Federal Government of Ethiopia

Ministry of Finance and Economic Development

Public Finance Management Assessment Tigray Regional Government

Based on the Public Expenditure Financial Accountability Framework (PEFA)

June 2015

Currency and Exchange Rates

Currency unit = Ethiopian birr (ETB)

US$1 = ETB 20

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

EFY 2005 = Gregorian FY 2013 (July 1, 2012–June 30, 2013)

In this document the term *FY* refers to the Gregorian fiscal year and is not the same as the term *EFY*.

Ethiopian Fiscal Year (EFY)	Gregorian (European Year Equivalent - FY)
2003	2010/2011
2004	2011/2012
2005	2012/2013
2006	2013/2014

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Abbreviations and Acronyms

BCRT	Bureau of Construction of Roads and Transport
BI	Budget Institution
BoE	Bureau of Education
BoFED	Bureau of Finance and Economic Development
BoH	Bureau of Health
BPR	Business Process Reengineering
CBA	Committee for Budget and Audit
COA	Chart of Accounts
CSA	Central Statistics Authority
CTA	Central Treasury Account
CBE	Commercial Bank of Ethiopia
EFY	Ethiopian fiscal year
DP	Development Partner
EMCP	Expenditure Management and Control Program
ESDP	Education Sector Development Program
ETB	Ethiopian birr
FDRE	Federal Democratic Republic of Ethiopia
FINNIDA	Finnish International Development Agency
GFS	General Financial Statistics (IMF)
IBEX	Integrated Budget and Expenditure System
IA	Internal Audit
ID	Inspection Department
JBAR	Joint Budget and Aid Review
MEFF	Macroeconomic and Fiscal Framework
NBE	National Bank of Ethiopia
ORAG	Office of Regional Auditor General
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PBS	Protection of Basic Services (and later, Promoting Basic Services)
PI	Performance Indicator
PIU	Project Implementation Unit
PSCAP	Public Sector Capacity Building Program
SIGTAS	Standard Integrated Tax Administration System
SNNPR	Southern Nations and Nationalities Peoples' Region
TBPF	Tigray Bureau of Plan and Finance
TOR	terms of reference
TNRS	Tigray National Regional State
TRG	Tigray Regional Government
TSA	Treasury Single Account
VAT	Value-Added Tax
WPFO	Woreda Plan and Finance Office

Summary Assessment

Integrated Assessment of PFM Performance

This is the first Public Expenditure and Financial Accountability (PEFA) assessment of the Tigray Regional Government (TRG). A summary of scores is provided at the end of this chapter.

Summary of scores

The scores, excluding the donor practice (DP) scores, are distributed as follows: 6 A; 13 B and B+; 7 C and C+; 5 D and D+. About 60 percent of the 29 scores (i.e. excluding the DP scores) are B and above. Performance indicator (PI) 7 has a strengthening trend, meaning the score should be higher in the next Public Expenditure and Financial Accountability (PEFA) based on actions currently under way. The two donor practice scores are C and "at least C", for D-2 and D-3 respectively.

Budget credibility

The budget appears credible in aggregate terms (PI-1) if allowance is made for MDG fund-related advances for capital expenditure that had not been retired prior to the end of the fiscal year. If this allowance had not been made, the score for PI-1 would have misleadingly been D, not B. High ratings for PI-3 (revenue performance) and expenditure arrears (PI-4), reflecting strong internal controls (PIs 18, 20), also point to good budget credibility on aggregate.

In disaggregated terms, budget credibility appears less credible for PI-2 (variance in composition of expenditure), but the low score of D+ does not necessarily detract substantially from credibility. As in other regions, the original disaggregated budget seems to be regarded as being temporary only, the meaningful one being the adjusted one at mid-year. The low rating applies even after taking into account rapidly increasing MDG fund-related advances to the sectors covered by the Protection of Basic Services (PBS) program that had not been retired by the end of the year. As with other regions, the Tigray Bureau of Plan and Finance (TBPF) claims that uncertainties in estimates of domestic revenue collection for the current year, in addition to external financial resources and cost estimation during the budget preparation period, result in budget adjustments after the budget is approved and that it is the mid-year adjusted budget that should be the reference point for assessing budget performance. Reallocations tend to be made from the contingency budget, and/or budget institutions (BIs) that are underperforming relative to their approved budgets, to those that are over-performing and need more resources.

The budget preparation process (which received a high rating under PI-11) has laid the groundwork for establishing a robust medium-term perspective to budgeting (which currently has a low rating under PI-12) over the next few years. Such a perspective would strengthen the linkages between spending and policy objectives and help to firm up both cost and revenue estimates in support of the annual budget preparation process, thus strengthening credibility. The Federal Government is leading the way through its establishment of a program budgeting framework, currently being piloted in Southern Nations and Nationalities Peoples' Region (SNNPR).

Good revenue performance has supported budget credibility (PI-3). With the exception of FY 2012/13, revenue outturns have exceeded approved budgets, even though budgets increased significantly each year. The forecast for FY 2012/13 appears to have been overly optimistic; however, taxpayer education programs, the introduction of block management schemes (PI-13 (ii)) and registration drives, biometric fingerprinting for all potential taxpayers (PI-14 (i)), and the strengthening of tax audit are helping to strengthen voluntary compliance and reduce the extent of tax arrears (PI-15). The establishment of city administrations in FY 2010/11 with the power to earn their own revenues appears to have contributed to good performance.

The budget execution system is predictable and well controlled, thereby contributing to a credible budget by providing financial resources for BIs when they need them and preventing significant payments arrears and misuse of funds. BIs are able to commit funds over a multiple month time horizon with a high degree of assurance that funds will be available for payments. This has been facilitated by robust cash flow forecasting (PI-16) and cash management (TSA-Z account system, PI-17), strong internal controls (PIs 18-20), good domestic revenue performance (as noted above), the in-year predictability of the block grant from the Federal Government (HLG-1), which provides the bulk of the Tigray Regional Government's (TRG) financial resources, and minimal fiscal risk posed by public enterprises and woreda governments (PI-9, see below). Open tendering is now the norm for procurement, thus helping to keep costs within budget.

Comprehensiveness and transparency of the budget (PIs 5-10)

Strengthening fiscal transparency is a major priority for TRG, as for other regions. The Fiscal Transparency and Accountability Program (FTAP), established in EFY 1999 (FY 2006/07) by the Federal Government, has been the main vehicle for strengthening transparency. Each woreda has its own FTAP team. Specific methods of communication include a continuous radio program, members of the Regional Council visiting TRG-financed projects, holding constituent meetings every February to March, and communicating with the public in general (also referred to in PI-27).

Nevertheless, the public's ability to hold the Government accountable for its expenditures is lower than it could be (low ratings for PIs 6, 7, 23, 24, and 25). The comprehensiveness and transparency of the budget could be higher, despite considerable strengthening in recent years. True credibility requires that all planned and actual spending on goods and services for which the regional government has a mandate to provide should be well publicized and covered in proclaimed budgets, budget execution reports, and annual financial statements to the extent possible. A lack of transparency allows for misallocation of resources.

Development partner (DP) funding of projects or programs (PI-7) is transparent. Significant DP funding is embedded in the block grant to TRG from MoFED, by virtue of DP assistance to the Protection of Basic Services (PBS) program in the form of budget support. This funding track is transparent. However, information available to the public on DP-funded projects has been limited and nontransparent (PI-7), although it has become less so in recent years, starting in FY 2012/13 (EFY 2005). DPs provide substantial assistance to Tigray, which should all be reflected in proclaimed budgets, executed through the government's standard budget execution procedures, and reported on and accounted for using government procedures.

The most that seems to happen, however, is that some DP-funded projects (known as Channel 1b funding, whereby DPs channel funds directly to TBPF) are included in proclaimed budgets and budget execution reports. For Channel 2 and 3 projects or programs, DPs bypass TBPF and provide assistance directly to sector bureaus or to projects or programs. TBPF claims that such assistance is only a small proportion of total assistance to the Tigray National Regional State (TNRS), but it is difficult to verify this with certainty as TBPF does not receive information on such assistance from the sector bureaus and DPs. Transparency has improved to some extent, however, with regard to NGO operations, which must now report to TBPF.

A number of DP-funded projects or programs (e.g., the Public Safety Net Program (PSNP)) are being implemented in Tigray Regional Government (TRG) under the Federal Government's budget; the funds are channeled to MoFED and then to TBPF through channel 1a. The amounts involved are large. A transparency issue arises, as the public services being delivered under these projects or programs fall under the mandate of TRG and thus, ideally, these projects and programs should be part of TRG's budget.

The potential fiscal risk posed by government entities that fall outside the budget appears to be low (PI-9). The regional government owns only a handful of enterprises, which do not require government subsidies and the finances of which are monitored by their parent bureaus and by TBPF. The financial situation of woreda governments is monitored closely by their parent zonal administrations.

