850,923	—		1,489,798	—	2,340,721	36
5	Jemo # 2 Primary School	396,085		65,360	85,681		547,129	
	Average							53

120. In addition to the data of the above health centers, Dil Fire Health Center procures 69 percent of medical supplies from PFSA including all donor project funded medical supplies. PFSA is the main supplier for Kirkos Health Center except for the cases when they need to purchase from private suppliers against evidence of stock out stamp (on the purchase request form) submitted by the health center. The health center gets a maximum 50 percent of the requested drugs from PFSA.

121. When medications cannot be supplied from PSFA and the health centers request from commercial suppliers, there are delays in procurement that may affect the treatment of patients. Moreover, out of stock is also common with private suppliers mainly because of the short supply of foreign currency in the country for the import of medical supplies. In the education sector, school books are often supplied to all students, one book per student.

122. There is a procurement register in Arada sub-city monitoring the value of contracts entered for each method. Table A7.24 shows the data provided by Arada sub-city and Finance and Budget Department that consolidate the data on quarterly basis for performance reporting purpose.

**Table A7.24: Procurement method data in ETB, billions for EFY 2010 (Gregorian FY2017/2018)**

	Procurement method	Amount in ETB, billions for EFY 2010	Share (%)
1	Open bidding	155,336,179	86
2	Two-stage	0	0
3	Restricted tendering	6,378,050	4

	Procurement method	Amount in ETB, billions for EFY 2010	Share (%)
4	Request for proposal	4,350,446	2
5	Request for quotation	10,551,122	6
6	Direct procurement	4,350,446	2
	<b>Total</b>	<b>180966243</b>	<b>100</b>
	<b>Competitive methods</b>	<b>176,615,797.00</b>	<b>98</b>

123. Table A7.24 shows that the prevailing procurement methods are the competitive ones representing 98 percent of all concluded contracts. It is to remark that the visited primary-level service delivery units show a much lower level of competitive tenders due to the fact that the health centers have to supply from EPSA as a priority supplier; in this case direct procurement is applied.

124. Procurement for capital expenditure is managed by the BoH and BoE and implemented at sub-city level. Therefore, it was not ascertained how much of the capital cost is related to procurement and what is the share of donor funding which may be an interesting trend to analyze. Procurement plans and procurement statistics are not published.

125. There are no statistics or records on contracts awarded at the primary service delivery level. Available data from service delivery units visited indicate that, on average, 52.5 percent of public procurement is done through open competitive method. Very little procurement information is made public; only tender opportunities are advertised in the national newspaper (mainly Addis Zemen), and evaluation results are posted at the notice board of the service delivery units. Procurement complaints management is not independent.

126. Overall, the problems shared by the service delivery units are that shortage of drugs is very common and PFSA often does not provide what the health sectors asks for. It happens that their last resort is the commercial suppliers providing medications and consumables at profit-making prices. This seriously affects the service especially when lifesaving medications are to be provided urgently. The planned resource allocation is impaired resulting in reallocation and contingency expenditure. The more profit-oriented incidental scenarios are implemented in the procurement for health and education sectors, the higher the variance in expenditure outturn, more frequent the reallocation of resources and the impact on frontline service delivery.

#### 7.6.5 PI-25. Internal control on non-salary expenditure

127. Generally, there is a proper segregation of duties in the payment and revenue collection procedures. There is a separation of functions between the preparation of disbursement vouchers, reviewing of payment requests, cashier function, and approval of payments. A budget account is also responsible to review payment requests for budget clearance. Checks are signed by two signatories, often the head of the service delivery unit and the finance head. However, due to limited number of staffs, some activities, which were supposed to be segregated, are done by one person only. This is akin to having one store keeper responsible for all store operations including documentation and having budget accountants also assigned for store keeper functions and property administration functions. In one of the visited health centers, the medical director and the finance head are the only signatories, which affects operations if they are absent. The internal control on inventory and fixed asset is largely weak in most of the visited service delivery units. The staff members have access to procurement manuals, financial management manuals, and property administration manuals.

128. Segregation of duties is clearly defined in laws and financial management procedures but not always adhered to due to limited number of staffs.

### 7.6.6 PI-26. Internal audit

129. The capacity and performance of internal audit unit varies between service delivery units. Except for one school,<sup>29</sup> all visited schools have one internal auditor and the health centers have two internal auditors. Internal auditors are accountable to the head of the service delivery unit and also to the inspection process owner of the respective sub-cities. The inspection process owner of the sub-cities is a branch of the Inspection Directorate at BoFED. Some of the internal auditors in the visited service delivery units are earning a very low salary (ETB 2,000 per month). Their terms of employment are temporary.