Internal controls and audit:

1. Payroll controls (PI-18) appear to be robust. The main issue is that a comprehensive payroll audit (integrated audit of both personnel records and the payroll preparation process) has not yet been conducted due to capacity constraints. Only partial audits that look at these two areas separately have been conducted.
2. Expenditure commitments (PI-20 (i)) are formally controlled by BIs according to the remaining uncommitted ("unencumbered") budget balance, as specified by the Financial Administration Proclamation. Commitments with a time horizon of up to 3 months for payment are also controlled by the rolling monthly cash expenditure limits derived from the cash flow forecasting system (PI-16 (i)). Proposed commitments with a longer-term payment horizon (e.g., bulk purchases, capital projects) are formally controlled according to the remaining uncommitted budget balance, but the timing of the associated payments is covered by BI's cash flow forecast, which underpins the cash expenditure limit for the months for which payments are due.
3. The other non-payroll internal control systems are comprehensive (PI-20). Understanding of them has strengthened in recent years through the issuance of guidelines or directives, the holding of training programs for staff, and the establishment of Public Finance Management (PFM) Reform Steering Committees at the regional and woreda level (PI-20 (ii)). Compliance with rules and regulations is generally good, partly because of increased understanding of them. The ORAG reports identify instances of noncompliance that tend to be common across BIs, mainly due to insufficient understanding of the rules rather than systemic efforts to evade them (PI-20 iii).

4. Procurement (PI-19) is regulated and monitored by the Procurement and Property Management Core Process in TBPF. This is not yet routinely receiving procurement operations data from procuring entities. A table specially compiled by TBPF indicated that 90 percent of the value of contracts was awarded through competitive bidding in EFY 2005 (FY 2012/13). The Bureau of Education confirmed that this was roughly the same ratio for its procurement operations. The Core Process does not yet conduct procurement audits and internal audit functions are only just beginning to develop in BIs. The Core Process is due to be converted into a separate regulatory agency.

   The Complaints Review Committee (CRC), located in TBPF, is the second stage of appeal against the procurement process (the first stage is in the procuring entity itself). The procurement proclamation does not explicitly provide for an independent appeals process, but in practice, the CRC operates independently, with the TBPF (BoFED) head not having any approval authority.

5. The internal audit function (PI-21) has strengthened in recent years. Through its monitoring of the performance of internal control systems, it can identify to management any issues with these, so that management can then take mitigating action. This ideal has not been fully achieved, but progress is being made in this direction. Retaining skilled staff poses a major challenge.

Accounting, recording, and reporting (PIs 22-25)

These systems are generally supporting transparency, helped by the integrated budget and expenditure management system (IBEX, albeit with limitations. Connectivity problems beyond the control of TBPF have resulted in electronic linkages being established only partially between sector bureaus or woredas and TBPF (through WoredaNet). Manual processes are once again being used, to some extent. The DPs, broadly speaking, have not been using the TRG accounting and reporting systems, resulting in incomplete in-year budget execution reports and annual financial statements. Starting in FY 2012/13, some progress is now being made by DPs toward using these systems. A further issue is delays in clearing suspense accounts and advances (PI-22 dimension ii), resulting also in incompleteness in the annual financial statements.

TRG is not yet using the International Public Sector Accounting Standards (IPSAS), as indicated by a C rating for dimension (iii) under PI-25. It is planning to adopt them in the near future, in line with a very recent decision by the Federal Parliament that IPSAS should be adopted. Compliance with these standards would help strengthen transparency.

External audit and legislative scrutiny functions (PIs 26-28)

The external audit function is strengthening (PI-26). Follow-up efforts are rigorous, partly because management is taking greater interest and being more responsive to audit findings. Retaining skilled staff poses a major challenge.

Performance under PI-27 (review of the draft budget) is hampered by what appears to be insufficient time to review the draft budget, relative to the PEFA Framework standard, earning a D rating for dimension (iii) and a D+ rating overall. Performance under PI-28 (review of audit reports) is good, and the extent of the preparation of recommendations and follow-up on whether they are being implemented appears to be particularly strong. The recent establishment of a high-level forum comprising members across government appears to be bearing fruit in terms of exerting pressure on budget institutions to implement audit recommendations.

Crosscutting issues

Significant rates of staff turnover are exacerbating capacity constraints, thereby limiting TRG's ability to implement PFM reforms. Skilled staff members appear to be lured away by significantly higher salaries and better working conditions in the private sector and DP agencies. The problem seems particularly acute in relation to the internal and external audit functions (PIs 21, 26), which are strengthening, but the pace of strengthening is being held back. As in other regions, solutions to this problem are proving to be hard to devise and incorporate into the Expenditure Management and Control Program (EMCP).

Internet connectivity appears to have weakened in recent years. This is a national issue beyond the control of TRG. Sector bureaus are still not connected electronically to TBPF through IBEX, so IBEX is being used on a standalone basis in bureaus, thereby hindering the timely generation of accurate budget execution reports and accounts and slowing down the process of providing fiscal information to the public via the Internet. The expansion of the Standard Integrated Tax Administration System (SIGTAS) is also being delayed, which impedes the strengthening of revenue administration under PIs 14 and 15. Fiscal information is therefore less readily available to the public.

Assessment of the Impact of PFM Weaknesses

Aggregate fiscal discipline: Aggregate fiscal discipline is good, as implied by the rating for PI-1 and the fiscal outcome table (Table 2.1) in Chapter 2. Reliable and timely receipt of the block grant from MoFED, the grant comprising the bulk of TRG's financial resources, supports aggregate fiscal discipline, but robust expenditure controls are also an important factor in preventing the emergence of expenditure arrears, which would represent fiscal indiscipline. Routine monitoring of the financial situation of State-owned enterprises and woreda governments helps to contain any possible fiscal risk posed by these entities (PI-9).

Strategic allocation of resources: The absence of a medium-term perspective to budgeting is hindering the rational strategic allocation of resources (PI-12). As a first step, estimated expenditure projections must be prepared, showing the projected costs of implementing current levels of service in the future. Fiscally realistic costed strategic sector plans also need to be developed that would form the basis for allocating financial resources to "new" spending above the estimated projections.

Operational efficiency: Internal control systems appear to be strong, thus supporting operational efficiency by lowering the risk of wasteful spending and diversion of funds. Use of open competition in procurement appears to be the norm, indicating that the procurement system is achieving value for money. An independent procurement agency is in the process of being established, which should further underpin the use of open competition as being the norm in terms of choice of procurement methods. Once established, one of its priorities would be to establish a monitoring and procurement audit system. Another need is to continue to strengthen the internal audit system in BIs so that internal auditors can play a strong role in checking that procurement procedures are being followed.

PFM Reform Program

Led by MoFED, the EMCP has been the main vehicle for implementing PFM reforms at all levels of government and continues to play this role. A PFM reform-specific donor group, co-chaired at the time of the assessment by DFID and the World Bank, liaises closely with MoFED and organizes financial and technical assistance in support of EMCP implementation. The Joint Budget and Aid Reviews (JBAR) are a further monitoring and coordinating mechanism, serving as a platform for federal and regional governments and donor partners to review the reform plans and achievements and to resolve issues. Chapter 4 elaborates on key PFM reforms already implemented or being implemented over the past few years, discussed in more detail in Chapters 2 and 3.

Role of Development Partners

Apart from playing an important role in supporting PFM reform, development partners (DPs) also finance numerous projects or programs in the regions in support of improvements in basic services. Much of the financing has been provided through the PBS program, essentially, taking the form of budget support integrated with the block grants provided by MoFED to regional governments, which then budget for and spend the funds using their PFM systems.

DPs also provide significant support through standalone projects and programs. Much of this is through Channel 1 programs (e.g., the PSNP), which are Federal Government programs being executed by regional and woreda governments, with the funds channeled to TBPF by MoFED. Ensuring transparency in these programs is the responsibility of the Federal Government.

A significant portion of DP aid is also provided through Channel 1b, whereby DPs provide funds directly to TBPF, which then disburses the funds to sector bureaus and woredas. Transparency has been limited. The planned use of the funds is usually included in the proclaimed budgets, but the actual use tends not be reported on as the programs or projects do not use the IBEX codes. In general, they do not use the regional government's PFM systems. The two donor practice indicators, D-2 and D-3, receive a low rating.

Another challenge arises owing to the fact that a portion of DP aid is provided through the Channels 2 and 3. Under Channel 2b, DPs send funds directly to sector bureaus, bypassing TBPF in the process, and the funds are not proclaimed in the sector bureau budgets. The bureaus may or may not report to TBPF on planned and actual spending, resulting in limited transparency. Some DPs channel aid directly to projects, bypassing the sector bureaus as well as TBPF, increasing the potential for an almost complete lack of transparency (Channel 3). This situation has recently started to improve, as NGOs are now required to register with TBPFs and submit operational and financial reports for monitoring purposes.

Such non-transparency can harm the planning and budgeting efforts of regional and woreda governments due to segmentation of these efforts into two sets of budgets rather than having one unified budget. It can also retard capacity development in regional and woreda governments as skilled personnel are lured away from the government by higher salaries. Strong institutional and human resource capacity is a prerequisite for the success of PFM reforms (and governance reforms in general); therefore, erosion of such capacity may harm the PFM reform effort.