130. All of the visited internal audit units prepare annual audit plans. They cover more Balance Score Card PIs which are unrealistic in terms of measurement and had little to add to the internal audit outcome. The plans are not supported by a risk assessment. The usual internal audit topics include (a) own source revenue, (b) property audit, and (c) pharmacy audit. Most of them do not conduct a financial audit due to lack of experience. Though internal audit units in the health centers consider the pharmaceutical supplies as risk-prone areas, they do not conduct comprehensive audit due to lack of skills. The internal auditors are not aware of how to handle group accountability for any possible losses of medical supplies from dispensaries as multiple pharmacists are operating at a time.

131. At the time of assessment, a training called 'Auditable Pharmaceutical Transaction and Service' was ongoing. The internal audit unit expected that the training will improve auditing of pharmaceutical products.

132. Some of the internal audit units have not conducted inventory and property audit, as well as procurement audit. One of the visited schools indicated that they never issued an audit report because they do not have a computer but rather communicate the audit findings verbally.

133. The internal audit unit at Dil Fire Health Center employs two auditors. An annual audit plan is prepared and implemented in quarterly internal audit reports. The types of audits carried out are mostly transaction based including partial inventory audit. The management takes action on audit findings, but there is no practice of issuing a written response to the internal audit unit on action taken. The usual internal audit findings identify the following weaknesses: (a) poor system of inventory movements and tracing replacement and disposal, (b) no segregation of fixed assets and consumable in receiving document, (c) idle or unused fixed assets - not maintained or disposed, and (d) no practice of surprise count of stock of medical supplies. The auditors do conduct a follow-up audit to verify and update on status of previously issued audit recommendations.

134. Internal audit units are expected to produce at least four audit reports per year. They should cover internal control system issues identified by the risk assessment as prone to systemic gaps. Some of them have only issued one report in three quarters. They achieved 70 percent of their plan, and one internal audit unit did not report at all. Some of the visited health centers respond to audit findings within 10 days (Jan Meda) and others within 3 months. Findings are implemented in some of the internal audit units (Jan Meda). The performance of the internal audit function is also affected by employee turnover with 29 percent of vacant position in Addis Ababa city government.

135. Internal audit functions are extremely weak and do not meet internal standards. Internal auditors do not have the requisite technical capacity. The implementation of internal audits and reporting, in the visited schools and clinics, is not good in terms of achievement of planned audit activities. There is evidence of management of primary service delivery units providing written

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<sup>29</sup> Hizbawi Serawit Primary School does not have an internal auditor for the whole year, expecting a placement by the sub-city.



responses to internal audit findings, but the timing of these responses varies between 10 days and 3 months.

136. The role of internal audit in ensuring efficient service delivery is vital. In this regard, the presence of operational internal audit units in all BIs and primary service delivery centers, the overall implementation of audit plans, and the responsiveness of management on audit findings contribute significantly to the quality of service delivery. However, the limited application of the internal audit standards that are also in line with international standards, as well as the limited number of systemic audits undertaken and the limited coverage of existing performance audits, jeopardize the role of internal audit units in assessing service delivery performance.

## **7.7 Pillar VI: Accounting and reporting**

### **7.3.1 Annual financial reports**

137. Both health centers and schools are using either Excel spreadsheet or handwritten ledger cards and books for bookkeeping and reporting. BoFED has a plan to roll out IBEX to 112 health centers. There is no plan for the schools as the number is quite high. It is also not technically feasible to include all these reporting units in IBEX.

138. Schools and health centers submit financial reports monthly to sub-city. The report contains trial balances, summary ledgers for payables, transfers and receivables, budget execution report, trial balances, bank reconciliation, and copy of a bank statement and cash count report. The financial report does not contain information on list and value of property, plant, equipment, and inventory items. The service delivery units submit financial reports within seven days from the end of each month. Sub-cities enter the data they collected from the schools and health centers into IBEX. Hence, a consolidated financial report is available at Addis Ababa City level which includes schools and health centers.

139. Financial report of the BoH contains budget execution report, ledger summary for transfer, receivable and payable accounts, capital and recurrent expenditure report, and trial balance. The report does not contain statement of financial positions and cash flow statement. It does not also contain aging profile for payable and receivables; list of properties, plants, and equipment; and information on contingent liabilities. The BoH received a qualified audit opinion on the audit of its accounts for 2016/17 (last audited accounts).

140. The completeness of the annual financial reports is not high. They are comparable with the approved budgets and contain information only on revenue, expenditure, and cash balances. Primary service delivery units use the same accounting standards as that of the Addis Ababa city government which is also compatible with the federal government financial laws.