Table SA.1 PEFA Performance Indicators for the Tigray Regional Government

		Overall	(i)	(ii)	(iii)	(iv)
PI	**A. Credibility of the Budget**					
PI-1	Aggregate expenditure performance	**B**	B			
PI-2	Variance in expenditure composition	**D+**	D	A		
PI-3	Aggregate domestic revenue performance	**A**	A			
PI-4	Stock and monitoring of payment arrears	**B+**	A	B		
	B. Comprehensiveness and Transparency					
PI-5	Classification of the budget	**B**	B			
PI-6	Comprehensiveness of budget documentation	**C**	C			
PI-7	Extent of unreported government operations	**D+**	A	D		
PI-8	Transparency of inter-governmental fiscal relations	**A**	A	B	A	
PI-9	Oversight of other public sector entities	**A**	A	A		
PI-10	Public access to key fiscal information	**B**	B			
	C. (i) Policy-Based Budgeting					
PI-11	Annual budget preparation process	**A**	A	A	A	
PI-12	Multiyear perspective in budgeting	**D+**	D	NA	C	C
	C. (ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	**A**	B	A	A	
PI-14	Controls in tax registration and assessment	**B**	B	B	C	
PI-15	Effectiveness in collection of tax payment	**D+**	A	B	D	
PI-16	Predictability in the budget execution process	**C+**	B	A	C	
PI-17	Cash and debt management processes	**B+**	NA	B	A	
PI-18	Effectiveness of payroll controls	**C+**	B	A	A	C
PI-19	Procurement system transparency and controls	**B**	B	A	C	B
PI-20	Internal controls for non-salary expenditure	**B**	B	B	B	
PI-21	Effectiveness of internal audit	**B**	B	B	B	
	C. (iii) Accounting, Recording, and Reporting					
PI-22	Timeliness and regularity of account reconciliation	**B**	A	C		
PI-23	Information on resources received by service units	**B**	B			
PI-24	Quality and timeliness of in-year budget reports	**C+**	C	A	B	
PI-25	Quality and timeliness of annual financial statements	**C+**	B	B		
	C. (iv) External Scrutiny and Audit					
PI-26	Scope, nature, and follow-up of external audit	**B+**	B	B	A	
PI-27	Legislative scrutiny of the annual budget law	**D+**	C	B	D	C
PI-28	Legislative scrutiny of external audit reports	**B+**	A	B	B	
	D. Donor Practices					
D-1	Predictability of direct budget support	**NA**	NA	NA		
D-2	DP information provided for budgets and reports	**C**	C	C		
D-3	DP extent of use of country systems	**At least C**	At least C			

		Overall	(i)	(ii)	(iii)	(iv)
HLG-1	Predictability of transfers from the Federal Government	**A**	A	NA	A	

Note: Shaded areas represent M2 scoring methodology. NA = not applicable, for reasons explained in the text.

1. Introduction

1.1. Objective

This first Public Expenditure and Financial Accountability (PEFA) assessment of the Tigray Regional Government (TRG) is part of a broader exercise, covering the Federal National Government (repeat assessment), Addis Ababa City Government (repeat assessment), Oromia Regional Government (repeat assessment), Southern Nations and Nationalities Peoples' Regional Government (repeat assessment), Amhara Regional Government (repeat assessment) and Somali Peoples' Region (first assessment). A PFM assessment of a sample of 36 woreda governments in five regions (Oromia, Tigray, SNNPR, Amhara, Afar) and Addis Ababa City was conducted in 2010 (World Bank funded).

The objective of the PEFA assessments is to provide an independent evaluation of the quality and performance of the public finance management (PFM) systems of the governments assessed and in the case of the repeat assessments, to evaluate changes in the performance of PFM systems since the first assessments. The assessments will inform dialogue on ongoing PFM reforms supported through the Expenditure Management and Control Program (EMCP) and on new PFM initiatives such as the request from MoFED to the World Bank to move forward with the preparation of a standalone PFM project. It may also feed into the proposed projects in tax administration, audit, and transparency to be funded by DFID.

1.2 Scope and Process of Preparing the Report

This assessment covers the Tigray Regional Government (TRG), which consists of a number of bureaus, institutions, and authorities (henceforth known as budget institutions, or BIs). It does not cover the PFM systems of woreda and city or town administration governments, which constitute the next level of government. Together, these two levels of government make up the Tigray National Regional State (TNRS). About 30 percent of TRG's expenditures fall under TNRS. Fiscal relations between TRG and the lower-level governments, and the extent that TRG monitors the financial situation of the lower-level governments, are assessed under performance indicators (PI) 8 and 9 of the PEFA framework (Chapter 3). This assessment also does not cover the PFM systems of TRG-owned public enterprises, of which there are three, but does assess the extent that TRG monitors their financial situation (PI-9).

In some instances, the reference point of this assessment is the TNRS, as information is only available at this level, for example: (1) Table 2.1 and 2.2 in Chapter 2 on fiscal outcomes; (2) PI-4 and Table 3.23 on expenditure arrears; and (3) PI-25 on annual financial statements and PI-26 on external audit. Furthermore, the scope of legislation is at the TNRS level (e.g., the Financial Administration Proclamation), but tends to be implemented separately at the TRG and woreda levels. Institutions also tend to be named at the regional state level, even if their main responsibilities are at the regional government level. In general, the reference point is TRG, unless otherwise specified. Under indicators PI-5, PI-25, and PI-26, it is not possible to separate TRG expenditure from TNRS expenditure. Furthermore, in relation to donor-financed operations, it is not always easy to distinguish donor spending at the regional bureau level from spending at the woreda government level.

A three-person consultancy team was contracted to conduct the PEFA assessments of ARG, TRG, Somali Regional Government, and SNNPRG during the period April 21 to May 16, 2014. Funded by the World Bank, under the supervision of Parminder Brar, World Bank Sector Leader and Lead Financial Management Specialist, the team consisted of Peter Fairman, international consultant and team leader, Mr. Getnet Haile, and Mr. Zeru Gebre Selassie. The team visited Mekelle, the capital city of Tigray Region during April 28-May 3, 2014. The main contact point was the head of the Tigray Bureau of Plan and Finance (TBPF) and many of the meetings were held at TBPF (Planning and Budgeting Department, Accounts Department, Inspection Unit, and the Internal Audi Department). Meetings were also held with the Tigray Revenue Development Authority, the Bureaus of Education, Health, and Construction, the Office of the Regional Auditor General (ORAG), the Budget and Finance Committee of the National Assembly, and the Mekelle Chamber of Commerce.

The first draft of this report was submitted to the World Bank on July 22, 2014. The team delivered a presentation on the main findings of the first draft at a workshop held with TRG officials (led by the TBPF head) in Mekelle on October 24, 2014. The officials provided much useful feedback. Follow-up meetings were held in the afternoon on specific issues raised during the workshop. A post-workshop draft was submitted to the World Bank on November 24, 2014, and comments were received by the team on February 2, 2015. A revised draft reflecting the comments was submitted to the World Bank on March 7, 2015.

1.3 Quality assurance

A robust quality assurance process has been established through the PEFA Secretariat's PEFA CHECK system and through the World Bank peer review process.

1.4 Structure of the report

Chapter 2 provides background information on Tigray, an assessment of budgetary outcomes, and a description of the legal and institutional framework for PFM in Tigray and of the key features of its PFM system. Chapter 3 presents the evaluation of TRG's PFM systems. Chapter 4 describes recent and ongoing reforms and the main areas of intervention by TRG.

2. Region Background Information

2.1. General

The Tigray National Regional State (TNRS) is the fifth largest state in Ethiopia, with an estimated area of 41,410 square kilometers, located in the northwestern part of the country. It is bounded by Amhara Region in the southwest and Sudan in the north, with a population of 5.061 million, as estimated in FY 2012/13.[1] The economy is mainly based on agriculture, which comprises 40 percent of Tigray's GDP, and the capital is Mekelle. A major tourist attraction is Axum, owing to its biblical history. The Tigray Regional Government's (TRG) Growth and Transformation Plan (GTP) for FY 2010/11 to FY 2014/15 contains considerable useful background information.

The structure of government is similar at all the different levels of government in Ethiopia. The regional equivalent of the federal Ministry of Finance and Economic Development (MoFED) is the Tigray Bureau of Plan and Finance (TBPF). The TBFP, located in Mekelle, has zonal offices throughout Tigray. Similarly, sector ministries at the federal level have their equivalents at the regional government level in the form of sector bureaus located in Mekelle and their offices in the zones. Woreda and municipal governments (also known as rural and urban woredas) form the level of government immediately below the regional government level. The Woreda Office of Plan and Finance (WOPF) forms the equivalent of TBPF, while sector offices at the woreda level form the equivalent of sector bureaus at the regional government level. Tigray has 53 woredas: 34 rural, 12 city, and seven sub-cities (the last all in Mekelle, established only in FY 2012/13). The woredas are grouped under seven zones, the cities being established in FY 2012/13 under a proclamation (2009/10) to "Provide for the Organisation and Responsibilities of Cities in the Tigray National Regional State."

Similarly, the external audit and legislative oversight function is broadly the same as at Federal Government level. The external audit function is conducted by the Office of the Regional Auditor General (ORAG). The ORAG covers woreda governments as well as TRG. The legislative oversight function is conducted by the elected Regional Council, with the Budget and Audit Committee of the Regional Council (RC) carrying out PFM-specific scrutiny functions.

As with other regions, the TRG takes its lead from the Federal Government with respect to economic development strategies and government reform programs. Sector development strategies are based on the Federal Government's Growth and Transformation Plan (GTP), covering 2011-15.

The Expenditure Management and Control Program (EMCP) led by MoFED, continues to be the main vehicle for implementing PFM reform and strengthening capacity. Another main vehicle, the Public Sector Capacity Building Program, led by the Ministry of Capacity Building, ended in FY 2011/12.

2.2 Description of Budgetary Outcomes

Table 2.1 Fiscal Performance, Tigray National Regional State

[1] Central Statistical Agency (CSA), 2012 www.csa.gov.et

ETB, millions EFYs 2003-05	FY 2010/11	FY 2011/12	FY 2012/13
	Actual	Actual	Actual
Total Financial Resources	***2,997***	***4,935***	***6,103***
Region's revenues	1,099	1,744	2,260
Federal Government subsidy	1,797	3,104	3,706
External assistance and loans[a]	101	87	137
Total Expenditures	***2,721***	***4,619***	***6,136***
Recurrent	2,204	3,129	3,987
Capital	517	1,490	2,148
By function	*2,721*	*4,619*	*6,136*
Administration and general services	812	1,194	1,369
Economic services	819	1,859	2,787
Social services	1,089	1,564	1,980
Other	1	2	
By economic classification	*2,721*	*4,619*	*6,136*
Personnel services	1,393	1,797	2,081
Purchase of goods and services	529	904	1,429
Transfers (subsidies, grants, investments)	282	428	479
Acquisition of capital assets	517	1,490	2,148
Balance	*276*	*316*	*-33*
Accumulation/Use of cash	-276	-316	33

Source: Trial balances generated by IBEX and JBAR report.

a. External loans are incurred by the Federal Government, not TNRS.

TNRS expenditures more than doubled between FY 2010/11 and FY 2012/13, mainly due to large increases in the Federal Government subsidy and domestic revenues. Capital expenditure increased by 315 percent, partly due to the advent of the MDG fund in FY 2011/12, although the DP-supported MDG fund can only be used for capital expenditure. Much of capital expenditure falls under Economic Services, the share of this function increasing to 45 percent from 30 percent of total expenditure. The shares of Administration and General Services and Social Services fell accordingly (to 22 percent from 30 percent, and to 32 percent from 40 percent, respectively). In terms of economic classification, the share of capital spending increased sharply, to 35 percent from 19 percent, matched by a fall in the share of personnel services to 34 percent from 51 percent.

2.3. Legal and Institutional Framework for PFM

Legal framework for PFM

Following their approval in FY 2009/10 (EFY 2002), two new proclamations came into effect in 2011, the Financial Administration Proclamation and the Procurement and

Property Administration Proclamation, with procurement effectively separated from financial administration. Financial Administration Regulations were issued in 2011, as the previous regulations had been in place for 14 years. Ten directives were subsequently issued for the effective implementation of these proclamations. Areas of increased focus include cash flow forecasting and the quality and timeliness of financial reports and procurement plans. The directives also took into account the business process re-engineering exercises conducted during FY 2007/08 and FY 2008/09.

Tax System: Tax laws closely follow federal legislation, and the Regional Government shares some taxes with the Federal Government. Woreda governments have no authority to raise tax revenues, but woreda bureaus collect some revenue on behalf of the regional government. They also levy non-tax revenues in some areas (for example market fees). The tax system is covered in more detail under PI-13 in Chapter 3.

Institutional framework for PFM and key features of the PFM system

Responsibilities of TBPF: The TBPF has overall responsibility for PFM in TRG. TBPF was reorganized in FY 2011/12 in line with the two new proclamations referred to above. The main outcome of the reorganization was the splitting of the Financial Administration, Procurement, and Property Administration Core Process into two Core Processes: (1) Financial Administration; and (2) Procurement and Property Administration. These changes have also been incorporated at the woreda level.

Responsibilities of budget institutions (BIs): TBPF oversees the budget preparation process, with the draft budgets prepared by the BIs and approved by the Regional Council (RC). The BIs execute their approved budgets and report on or account for budget performance. They do this in principle using the mechanisms and controls embedded in the electronic integrated budget and expenditure management system (IBEX) that was established several years ago in TBPF. It was rolled out to bureaus during FY 2010-2011 and more recently to woredas.[2]

In practice, however, the BIs are not using IBEX to control budget execution (PI-20, Chapter 3), partly due to power-related interconnectivity problems (as in other regions). Commitments are instead being controlled through the manual commitment ledger cards used before the advent of IBEX, which means, in practice, checking that the proposed commitment is consistent with the as yet uncommitted approved budget.

Due also to interconnectivity problems, electronic linkages have still not been established between the IBEX systems in BIs and in TBPF, the systems in BIs still being standalone. Instead, BIs transmit information on budget performance to TBPF through hard copy (CDs, flash drives) or through the internet if it is working.

Accounting is performed using the double entry bookkeeping system contained in IBEX (introduced in FY 2006/07, EFY 1998), under which trial balances are generated every month. TBPF prepares annual financial statements for submission to ORAG for audit. ORAG audits these statements and prepares audit reports for review by the Committee of Budget and Audit in the National Assembly.

[2] Under the Decentralisation Support Activity (DSA) project. This was a component of the multidonor-funded EMCP and executed by a team from the Harvard University Institute of International Development, led by Dr. Stephen Petersen. Many of the PFM reforms implemented under EMCP during the 2000s took place under the DSA project.

Procurement: A institutional peculiarity in Tigray is the responsibility of the Bureau of Construction of Roads and Transport (BCRT) to organize the construction-related procurement operations of TRG, with the exception of water resource construction-related procurement, which is organized by the Bureau of Water Resources, and school construction-related procurement, which is organized by the Bureau of Education (BoE), although BCRT executes the construction projects. In the other regions visited by the team, each bureau is responsible for its procurement operations.

Internal controls: Compliance with financial administration regulations has been improving, with the ORAG noting that the percentage of audits with favorable opinions (unqualified, qualified) has increased to 85 percent from 50 percent over the past few years; compliance is discussed in detail under PI-20 in Chapter 3.

Subnational governments: The legal and institutional framework for this is covered under PI-8 in Chapter 3. A recent change has been the introduction of a new formula for allocating the block grant from TRG to woredas, in place of the unit cost formula. The new formula places greater emphasis on per capita equity in the availability of public services.

Audit functions and transparency: The legal framework for audit is covered under PIs 20, 21, and 26 in Chapter 3. Coverage of the audit function has expanded over the past few years.

A recent development, more relevant at woreda levels, is the establishment by TBPF of PFM teams to visit zones and woredas on an advisory basis to implement PFM reforms, particularly in relation to establishing effective internal audit committees. The change is partly nominal, as the teams were previously established under the Financial Transparency and Accountability Program (FTAP).

Another recent development in support of increasing transparency in PFM was the establishment of a Transparency Forum in FY 2010/11. The speaker of the Regional Council heads the Forum. Its other members comprise the Auditor General, the head of the Anticorruption Council, the head of the Justice Bureau, and the head of the Ethics Committee. The forum has held a conference each year for the past three years.

Development partner funding modalities (PI-7, D-2): Development partners (DP) provide funding to TNRS in a variety of ways, ranging from very straightforward and transparent to less straightforward and transparent, and the rationale for not using the most clear-cut avenue is not always evident.

- *The Protection of Basic Services (PBS) program, now in its third phase*. DP funding for much of this program essentially takes the form of budget support to the Federal Government, which then incorporates it into its block grant transfer to regional governments (described under PI-8 of the Federal Government PEFA). The regional governments then determine the allocation of the block grants through their budget preparation procedures. In practice, this is the most straightforward method of support. The most direct way in principle would be general budget support to the Federal Government with no earmarking of the amounts to be included in PBS, but this has not been possible for political reasons.

- *Channel 1a*: DP funding for projects or programs is channeled through MoFED to TBPF, with budgeting of the expenditures from these funds being incorporated under the relevant ministry under the Federal Government budget. TBPF (through a Channel One Unit) and the relevant sector bureaus in effect act as the financial administration, monitoring and executing agencies, respectively for MoFED. The projects or programs comprise: (1) the Public Safety Net Program (PSNP); (2) the Water, Sanitation and Hygiene (WaSH) program (funded by the World Bank, the African Development Bank, and the Finnish International Development Agency (FINNIDA, although FINNIDA had previously provided funding directly to TBPF); (3) the Public Sector Capacity Building Program (PSCAP), which ended in FY 2009/10; (4) the Urban Local Government Development Program (World Bank funded); and (5) the technical assistance and capacity-building programs under PBS (PBS II). The funds are spent at both the regional and woreda government levels.

- *Some funding under this channel* goes through MoFED to TBPF, with the funds budgeted for under TRG's budget. The World Bank/DFID/UNICEF-funded General Education Quality Improvement Program (GEQIP), which has been in place since 2009, is the only example of this. Unlike in Amhara, it is proclaimed in the TRG budget, and not the Federal Government's budget.
- *Channel 1b:* DP-funding for projects or programs is channeled directly to TBPF by DPs, the funds being budgeted for in the proclaimed annual budgets under the relevant sector bureau. A number of UN agencies provide aid in this way (UNICEF, UNDP, UNFPA, WFP and ILO). They provided ETB 115 million in FY 2012/13 (EFY 2005), 72 percent of which was provided by UNICEF. An Aid Coordination Unit, located in TBPF, monitors implementation of these programs.
- *Channel 2a:* DP-funding for projects or programs is channeled to sector bureaus through sector ministries. The funding is not budgeted for through Budget Proclamations at the regional level, but is supposed to be budgeted for at the Federal Government level. This may not always be the case, however. The Global Fund appears to fit into this category.
- *Channel 2b*: DP-funding for projects or programs is channeled directly to relevant sector bureaus. As noted under PI-7, such funding is typically not proclaimed in regional budgets and is not reported to TBPF.
- *Channel 3: DP-funding* is channeled straight to project or programs with limited involvement of the relevant sector bureaus and TBPF. NGOs fit into this category, some of which may be funded directly by a major donor, USAID being the main example. TBPF may only be aware of the activities of such projects if approached to approve some planning or regulatory aspect of the project. Examples of such projects mentioned to the team are school construction projects being designed and implemented directly by the Japanese and South Korean governments, with very little involvement of TRG, except to provide regulatory authority when required and to pay VAT.