## **7.8 Pillar VII: External scrutiny and audit**

141. The financial audit coverage of the ACOAG is 47 percent. During the last completed fiscal years (2015/2016, 2016/2017, and 2017/2018), three hospitals, one health center, and two colleges were audited by the ACOAG. As shown in Table A7.25, 50 percent of the hospitals and 14 percent of the colleges have been audited during the last three years. Only one health clinic was audited by the ACOAG and no primary and secondary schools.

**Table A7.25: External audit coverage of service delivery units**

	Service delivery units	Total number of service delivery units	Audited during the last three years	Coverage (%)
1	Health centers	112	2	0.89
2	Hospitals	6	3	50%
3	Colleges	14	2	14
	Primary and secondary schools and preparatory (excluding kindergarten and '0' grade)	1,014	Nil	0

142. It has been indicated by the ACOAG team that the limited coverage of health centers and schools is mainly related to the manpower limitation with the ACOAG. Though the expenditure amount involved in each service delivery unit is small, the combined internal control risk is enormous and has been a concern to the ACOAG. External audit follow-up is weak and deficient at the level of primary service delivery units; the focus has been on sector bureaus and big spending units and agencies. The ACOAG is generally independent and has the freedom to prepare its audit plan and audit any government institution. Its budget is however approved by BoFED; actual financial resources are also limited. The ACOAG operates within the civil service laws.

### Health

143. The BoH received qualified audit opinion on the audit of the accounts of the BoH for EFY 2008 (2015/2016). The key audit findings are

- Long outstanding receivables (ETB 5.7 million) and long outstanding payables (ETB 0.73 million),
- Noncompetitive procurement methods (ETB 0.57 million),
- Unutilized budget of ETB 38.8 million from recurrent budget and ETB 62.1 million from capital budget,
- No depreciation computation,
- No comprehensive and complete asset identification system,
- Disposed items are not identified by type,
- Physical count was not reconciled with the asset register,
- Published book for public health promotion were not kept properly (scattered on corridors and verandas exposed to rainfall), and
- No bin card and stock cards for medical supplies and no physical count.

144. In the audit of donor-funded projects, the audit findings include advances for donor finance projects that were not settled timely, long outstanding receivables advanced to different public bodies within the city (ETB 7.8 million), procurement using a noncompetitive method (ETB 2.1 million), per diem paid contrary to the rules and regulations (ETB 0.59 million).

145. According to the audit report of the ACOAG on the audit of Zewditu Memorial Hospital, RasDesta Hospital, Tirunesh Beijing Hospital, Kazanchis Health Center, and Hidase Fire Health Center, common findings are



- Long outstanding receivables mainly attributed to advance payments to PFSA (Tirunesh Beijing and Zewditu hospital);
- Long outstanding payable account that includes a deposit by patients admitted to hospitals, which have been outstanding for three years;
- Use of less competitive procurement methods (while the procurement threshold required a request for quotation or open competitive procurement method). This is common for both health centers and hospitals;
- Underutilization of budget, which is partly related to personnel turnover and limitation of procurement process (Tirunesh Beijing hospitals underutilized 20 percent of its budget and Zewditu Hospital 48 percent.);
- Purchase from private companies without having stock out report from PFSA;
- Inability to audit fixed asset (due to lack of a fixed asset register and that assets were not provided with identification numbers). The data for the registered items is not complete;
- Unable to conduct medical supply distribution and movement (mainly lack of recording and physical count and lack of documents such as medical prescription copies and stock control cards);
- Sales of medicines without prescriptions, incomplete information about patients, without authorization signature of a dispensing pharmacist, and not indicating price on prescriptions (for example, Ras Desta Damtew Hospital);
- Weak internal control over fixed assets (almost all audited entities);
- Expired items not disposed timely (Kazanchis and Hidase Frehealth centers);
- Weak internal audit function at Kazanchis Health Center (insufficient staff and not implemented the ACOAG audit findings);
- No audit of own source revenue;
- Errors in accounting and recording, related to the modified cash basis of accounting;
- Sometimes financial reports are not extracted from ledger; and
- Poor accounting document filing (mainly with health center).

## Education

146. Financial reports including (a) revenue reports, (b) transfer, (c) receivables, (d) payables, (e) trial balance, and (f) expenditure report have been submitted for audit. The BoE received a qualified audit opinion for the audit of 2014/2015, 2015/2016, and 2016/2017. Internal control weaknesses identified are long outstanding receivable (UNICEF account), long outstanding payable, and underutilized GEQIP fund—about 35 percent).

147. The ACOAG conducted audit of the accounts of General Wingate Poly Technic College and Black Lion Secondary School. The common audit findings are

- Internal revenues collected from extension students are not properly captured, registered, and reported;
- Payables where beneficiaries are not identified (Tikur Anbesa and General Wingate);
- Long outstanding payables;

- Not withholding taxes in accordance with the tax law (Tikur Anbesa and General Wingate);
- Procurement not consistent with procurement policy and procedure (Tikur Anbesa and General Wingate);
- Accounting error (Tikur Anbesa and General Wingate);
- Per diem payments not supported by attendance sheets;
- Black Lion hospital management members paid to themselves part of a revenue collected from renting of hall;
- Payments made do not comply with rules and regulations;
- Payment for unbudgeted expenditure line items;
- Decrease in own source revenue budget outturn;
- No personal guarantor for employment;
- Unused capital budget (General Wingate – 27 percent of its capital budget) - unable to get supplier;
- No fixed asset register, no fixed asset identification, and no depreciation;
- Weak internal control on workshop assets - no physical counts, no stock card, and sometimes no store issue document prepared and signed when students and teachers receive items;
- Inability to audit payroll as the attendance sheet was not available;
- Some of external audit findings were not implemented;
- Internal revenues from colleges are not timely transferred to BoFED;
- No timely cash deposit to bank;
- Lack of job description on personnel files;
- No evidence of price list for extension school fees;
- Improper use and control of cash receipt vouchers; and
- No accounting and reporting for revenue collected from extension students (Black Lion Secondary School).

148. The audit coverage is low, 47 percent by value, and most primary service delivery units are not audited by the ACOAG mainly due to limited manpower. The external audit follow-up is weak and actually deficient at the level of primary service delivery units. The ACOAG is generally independent except for budget approval and allocation and recruitment of its personnel.

## 8. Conclusions

### *Pillar I: Budget reliability*

149. The actual budget expenditure for the last three years in the overall health sector is below the approved original budget. It varies between 79 percent and 89 percent. The reasons are like those found in this area by the main PEFA assessment: low performance and poor planning of the health centers. It is interesting to note that the sample of two out of the four health centers visited shows the opposite, that is, these particular health centers spend more than their approved original budget. It is known that the additional funds were secured due to the usual distribution of resource allocation

which is a common technique employed in general by the city government. The reason for this reallocation and increased spending for these particular health centers was necessitated by the purchase of lifesaving medical equipment. Even though this example may be an isolated case, and these two health centers represent an insignificant share of the overall health sector expenditure, it illustrates that the government administration is prepared to handle emergency needs in primary service delivery.

150. It is worth noting that, at an average of 84 percent for the three assessed FYs, the actual overall aggregate expenditure in the health sector is better than that for the city administration, which averaged 73 percent over the same period. This does not per se prove that the health sector is a key policy priority; however, a wider sample may confirm this very fact. While the sample shows a positive trend, the budget reliability is low in the overall health sector. The main reason for the deviation is poor planning and unclear strategic policy targets. Low budget reliability jeopardizes the ability of the city government to effectively and predictably allocate resources to strategic priorities.

151. The same pattern was found in the education sector with an overall aggregate expenditure outturn of 90 percent, and a 164 percent outturn for the sample of three schools. The education sector shows a much higher adherence of actual expenditure with the original budget than the overall city. Again, as the sample represents a small share of the overall education sector expenditure, it is too early to draw clear-cut policy implications.

### ***Pillar II: Transparency of public finance***

152. The data provided indicate that most of the budgetary activities of the service delivery units are covered in the financial reports. This is essential for aggregate fiscal discipline so that the resources are adequately managed.

153. The system of allocation and the timeliness of transfers to the levels below the City Government of Addis Ababa have an impact on the ability of the city government as well as any lower structure to achieve and maintain aggregate fiscal discipline and allocate the approved resources so that efficient services are provided. The system for allocating transfers associated with the education and health sectors coincides with the system for overall transfers. The transfers are not earmarked but are a lump sum per sector. This prevents tracking to primary service delivery units the donor funds granted for specific purpose and needs. Delays with the transfers to service delivery units exist, and they affect service delivery. The transfers are not managed well because they affect the way in which available resources are used. Some operating expenditure (except salaries) may be delayed in the month of July and August as transfers are delayed in the beginning of the fiscal year. The approved budgets are communicated to service delivery units in the third week of July and actual cash transfer for operating expenses often reach only in the first week of September.

154. Performance information for service delivery shows that health centers and schools prepare strategic plans. These do not all contain costing but do generally include KPIs to be achieved during the planning period. The strategic plans are developed on the basis of the respective sector strategy of the city government. They are the basis for the preparation of lower budget unit level strategic plans. Monthly performance reports on achieved targets are prepared by the health centers. Their distribution is facilitated by an online platform (District Health Management Information Software).