  In recent years, NGOs have been required to register their activities with TBPF, a requirement that appears to gain compliance (Chapter 3, PI-7). An example of an NGO operating in the health sector, according to the Bureau of Health, is the Save the Children Fund. Its activities are not included in the proclaimed budgets, although they report their activities to TBPF.

3. Assessment of PFM Systems, Processes, and Institutions

3.1. Introduction

The following subsections provide a detailed assessment of the PFM performance indicators (PIs) contained in the Public Finance Management–Performance Measurement Framework (PFM PMF). The scoring methodology only takes into account the existing situation and does not cover ongoing and planned activities that may result in higher scores under future assessments, but these are summarized at the end of the discussion on each chapter.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators, and for multidimensional indicators where weak performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign indicates where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multidimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for two-, three-, and four-dimensional indicators is used to calculate the overall score.

The PEFA handbook ("PFM Performance Measurement Framework," www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3, and 19.

An upward-pointing arrow (↑) may be provided if a PFM-strengthening activity is underway, which, when completed, would result in a higher rating.

The PEFA assessment reviews PFM performance under the existing situation. The relevant time period depends on the type of indicator. For some indicators, the relevant period is the last completed fiscal year (2012), for example, for PIs 4, 7, 9, 24-26, and 28. For other indicators, the time period is the last three completed fiscal years (2010-2012), e.g., for PIs 1-3. For some indicators, the relevant time period is the situation at the time of the assessment (e.g., PIs 13 and 14, concerning revenue administration, and the first three dimensions of PI-18, concerning payroll control). More information is available in the PEFA Secretariat's publication *Field Guide* (March 2012) on evidence and sources of information to support the scoring of indicators.

3.2. Budget Credibility

Good practice in PFM emphasizes the importance of the budget being credible so that planned government policies can be achieved. Budget credibility requires that actual expenditure be similar to approved budgets and that there are no outstanding payables at the end of the year, since payables carried over to and paid in the following year come at the expense of the approved budget for that year. Table 3.1 below summarizes the assessment of indicators relating to budget credibility.

Table 3.1 Assessment of Performance Indicators of Budget Credibility

No.	Credibility of Budget	Score
PI-1 *(M1)*	Aggregate expenditure outturn compared to approved budget	B
PI-2 *(M1)*	Variance in expenditure composition	D+
PI-3 *(M1)*	Aggregate revenue outturn compared to approved budget	A
PI-4 *(M1)*	Stock and monitoring of expenditure payment arrears	B+

3.2.1. PI-1 Aggregate expenditure outturn compared to original budget

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year, as budgeted for. The indicator reflects this by measuring the actual total expenditure compared with the originally budgeted total expenditure, but excludes two expenditure categories over which the government has little control: debt service payments and development partner (DP)-funded project or program expenditure. In the case of the Tigray Regional Government (TRG), debt service payments stand at zero as the stock of debt is zero. Investment expenditure is divided into three categories: domestically financed, externally financed through grant assistance, and externally financed through loans to the Federal Government, which then disburses to TRG. The budget and budget performance tables prepared by TRG clearly distinguish between these categories, so omitting DP-financed expenditure is a straightforward process.[3]

Appendix A shows the approved budgets for TRG's budget institutions (BIs) (bureaus, authorities, institutes), as approved by the Tigray Regional Council, for FY 2010/11, FY 2011/12, and FY 2012/13 (EFYs 2003-2005) and the actual outturns for these years.

Table 3.2 is extracted from Appendix A and shows the aggregate percentage deviation between the actual outturn and the originally approved budget.

Actual recorded expenditure fell well short of the approved budget in all three years, despite revenue surpluses of 6 percent in FY 2010/11 and 3 percent in FY 2011/12 (PI-3). This apparent underperformance partly reflects the funding mechanisms for the MDG fund, which was established by MoFED in FY 2011/12. MoFED transfers funds to TBPF for capital projects related to achieving the MDGs. The mechanics of the fund permit advance payments to contractors (30 percent of the contract), which are not counted as expenditures until payment certificates have been received, processed, and accounted for. Funds transfers by MoFED have tended to take place later in the year due to the time needed to prepare projects, execute them, process payments, and account for them, with payment being made on a reimbursement basis. Under the modified accrual basis of accounting, this process may be carried over into the following year. Hence, advances in many cases were not retired until the following year.

Owing to the establishment of the MDG fund, the amount of funding for capital expenditure took a quantum leap in FY 2011/12 relative to FY 2010/11, and again in FY 2012/13 relative to FY 2011/12. This gives the impression of underperformance, as "new" advances to contractors (account code 4251) were much larger than the advances that were carried over from the year before and subsequently retired. Trial balance statements show that advances to

[3] Externally financed investment expenditure is a misnomer as it includes recurrent expenditure items.

contractors at the end of FY 2012/13 jumped to ETB 550 million from ETB 213 million at the end of FY 2011/12, which was itself a huge increase from ETB 38 million at the end of FY 2010/11.

The much larger expenditure underperformance in FY 2012/13 is due to both a large revenue shortfall of 13 percent in FY 2012/13 (mainly because of over optimism) and to MDG funding falling far short of the amount budgeted for due to revenue shortfalls at the Federal Government level.

The score for PI-1 has been assessed as if the advances had already been cleared by the end of the year and regularized as expenditures. Otherwise, the score would be lower and present a misleading picture of the situation.

Table 3.2 TRG-Approved Budget and Expenditure Outturn, 2010/11-2012/13

ETB, millions	EFY 2003 Budget	EFY 2003 Outturn	EFY 2004 Budget	EFY 2004 Outturn	EFY 2005 Budget	EFY 2005 Outturn
Total primary expenditure[a]	952	870	2,352	1,976	3,650	2,707
End-year stock of MDG advances to contractors[b]				213		550.4
Total	952	870	2,352	2,189	3,650	3,044
Deviation excl. advances	**-8.6%**		**-16.6%**		**-25.8%**	
Deviation incl. advances	**-8.6 %**		**-7.0%**		**-18.8%**	

Source: TRG TBPF and end-year trial balance sheets for FY 2010/11-2012/13

a. Total recurrent expenditure and domestically financed investment expenditure

b. Account code 4251. The figure for EFY 2005 is the net calculation, after subtracting the advance for EFY 2004 to avoid double counting.

Table 3.3 PI-1 Results

Score PI-1	Minimum Requirements	Justification
B	In no more than one out of the past three years has actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure.[a]	The deviations were -8.6%, -7.0% and -18.8.8% in EFYs 2003-2005, classifying MDG grant-related advance payments to contractors that were carried over to the next year as expenditures. The negative deviations resulted from slower than planned project implementation, revenue underperformance in FY 2012/13, and shortfalls in the funding of the MDG fund itself, also in FY 2012/13.

Source: Tables generated through IBEX by TBPF

a. Equivalently restated in the draft revised framework document as "The aggregate expenditure outturn was between 90 percent and 110 percent of the approved aggregated budgeted expenditure in at least 2 of the past 3 years."

PI-2: Composition of expenditure outturns compared to original budget

Where the composition of expenditure varies considerably from the original budget, the budget may not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure outturns against the original budget at a sub aggregate level. In TRG there is an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other, under which fall a number of sub-functions (PI-5), and, under each of these, a number of administrative units (referred to as "budget institutions", or BIs, throughout this report). Appendix A shows the original budgets and actual outturns for each of the 20 largest units, the remaining 15 being aggregated into a 21st unit.

As shown in appendix A, the variance in the composition of the budget is assessed after taking into account any adjustment to the overall resource envelope during the year due, for example, to revenue shortfalls. The methodology (revised in January 2011): (1) applies the percent change in the resource envelope (aggregate spending ceiling) to each BI's originally approved budget, to arrive at an "adjusted budget" (AB); (2) calculates the difference between actual expenditure of each BI and the AB of each BI, as estimated under (1); and (3) expresses the sum of the differences in absolute terms between actual expenditure and the AB for each BI.

The term "adjusted budget" is a PEFA term, and does not have the same meaning as the term "adjusted budget" that appears in TRG's budget execution reports, which show, for each BI, changes to the original budget due to supplementary resources and transfers "in" and "out" from or to other BIs.

In assessing PI-2, the "reserve" item in the budget (subhead 462) is not included in the originally budgeted overall resource envelope for the BIs, as indicated in appendix A. This item amounted to 2.9 percent, 1.7 percent, and 3 percent of total budgeted primary expenditure for FY 2010/11, FY 2011/12, and FY 2012/13 respectively. The item may be used during the year to: (1) distribute funds to BIs for wage increases, the overall amount having been budgeted for, but the distribution of which to BIs was not contained in the approved budget; (2) distribute funds to BIs for unforeseen and urgent expenditures; and (3) distribute funds to woreda governments for the same reasons. In the interest of transparency, the allocation should be made explicitly to the BIs concerned, as is in fact the case in TRG, and not simply registered as expenditure under subhead 462.