155. Transparency of public finance depends on whether information on government plans, positions, and performance is easily accessible to the public. Published information facilitates the ability of the public to engage with the government and understand how public resources are being used. When the information is available, it generates a dialogue among the interested stakeholders. The service delivery units in health and education do disclose their plans and performance

information, but to what extent this reaches the society in an accessible manner is yet to be grasped. The transparency of public funds information targets interaction with society. However, such interaction requires easy access to and easy processing of information, a mature civil society, specific sector knowledge, and opportunities for dialogue. Besides the notice board publication that is a well-established practice in Ethiopia in making the information public, the team has not come across other widely used means of publishing information on service delivery.

156. Allocating scarce public resources can be aided by the active involvement of interested stakeholders, especially civil societies, thus enabling the government to adopt more realistic fiscal policy options that address societies needs as much as possible.

157. Transparency of public finances, that is, through making fiscal information available to the public, encourages citizens to participate in the public policy debate and formulation and encourages fiscally responsible behavior. Publication of budget-related documentation is possible and relatively easy. There is no citizen budget, namely, a simplified version of the budget usually prepared by the MoF, which presents the budget priorities, programs, expenditure, and revenue in a simplified version accessible to the ordinary citizen.

### *Pillar III: Management of assets and liabilities*

158. The volume of public investment in health and education is very insignificant. Both sectors, which are frontline service delivery units in any society, enjoy a worryingly unfair share of the total capital budget for Addis Ababa City: with education at 7 percent and health at 2 percent. Total capital budget allocation is 53 percent of the overall city budget; of this, only 67 percent was realized in the last fiscal year 2017/2018. While in primary schools the capital budget outturn is higher than in other levels of education, the performance of the planned expenditure for investment is low: 40 percent in education and 33 percent in health. This implies that the development plans in health and education remain largely unrealized. Such a low achievement of plans affects the attainment of goals and as a minimum further narrows the quality and diversity of services provided in these sectors. Underutilization of recurrent and capital budget is also a recurrent finding on the ACOAG audit of service delivery units in health and education. The team has identified underspending of the planned investment budget as a serious bottleneck in service delivery. Unfulfilled construction plans have also been demonstrated by the fact that the construction budget for three hospitals was not utilized.

159. The statistics provided in the Appendix for the average number of students in a class indicate aggravated conditions for service delivery. With a national standard of 50 students per class, the sample shows an average of 61. This certainly influences the quality of teaching and the level of student achievement. The reasons behind these are the usual lack of qualified teachers triggered by low remuneration and difficult working conditions.

160. Just like for the city government level, the public assets management on the level of health and education sectors is not good. The usual weaknesses cover the lack of a fixed asset registers (if such exists, then it is not updated and well prepared), no asset identification numbers, and no annual physical inventory.

161. Newly purchased medical equipment is idle and not used to provide medical service due to various reasons of organizational nature. Poor internal control exposes the system to the risk of leakage of resources designed for educational purposes. Textbooks are for sale at times well above the cover price. The BoE is aware of the problem of textbooks being redirected from being delivered to schools to shops. It has nonetheless not undertaken any internal audit to assess the magnitude of the problem, or to take measures to eliminate the risk of breaking the values of the education system in the country. Schools are poorly equipped with essential facilities such as laboratories and libraries.

There is a good system of stock request and clearance for medical supplies. However, there is poor control of available stock of medical supplies and internal audit is unprepared to conduct inventories. This is evidenced by the lack of or an outdated fixed asset register in almost all audited service delivery units and poor or no practice in stock taking and recording which results in unreliable Fixed Assets Registers.

162. There is an unusual but good practice of redistribution of medical supplies of near to expiry date from health center to another of less stock with view of minimizing the unused and expired medical supplies.

163. It can be concluded that there is no effective management of assets for ensuring that resources owned by the city government are used efficiently and effectively in the implementation of policy objectives. This implies that the city government is not aware of assets that are not needed or not fully utilized. This prevents the city government from taking decisions on whether the assets should be transferred to other users, disposed of or exchanged. Poor asset management systems affect the quality of service delivery and hence the achievement of policy targets.

#### ***Pillar IV: Policy-based fiscal strategy and budgeting***

164. The medium-term perspective tool in the case of Addis Ababa city government does not appear to be a very useful framework for managing resource allocation. The deviation between MTEF and the actual approved budget in one of the visited schools averaged 30 percent for the last three years. This indicates that there is no great predictability in budget allocations and expenditure planning. Therefore, reallocations happen to be the usual recourse. Such practice in turn affects the prioritization of expenditure policy decisions of the city government. Although this is one isolated case, so that it cannot be generalized if the same practice applies to the other service delivery units in the sector, the main PEFA reports identifies significant composition variance in economic classification, which is indicative that the medium-term perspective on budgeting does not promote aggregate fiscal discipline by establishing forward year estimates that provide the baseline for future budget allocations. The good practice with service delivery units is that their forecast on strategies and policies extends well beyond the current budget year, but the usefulness of the medium-term perspective is rendered ineffective by large recurrent reallocations of expenditure during the year.

165. The assessment shows that there is a 30 percent deviation between MTEF forecast and the actually approved budget for the three assessed fiscal years in one health center. This implies that MTEF is not a reliable and comprehensive tool in policy-based strategy and budgeting. Conclusions on a wider scale in this area would require more data in the health and education sectors.

166. The budget process is orderly and ensures that there is adequate time and information on procedures to allow budget proposals to be developed considering important factors with the exception of aggregate ceilings that are defined by the cabinet after the issue of the budget calendar. There is not sufficient information in advance of preparing budget proposals, and the time to make budget proposals is not adequate. As a result, many service delivery units do not meet the deadlines in the budget calendar. This in turn triggers delay and results in late submission of the Addis Ababa city government budget to the city council.

167. This increases the likelihood that the overall budget discipline is not respected, and thus, delays in funds availability may affect the service delivery.

### *Pillar V: Predictability and control in budget execution*

168. While predictability for in-year resource allocation is working well in the main PEFA assessment, the examples of service delivery units show that availability of actual cash for payment of expenditure remains a challenge. This situation obviously has a negative impact on timely payment for goods and supplies. The main PEFA assessment reports generally good cash management system on the level of the city administration, with cash flow forecasts being prepared before the beginning of the fiscal year and updated on the basis of actual cash flows. However, exploring further how cash management is functioning at the level of frontline service delivery units, the system shows gaps and cases of cash shortages. This implies that the cash management system is weak and cannot accommodate the cash needed for services on time. Other aspects that contribute to the system's flaws are the cases of delayed transfers and the fact that cash balances are not reconciled on a frequent basis. The lack of liquidity information affects the daily routine activities in the assessed cases in health and education. Presumably, further study of other budget sectors may reiterate the same finding or identify additional issues.

169. Shortage of cash is handled on a case-by-case basis within the authority and capacity of the sub-city administration. The service delivery units do not resort to borrowing and do not thus incur expenditure arrears as a result of cash shortages. The service delivery units (health centers and schools) also receive quarterly ceilings for expenditure commitment.

170. Capital expenditure management is not the responsibility of the service delivery units (except for hospitals and colleges); therefore, expenditure arrears are not incurred at this level. Cash shortages do not trigger expenditure arrears because recurrent expenditure is always handled on time.

171. The payroll control function has implications both for fiscal discipline and service delivery. It should be ensured that payroll expenditure is in accordance with the laws and the authorized allocations. The payroll control is good as far as fiscal discipline is concerned. It does not result in unintended expansion of payroll costs or unpaid obligations to employees. The weak area is the internal control system for the payroll. The payroll audits conducted in the assessed health and education service delivery units reveal issues of risk to the internal control system and most importantly such that directly affect the quality of the service delivery. Having idle medical equipment meant to support the medical professionals in their diagnostic or therapeutic practice certainly lowers allocative efficiency of resources, whereas having operational facilities will increase the capacity of the health center, reaching more patients and delivering a better service. Staff turnover is high in the entire administration, but particularly in the health sector. Lack of facilities and incentives and low remuneration demotivates staff and may also trigger unauthorized behavior of staff to compensate for low salaries.

172. Procurement constitutes a significant part of government expenditure and is strongly linked to the quality and timeliness of service delivery. Value for money and fiduciary integrity cannot be attained if the procurement monitoring and reporting systems are not prudent. The lack of public access to complete, reliable, and timely procurement information including procurement statistics, data on resolution of procurement complaints, and procurement plans limit the transparency of the procurement system.

173. While nearly 80 percent of procurement is competitively tendered in the overall Addis Ababa city government administration, the assessed health centers show that due to the specificity of the health sector and the need to procure lifesaving medication, the usual method is single source purchase. The average rate of open tenders in procurement for the sample is 52 percent, which is below the PEFA threshold of 60 percent. The key medication supplier is PFSA, an independent agency supervised by the Ministry of Health. It is established by proclamation and makes profit to expand its



operations. All health establishments are required first to get a stock out clearance from PFSA before they decide to buy from private suppliers. So, in case the required medical supplies are out of stock at PFSA, then commercial suppliers are resorted to. Knowing that usually 50 percent of the requests are stocked from PFSA, the remaining part is procured from commercial suppliers at higher price. This increases spending on medical supplies, as well as the likelihood of being unable to pay for emergencies and maintain a regular stock of medical supplies. A higher quotation of secured deliveries from the supervised agency PFSA would be more beneficial for primary service delivery, especially considering the unmet demand for lifesaving medication.