The measurement of PI-2 is shown in Table 3.4, extracted from Appendix A.

Table 3.4 PI-2: Expenditure Composition Variance and Average Contingency

FY	Expenditure composition variance	Average contingency (% of budget)
2010/11	12.16%	0
2011/12	16.6%	0
2012/13	26.5%	0

The actual expenditure of some BIs appears to be more than implied by the amount of the difference between the original budget and the adjusted budget. This is the case in all three years for the Administration Office Bureau, Justice Bureau, and Supreme Court.

The situation is reversed for some BIs, in particular the Water Resources Bureau, which is the largest BI, spending substantially less than implied by the amount of the resource envelope adjustment. This reflects a combination of factors: advances to contractors not being retired by the end of the year, slower progress than anticipated in implementing projects or programs, shortfalls in funding of the MDG fund in FY 2012/13 and revenue underperformance that year.

As mentioned under PI-1, the launch of the MDG fund has led to a large increase in the end-year stock of advances to contractors. The team received a table showing the sectoral distribution of advances. Counting these as expenditures (for reasons explained under PI-1), produces the results shown in Table 3.4 above.

Table 3.5 PI-2 Results - Variance in the Composition of Expenditure

Score PI-2 (M1)	Justification
D+	
(i) D	The rating is D (variance in expenditure composition exceeded 15% in two of the past three years.
(ii) A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget over the last 3 years. The Reserve/contingency item is completely allocated to BIs during the year, the related expenditure being reflected in the actual annual expenditure of the BI.

Source: Annual budget execution reports prepared in IBEX by TBPF.

3.2.2. PI-3: Aggregate revenue outturn compared to original approved budget

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The macro-fiscal department in TBPF, in consultation with the Tigray Revenue Development Authority (TRDA), is responsible for revenue forecasting, using the Federal Government's projections of inflation and real GDP growth, which are partly based on estimates of population growth. Based on the GTP, TBPF has established a five-year revenue forecast document (EFY 2003-2007), which serves as a foundation for future annual forecasting exercises. These macro-based revenue projections are crosschecked with the bottom-up projections of the 55 woredas in Tigray. Performance for the past three years is shown in Table 3.6 (details in appendix B).

Table 3.6 Domestic Revenue Variance: FY 2010/11-2012/13 *(EFYs 2003-2005)*

Code	ETB, millions	FY 2010/11			FY 2011/12			FY 2012/13		
		Budget	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**
	Total Revenue	**1,034**	**1,099**	**6%**	**1,690**	**1,745**	**3%**	**2,590**	**2,258**	**-13%**
1000-1400	***Tax***	***733***	***755***	***3%***	***1,227***	***1,308***	***7%***	***1,899***	***1,716***	***-9%***
1100-1119	Direct taxes on incomes	472	494	5%	892	986	10%	1,365	1,039	-24%
1120-1379	Indirect taxes: (VAT, excise, turnover)	261	262	0%	335	322	-4%	534	677	27%
1400-1719	***Non-tax***	***301***	***344***	***14%***	***463***	***437***	***-6%***	***691***	***542***	***-22%***

Code	ETB, millions	FY 2010/11			FY 2011/12			FY 2012/13		
		Budget	Actual	Diff.	Budget	Actual	Diff.	Budget	Actual	Diff.
1400-1599	Non-municipality	146	182	25%	213	216	1%	370	268	-7%
1701-1719	Municipality	155	162	5%	250	221	-12%	321	274	-14%
Total Revenue		**1,034**	**1,099**	**6%**	**1,690**	**1,745**	**3%**	**2,590**	**2,258**	**-13%**

Source: Accounts and Finance Department, TBPF) (IBEX data)

During FY 2010/11–2012/13, actual revenues exceeded forecast revenues in the first two years by 6 percent and 3 percent respectively, but fell short by 13 percent in FY 2012/13. Tax revenue, which comprises about 75 percent of total revenue, exceeded budgeted amounts by 3 percent and 7 percent in 2010/11 and 2011/12 respectively, but fell short by 9 percent in FY 2012/13. Non-tax revenue exceeded budgeted amounts by 14 percent the first year, but fell short by 6 percent and 22 percent in the second and third years.

The overperformance seen in the first two years occurred despite a 63 percent increase in budgeted revenues, the source of increase resulting partly from strengthening the tax administration (PIs 13-15). A further 48 percent increase in revenues was budgeted for in FY 2012/13, but the outturn was 13 percent lower, indicating that the budgeted amount was too ambitious. The presumptive taxation system that had been established three years previously was replaced by a revised system in FY 2012/13. The estimation of annual turnover (the base of the presumptive tax) of the category C taxpayers, who constitute 85 percent of the region's total taxpayer population, appears to have been overly optimistic.

It is not clear to what extent forecast errors are reflections of faulty forecasting methodology or inherent difficulties in making accurate projections in regions where the economic base is predominantly agricultural.

Table 3.7 PI-3 Results

Score PI-3	Minimum requirement	Justification
A	Actual domestic revenue collection was between 97% and 106% of budgeted domestic revenue in at least two of the past three years.	Actual revenues exceeded forecast revenues in FY 2010/11 and FY 2011/12 by 6% and 3% respectively, but fell short by 13% in FY 2012/13.

3.2.3. PI-4: Stock and monitoring of expenditure payment arrears

This indicator measures the extent to which there is a stock of arrears and the extent to which the systemic problem is being brought under control.

(i) Stock of payments arrears

There is no official definition for arrears in the Financial Administration Proclamation and the TNRS regulations. Salaries and wages are paid on the 24th of each month and goods and services are generally purchased on a cash-on-delivery basis.

A "grace period payable" (GPP) provision of 30 days is provided for the payment of capital expenditure-related goods and services received before the end of the fiscal year, but this time frame makes it too late to process payments (account code 5001 in the Chart of Accounts). End-year GPP constituted 1.11 percent, 4.25 percent, and 5.29 percent of total TNRS expenditures for FY 2010/11, FY 2011/12, and FY 2012/13 (EFYs 2003, 2004, and 2005) respectively (Table 3.6).[4] The huge jump from EFY 2003 to 2004 was mainly due to the launch of the MDG fund, which finances capital projects only. The release of funds by MoFED has tended to be late, due to the funds disbursement mechanisms of the MDG fund, whereby funds are released based on evidence of performance. MoFED has provided funds to TBPF for advances to contractors (up to 30 percent of contract values can be advanced), but the advances have not been sufficient to pay all contractors before the end of the fiscal year.

The outstanding GPP one month after the end of EFYs 2003, 2004, and 2005 were ETB 1.61 billion, zero, and zero, respectively. The Bureau of Construction, which is in charge of construction-related projects for all of TRG, and thus would account for a large proportion of GPP, indicated that GPP were zero by the end of the month following the end of 2012/13.[5]

In addition, end-year trial balances contain recurrent expenditure payables, including sundry creditors, pension contribution payables, salary payables, other payroll deductions, and withholding tax payables. These payables amounted to ETB 73.7 million, ETB 97.8 million, and ETB 149.2 million at the end of EFYs 2003-2005, constituting 2.7 percent, 2.1 percent, and 2.4 percent respectively of total TNRS government expenditure. Personnel-related payables amounted to ETB 22.3 million, ETB 32.6 million, and ETB 47.9 million at the end of EFYs 2003, 2004, and 2005. The largest payable item is pension payables; delays in paying these are subject to an interest charge of 2 percent, thereby providing an incentive to pay these on time. Salaries payable relate mainly to unclaimed salaries; most such payables are paid in the following month from the end-year net assets balance (they also tend to be paid off the following month during the year).

Table 3.8 End-Year Expenditure Arrears in Relation to TNRS Expenditure

ETB, millions	**EFY 2003**	**EFY 2004**	**EFY 2005**
Total TNRS expenditure	2,721	4,619	6,136
End-year GPP (July 7)	30.2	196.2	324.4
% of TNRS expenditure	1.1%	4.2%	5.3%
Balance as of August 6 (1 month after year-end)	1.61	Nil	6.1
% TNRS expenditure	0.06%	Nil	0.1%
Balance as of June 7 (11 months from the end of the fiscal year)	Nil	Nil	Nil

(ii) System for monitoring arrears

Capital expenditure-related GPP are recorded at the end of the fiscal year in IBEX, as shown in the trial balance sheets, and then for each month after that for as long they remain outstanding. Recurrent expenditure payables are shown in the trial balance sheets on a month-to-month basis. These are not accrued as payables during the year, so their age at the end of each month and the

[4] The trial balance statements are for ANRS as a whole and not for ARG.

[5] The GPP does not apply if the payments order was processed before the end of the fiscal year but the contractor had not picked up the check up in time. The accounting system operates on a modified cash basis, with expenditure being expensed and reported in the same year if the payment order has been processed before the end of the fiscal year. The balance is deducted from the cash balance of the relevant BI's "Z" bank account. Since this is a virtual account, and therefore has a zero balance at the end of the day, the negative balance resulting from the deduction is cleared from the Central Treasury Account in the following year. It is not deducted from the next year's budget.

fiscal year is not known. There is no GPP provision for these payables. The payables outstanding at the end of the first month of the new fiscal year would only represent those that accrued during that month. The payables outstanding at the end of the previous year are paid out of the end-year net assets position.