174. Internal controls for non-salary expenditure are well designed and highly complied with. This provides assurance that performance is as intended, and the allocated resources are used only with appropriate authority. The assessed service delivery units demonstrated that as far as internal control is concerned, fiscal discipline is maintained, the resources are allocated as intended, and service delivery has access to and uses the resources for the purposes provided.

175. The internal audit function does not use a comprehensive and systematic approach to evaluate and improve the effectiveness of risk management, control, and governance processes in the assessed health and education service delivery units. There is an internal audit unit established in all health and education service delivery units, the exception being one school. Professional standards are not applied, and risk assessment is not the approach employed to define the annual internal audit topics. The internal audit practice is still in process of being developed and hence covers limited issues of internal control system nature. For example, the adequacy and effectiveness of the internal control system are only partially evaluated, and so is the safeguarding of assets and the effectiveness and efficiency of operations and programs. The application of the ISPPA would contribute to a more professional internal audit approach, especially in the areas of sufficient mandate, power to report, use of professional audit techniques (risk assessment), formalized process of management response, and corrective action for identified systemic weaknesses. The poor practice of internal audit both in the overall Addis Ababa city government and in the assessed health and education sectors hampers service delivery.

#### ***Pillar VI: Accounting and reporting***

176. Annual financial reports are critical for the accountability and transparency of the entire city government administration. They support the city governments in achieving fiscal discipline, ensuring that resources are allocated to strategic priorities and assessing the efficiency of service delivery. The situation assessed in the selected service delivery units show that mostly the reports produced contain the basic financial information of receivables and payables, transfers, treasury operations, and cash reconciliation, but they all lack records of acquisition and value of plants and equipment. The reports of the health units do not disclose cash flow statement as well. The general weakness is in the lack of records on and management of assets and liabilities. Medical equipment is often either not functioning or has not been commissioned after purchase. Omitting such equipment items from financial reporting and hence management analysis and decision making renders the purpose of such facilities futile. The AFSs of the BoH, BoE, and service delivery units are insufficient in terms of presenting basic financial statements including statement of financial position, cash flow statement, disclosure on financial assets and liabilities, and nonfinancial assets. Members of the public cannot benefit from the intended services for which public funds were spent.

#### ***Pillar VII: External scrutiny and audit***

177. There is a very limited coverage by external audit of the health and education sectors. The reasons are insufficient qualified human resources (auditors) in the ACOAG. The external audit covered 50 percent of Addis Ababa City hospitals over the last two years. However, the independent

oversight of financial accountability is highly insufficient in the education sector: 14 percent audited colleges and nil primary and secondary schools.

178. The external audit reports produced by the ACOAG for both sectors indicate serious weaknesses, omissions, and malpractice in almost all areas of public finance management, the key ones being long outstanding payables and receivables, low performance of capital budget, inadequate accounting and reporting practices, weak system of assets and liabilities management, incomprehensive treasury practices, HR organizational matters and personnel development. All these seriously undermine the budget creditability and the allocation of resources and in turn inevitably impair the quality of service delivery.



## Appendix to Service Delivery Module

**Table A7.26: Basic Information on visited service delivery units**

	Name of school	No of student			Number of teachers			No of class room	Ratio: student / class
		Male	Female	Total	Male	Female	Total		
1	Jemo #2 Primary School								
	Kindergarten			1,085		40	40	21	51.6
	Grades 1–8	1,436	1,535	2,971	20	83	103	43	69
2	Hizbawit Serawit Elementary School								
	Kindergarten and grades 1–8	1,087	1,381	2,468	41	58	89	40	61.7

**Additional people met for the service delivery assessment**

Name	Position	Organization	Telephone
Gashaw Ayalew	Medical Director	Jan Meda HC	
Firtuna Belay	Pharmacist	Jan Meda HC	0913 299860
Elisabet Kebede	Finance Officer	Jan Meda HC	
Etabez Abebe	Store Manager	Jan Meda HC	
Bekelech Berhane	Internal Auditor	Jan Meda HC	0923 810432
BekaluTerefe Fekadu	Procurement	Jan Meda HC	0923 25 3577
Fikru:	Procurement	Jan Meda HC	0910 155848
Tashegwork Abebe	Senior Finance Officer	Hizbawit Serawit Elementary School	0913210540
Tadelech Assefa	Senior Finance Officer	Hizbawit Serawit Elementary School	0913059407
Tatek Derese	Purchaser -	Hizbawit Serawit Elementary School	0911114380
Hilina Sitotaw	Medical Director	Kotebe Woreda 9 HC	
Kidist Aklilu	Finance Process Owner	Kotebe Woreda 9 HC	0912 236916
Fikru	Budget and planning officer	Kotebe Woreda 9 HC	0910 / 658906