Table 3.9 PI-4 Results

Score PI-4 (M1)	Minimum Requirements	Justification
B+		
(i) A	The stock of arrears is low (i.e. is below 2% of total expenditure)	Generally, goods are purchased on a cash-on-delivery basis, thus limiting the extent that payments arrears are possible. Year-end capital expenditure-related payables are mainly MDG fund-related, representing services that have been received but not yet paid for. These are accrued as GPP. Except for EFY 2003, GPP were paid within a month after the end of each fiscal year. Personnel-related payables in the trial balances are related to unclaimed salaries and delays in paying pension contributions. These are paid off by the end of the first month of the new fiscal year.
(ii) B	Data on the stock of arrears are generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.	The GPP data are generated annually at the end of the fiscal year, and then on a month-to-month basis in the new fiscal year until they are paid off. Recurrent expenditure payables are not accrued and so do not have an age profile.

Sources: TBPF for IBEX-generated trial balances for EFY 2003-2005.

3.3. Comprehensiveness and Transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The matrix below summarizes the assessment of indicators under this dimension.

Table 3.10 Comprehensiveness and Transparency Performance Indicators

PI	B: Crosscutting Issues: Comprehensiveness and Transparency	Score
PI-5	Classification of the budget	B
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of intergovernmental fiscal relations	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	A
PI-10	Public access to key fiscal information	B

3.3.1. PI-5: Classification of budget

A robust classification system allows for the tracking of spending on the following dimensions: administrative unit, economic, and functional or program.

The budget classification system at the regional government level (and the woreda government level) is exactly the same as at the federal level (as described in the Federal Budget Manual (2007) and the Federal Chart of Accounts Manual, (May 2007)).[6] The classification is organized in a top-down format, based on three functions or sectors: administrative and general service, economic, and social. Under each function there are a number of sub-functions (totaling 12) and under each sub-function, a number of administrative heads, with each head implying the purpose of expenditure. For example, under the Economic Services Sector (code 200) falls the Agricultural and Natural Resources sub-function (code 210), and under this fall the Bureau of Agriculture and Natural Resources (code 211), the Institute of Agricultural Research (code 213), the Cooperative Promotion and Market Development Agency (code 216), the Marketing Agency (code 217), and the Land Use Agency (code 219). Under Code 211, there are different types of services education (e.g., secondary). The functions and sub-functions differ from the classification of functions of government (COFOG), but they reflect the intent of expenditure, and the sub-functions can be matched to some extent to the 10 COFOG functions.

The economic classification falls under the administrative head classification (at subhead level, where relevant) and broadly meets the GFS standards: personnel emoluments (codes 6000-6199); purchases of goods and services (codes 6200-6299); acquisition of fixed assets, i.e., capital expenditure (codes 6300-6399); and other payments, which are mainly subsidies and transfers and grants (codes 6400-6499). The main departure from GFS is the classification of domestic debt repayment as an expenditure rather than as a financing item.

The budget classification system includes program codes, but at present these are not being used as program budgeting has not yet been formally adopted at the regional level.

Table 3.11 PI-5 Results

Score PI-5	Minimum Requirements	Justification
B	Budget formulation and execution is based on an administrative, economic, and functional classification that can produce consistent documentation according to COFOG/GFS standards.	The budget classification system (as described in the Federal Budget Manual and Chart of Accounts Manual (2007)) is based on a hierarchical functional, sub-functional, administrative, and economic classification. The sub-functions match the COFOG functions to an extent, the codes clearly reflecting the intent of public expenditure. The economic classification codes are broadly consistent with GFS.

Sources: Federal Budget Manual and Accounting System Manual, January and May 2007; 2010 and 2014 Federal Government PEFA.

3.3.2. PI-6: Comprehensiveness of information included in the budget

Annual budget documentation (annual budget and supporting documents) should inform the executive, the legislative, and the general public and assist in informed budget decision making

[6] The budget classification system is described in the Federal Budget Manual (2007). It was prepared with the support of technical assistance provided by Harvard University through the donor-supported Decentralization Support Activity project.

as well as transparency and accountability. In order to be considered complete, in addition to the detailed information on revenues and expenditures, the annual budget documentation should include information on the elements in Table 3.12 below, by which PI-6 is assessed:

Table 3.12 Elements Underlying the Assessment of PI-6

No.	Item	Available	Source
1	Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	**No**	The medium-term macroeconomic and fiscal framework (MEFF) is indicated in the GTP, and must be updated each year under the Financial Administration Proclamation, with the assumptions reflected in the Budget Proclamation. This has not yet happened.
2	Fiscal deficit, defined according to GFS or other internationally recognized standard	**No**	Funds carried over from the previous fiscal year are counted as revenue in this year's budget ("balance brought forward"), in contrast to the GFS under which such carryover is classified as a financing item. The fiscal deficit is therefore understated.
3	Deficit financing, describing anticipated composition	**No**	TNRS does not borrow, but may use retained earnings ("balance brought forward") to finance a deficit, as was the case with the EFY 2005 budget, which was partially financed by the balance brought forward from the EFY 2004 budget.
4	Debt stock, including details at least for the beginning of the current year	**Not applicable**	TRNS does not borrow.
5	Financial assets, including details at least for the beginning of the current year in a timely manner	**Yes**	The budget documentation involves more than the Budget Proclamation, which is the law itself, and includes the quarterly financial report as of the time of budget preparation, the report including the end-of-quarter trial balance, which includes financial assets (cash on hand and in the bank; COA codes 4101, 4103, and 4105), and accounts receivables (COA codes 4200-4299).
6	Prior year's budget outturn, presented in the same format as the budget proposal	**No**	The budget document does not indicate the budget outturn of the previous year, although annual financial statements for EFY 2003-05 contain budget outturns for the prior periods.
7	Current year's budget (either the revised budget or the estimated	**Yes**	The current year budget and outturn are presented in the same format as

No.	Item	Available	Source
	outturn), presented in the same format as the budget proposal		the budget proposal for next year. The outturn figure covers the first nine months of the year.
8	Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year	**No**	The budget is summarized by regional sector office, zones, and woredas, but the equivalent data for the current and previous year are not included.
9	Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	**Yes**	The budget documentation contains a lot of material, including the assumptions underpinning the budget and discussion of the budgetary impact of new projects funded by the MDG fund.

The C rating for this PI may seem somewhat harsh, as the budget documentation contains a fair amount of information, and TRG, as with other regions, is making a solid effort to improve transparency. The low rating partly reflects the way the information elements are specified. According to GFS, use of last year's retained earnings in this year's budget is counted as a financing item and not a revenue item. At the regional level, the difference may seem somewhat academic; the main point is that TRG does not borrow. A less rigid application of the methodology would result in a "Yes" for elements (2) and (3), and therefore an overall rating of B.

Table 3.13 PI-6 Results

Score PI-6	Minimum Requirements	Justification
C	Recent budget documentation fulfils three to four of the eight applicable information benchmarks	Three of the eight relevant items are available in the supporting documentation for the FY 2013/14 (EFY 2006) Budget Proclamation.

3.3.3. PI-7: Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements, and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of the central government to provide a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if: (1) extra-budgetary operations (EBO) (regional government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports; and if (2) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor-funded projects) are insignificant or included in government fiscal reporting.

(i) Level of extra-budgetary expenditure (other than donor-funded projects), which is not included in fiscal reports

The budgets and actual expenditures of autonomous bodies are included in the proclaimed budgets and budget execution reports of TRG. There are no other off-budget accounts. The spending of non-tax revenues (NTR) collected and retained by BIs (permissible in the case of health sector-related BIs) has to be included in the proclaimed budget. Revenues collected in excess of the approved spending must be surrendered to TRG's Treasury Account. If BIs want to spend some or all excess revenues, they need to request supplementary budget resources.

Some external resources are channeled to TRG through MoFED and sector ministries and thus, in effect, are domestic resources from TRG's point of view. Analytically, however, it is more convenient to analyze them under dimension (ii).

(ii) Income/expenditure information on DP-funded projects which is included in fiscal reports

1. Channel 1a funded projects, DP funds channeled through MoFED to TBPF: This dimension does not include Channel 1a programs (MoFED to TBPF) for which spending is captured in the Federal Government's Budget Proclamation and budget execution reports, as noted in Chapter 2. The execution of these programs is organized by the respective sector bureaus, and financial management and reporting is carried out by offices in TBPF; the regional government in effect is acting as a deconcentrated arm of the Federal Government.

The exception to this is the World Bank/UNICEF-funded General Education Quality Improvement Program (GEQIP), which is proclaimed in the TNRS budget. The assessment team was provided with a copy of a program performance report. Actual spending was included in the trial balance sheets generated by IBEX in FY 2012/13, indicating conversion of the program codes (using Peachtree) to IBEX codes. The team was also provided with a copy of a GEQIP financial performance report.

The large amount of DP spending on services that TRG has a mandate to deliver, but the spending of which is proclaimed at the federal level (Channel 1a and 2a), itself raises a transparency issue. It might be more transparent and efficient for the planned spending to be proclaimed in the regional budget.