## Annex 8: GRB pilot

### Background

The Federal Government of Ethiopia began working toward mainstreaming GRB into PFM more than a decade ago, with assistance from DPs, mainly UN Women and UNICEF. The government, with assistance from DPs, developed a training manual in August 2012 as well as a national guideline on GRB in November 2012. So far, training and capacity building for sector BIs have been provided on how to incorporate gender responsiveness into the planning, budget formulation, and preparation phases. Nonetheless, no concrete output has been achieved in this direction except the training programs. It is important to note that both the country's and the city's PFM legal framework makes provision for the inclusion of gender issues into the planning and budgeting process, which is yet to be implemented in the processes.

No.	Pillar	Disaggregation of data required	Responses/information gathered
1	<b>Pillar II. Transparency of public finances</b> PI-9 public access to key fiscal information	Segregated data reports from the FTAs on access to information to women  Information, if any, on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed	No. There are no such reports.  Information is available on the fact that women attend the public hearings but not on how many women attend nor on to what extent their questions and needs are considered.
2	<b>Pillar IV. Policy-based fiscal strategy and budgeting</b>  PI-15. Fiscal strategy  PI-15. 2 Fiscal strategy adoption.  PI-17. Budget preparation process  PI-17.2. Guidance on budget preparation	Does a published fiscal strategy exist that includes quantitative fiscal goals and qualitative objectives from GEWE?          Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting?       Does the guidance on budget preparation request for a breakdown of outputs/activities and their budgets by gender and to what extent that is complied with?   Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives from the MoF?	No. There is also no published fiscal strategy. However, the seventh pillar of the GTP II is focused on gender issues. GTP II provides quantitative data on gender parity in the education sector and sets quantitative targets. The strategy document also mentions targets for gender on certain health indicators including prenatal and postnatal care coverage. The GTP II document indicates gender elements in other sectors as well. The GTP also provides quantitative targets to increase women's roles in political leadership and decision making.  Yes. The legal framework for public finance for the city of Addis Ababa—the Proclamation to Provide for the Financial Administration of the Addis Ababa City Government—under Article 9, on the Format for Macroeconomic and Fiscal Framework and Annual Budget Preparations and Submissions, foresees that gender issues shall be considered during budget preparation.  No.  No. The budget call circular and the budget manual do not include specific issues related to gender. Therefore, both the budget formulation and preparation stages do not consider such specific issues.

No.	Pillar	Disaggregation of data required	Responses/information gathered
		Do implementing entities prepare their annual action plan and budget report according to the guidance provided on gender segregation?	No. The budget guidelines do not have gender-specific requirements. However, some implementing entities prepare annual action plans with disaggregated data on gender. The Kirkos Health Center's annual action plan, for instance, identifies how many women are expected to receive maternal health care per year. These data are s in the Health Management System. This was also the case at Dil Fire Health Center.
		Integrated and reflected gender equality and equity government commitments on a budget speech	No. The budget speeches do not include specific gender issues.
3	PI-18. Legislative Scrutiny of budgets PI-18.1: Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender?	No. The scope of budget scrutiny does not include the budget allocated to gender since there is no specific line item on gender. However, there is a specialized committee on gender, women, and children at the City Council that considers the interests of gender and women during the budget scrutiny process.
		To what extent the women, children, and youth standing committees in parliaments and regional councils are involved in analyzing the budget from a gender perspective?	The city council has a standing committee on women, children, and gender. This committee is actively involved in the budget scrutiny process to ensure that the most vulnerable in the society (women, children, youth, and the disabled) are covered in the social intervention programs, even though there is no specific line item budget on gender.
		To what extent are their feedbacks considered in the revision of draft plans and budget?	Yes. The feedbacks from the women, children, and youth committees are considered in budget revisions. However, the availability of fiscal space as well as city government priorities potentially override the feedbacks on budget revisions.
4	<b>Pillar VII. External scrutiny and audit</b> PI-30: External audit PI-30.1: Audit coverage and standards	Are gender-based performance audits conducted?	No gender-based performance audit was conducted in the last completed fiscal year. The Performance Audit Manual does not provide guidance on conducting a gender-based audit. Hence, the performance audit does not assess the effectiveness and responsiveness of existing PFM policies, strategies, proclamations, directives, and internal control procedures to gender and also the extent of implementation of gender-based budgets.
		If yes, for which sectors was it conducted and how were the findings used to strengthen programs of sectors?	