2. Channel 1b, DP funds go directly to TBPF. Either spending of these funds is included in TRG's proclaimed budget, or the funds are transferred to woredas, with the budgeted spending then being included in their proclaimed budgets (CoA codes 2000-2999 under the External Assistance and External Loan category). In FY 2012/13, actual funding and spending by DPs began to be included in the IBEX-generated trial balance sheets and budget performance reports routinely prepared by TBPF (provided to the team by TBPF) indicating conversion of DP codes to IBEX codes. The operations of these agencies appear to be entirely on budget.[7]

Projects and programs financed by the UN Executing Agencies (ILO, UNICEF, UNDP, UNFPA, WFP, UNICEF, providing about 70 percent of funding) fall under this category, in addition to projects funded by the African Development Bank (ADB), Finnish International Development Agency (FINNIDA), GiZ, Italy, DFID, and JICA. The School Feeding Program, funded by World Food Program (WFP) used to fall under the funding Channel 2a, but funding is now channeled through TBPF.

3. Channel 2a, DP funds channeled by sector ministries to sector bureaus. Spending of the funds is proclaimed at the federal sector ministry level. Examples of this type of funding are

[7] The trial balance sheet shows that ETB 114.1 million was received from these organizations in FY 2012/13, of which 72 percent was from UNICEF.

the Agricultural Growth Program (AGP), cofunded by World Bank and USAID (managed by the Rural Roads Authority in connection with the rural roads component, but reporting to the Bureau of Agriculture), and projects funded by the International Fund for Agricultural Development (IFAD). This was not always the case. Health-related projects funded by the Global Fund (GF) through the Ministry of Health seemed not to be proclaimed either at the federal or regional levels, as pointed out in the regional PEFA assessment carried out in 2010. The amounts of funding were large and the extent of transparency of the operations was low. GF funding through this channel has been reduced to insignificant levels, according to TBPF, as it now operates mainly through NGOs (which then, however, raises a transparency issue under channel 3, as discussed in point 5 below).

4. Channel 2b, DP funds channeled directly to sector bureaus (i.e., not via TBPF). The General Leprosy Rehabilitation Project and projects funded by the World Health Organization (WHO) fall under this funding category. These are not proclaimed at the Federal Government level, although the projects are negotiated between the Federal Government and the DPs, nor are they proclaimed at the regional level. [8]

The Bureau of Health (BoH) indicated that it also receives direct support from a number of external agencies, with much of the support not being incorporated into its proclaimed budget: the Global Fund; the U.S. government’s Center for Disease Control (CDC); WHO, even though this is a UN agency (in addition to the WHO projects negotiated by the Federal Government); Italian government aid; Save the Children Fund; Children Investment Fund Foundation (Canada); and the “Natural Nutrition Program.” The reports on DP operations shown to the team by the ACU in TBPF do not include these organizations. The ACU does not monitor spending under such projects, although the head of TBPF may receive reports from the relevant sector bureaus. Even if he does, the reports are not made public. Such operations constitute unreported EBOs, the size of which is not readily known.

5. Channel 3, DP funds channeled directly to projects. Budgeting of the funds is not included in proclaimed budgets, either at the federal or regional levels. The spending constitutes unreported EBOs, the size of which is not accurately known, as the projects may not report to sector bureaus.

The Bureau of Education (BoE) indicated that DPs implement education projects in which it has very limited involvement. For example, through an agreement with the Federal Government, South Korea is financing the construction of a high school in Tigray, with scarcely any involvement of BoE in terms of design and project management. Its only involvement concerns advance payments of VAT on behalf of the contractor at the request of the South Korean Embassy; the payment of such VAT (ETB 9 million) is contained in proclaimed budgets, but the cost of the school itself (ETB 69 million) is not included in BoE’s approved budgets.[9] A similar example is a Japanese government-financed school construction project, originally negotiated at the federal level. Project implementation is behind schedule due to disputes over site layout. Another example is a USAID-financed capacity-building project in

[8] TBPF says that a portion of Channel 2 funding is proclaimed under the TRG budget, but the assessment team could not find evidence of this.

[9] As the agreement with the South Korea Government is through MoFED, the size of the block grant to TRG is reduced by the amount of financing from the South Korean government. This may seem preferable from an equity point of view, but in effect, a transparent way of funding a high school (through BoE’s proclaimed budget) has been replaced by a nontransparent way.

support of primary schools, which is being implemented at the woreda level, but is not reflected in woreda budgets.

USAID is a major DP in Ethiopia and operates only through Channel 3, the result being that its operations are not transparent. The Bilateral Aid Department in MoFED indicated to the team leader that USAID's spending program is US$1.5 billion over five years, and that it does not know what the money is being spent on, and where and when it is being spent.

About 90 NGOs are implementing around 150 projects in Tigray. Some of these are well-known international NGOs, such as Save the Children Fund, World Vision, and Action Aid, the last in the form of direct sector support. Some NGOs are funded by USAID through an agreement with MoFED. Global Fund operations are now mainly implemented by NGOs.

Since FY 2009/10, NGOs have been required by the NGO Coordination Guidelines to register with TBPF and to sign MoUs with the relevant sector bureaus, as well as to report on their annual operations to TBPF. The Charities and Societies Proclamation #215 of FY 2011/12 provides the legal backing for these guidelines, and NGOs are required to renew their registrations periodically. The NGO Coordination Unit in TBPF provided a table of such operations to the team for FY 2011/12, showing expenditures by bureau totaling ETB 62 million, but no such table appears to have been prepared for FY 2012/13. Regardless, the table does not constitute a formal report. The NGO Coordination Unit indicated that NGO expenditure on projects is perhaps about ETB 600 million a year (US$20 million), which indicates that the reported amount is an understatement. An unspecified portion of these NGOs provide services through formal agreements with sector bureaus. They may represent extra-budgetary operations (EBOs), but, in the interests of transparency, they should be formally reported on. Starting in September 2013, NGOs have been required to submit budget proposals to the sector bureaus to which they report through the MoUs.

A substantial component of DP assistance to TRNS is captured in TRG's proclaimed budgets and budget execution reports. However, it is difficult to know exactly how much DP assistance is not channeled through TBPF, as the sector bureaus appear not to report to TBPF fully on the funding they receive directly from DPs and on the funding DPs provide directly to projects under their sectors.

According to TBPF, implementation of all projects and programs being funded through Channel 2b and Channel 3 are reported on to the Regional Council, regardless of whether they are reported on through IBEX. Such reports, however, are not public knowledge, and thus do not represent fiscal reports on the same level of transparency as the proclaimed budgets.

Ongoing and planned operations

Starting in September 2013, NGOs were required to submit budget proposals to the sector bureaus to which they report through the MoUs they signed with the bureaus, the purpose being to eventually bring their operations into the proclaimed budgets. NGOs can only now open bank accounts if approved by TBPF.

Table 3.14 PI-7 Results

Score PI-7 (M1)	Minimum Requirements	Justification
D+		

Score PI-7 (M1)	Minimum Requirements	Justification
(i) A	The level of unreported extra-budgetary spending (other than donor-financed projects) is insignificant (<1% of total expenditure).	The budgets of autonomous bodies are included in the proclaimed budget of TNRS. The spending of NTR collected and retained by BIs has to be included in the proclaimed budget. Revenues collected in excess of the approved spending must be surrendered to TRG's treasury account.
(ii) D	Information on DP-funded projects or programs included in fiscal reports is seriously deficient	DP funding of projects and programs is included in proclaimed budgets if the funding is channeled through TBPF (channel 1b), but spending of the funds is not included in TBPF's budget execution reports since IBEX codes are not being used. Reports are prepared separately, but are not public. However, substantial amounts of DP funding are also provided directly to sector bureaus and even to projects. Their planned spending is not proclaimed at either the federal or the regional levels, and actual spending is not formally reported. The magnitude of the unreported operations is difficult to assess. Starting in FY 2011/12, NGOs have been required to register with TBPF and report periodically on their operations. Transparency in this area continues to increase.

Sources: Information provided by TBPF at meetings, Channel 1a program financial execution reports, end-FY 2012/13 trial balance statement on Channel 1b (UNEXCOM agencies) program receipts and expenditures, report on NGO operations in FY 2011/12.

3.3.4. PI-8: Transparency of inter-governmental fiscal relations

About 60 percent of TRG's expenditure consists of block grant transfer to the 34 rural woredas and 19 city administration woredas. The TRG started its fiscal decentralization process in FY 2002/03 (EFY 1995). An enabling legislative and institutional environment was established for woreda administrations to exercise the functions allocated to them.

(i) Transparency and objectivity in the horizontal allocation of transfers to woreda governments

The TRG allocates its block grant to woredas using a formula that allows all woredas to provide roughly the same levels of services per capita.

Unlike the Amhara National Regional Government, which uses a unit cost approach in determining the horizontal allocation of transfers to rural and urban/city administration woredas, Tigray uses a new transfer formula based on a study conducted by Axum University.[10]

[10] The former formula, introduced in 2008/09, was based on three criteria: (i) population, 65 percent weight; (ii) development status (25 percent); and (iii) revenue generating capacity (10 percent).

According to the study, the main shortcomings of the previous formula, introduced in FY 2008/09, included the following:

1. The formula was not based on the expenditure needs of woredas, thus creating a mismatch between transfers and expenditure needs.
2. Similar weights were assigned to all categories of development disparity indicators, when different weights may have been more valid in terms of representing the adequacy of service provisions.
3. The formula did not address the efficiency of resource utilization by woredas.
4. The formula did not consider potential revenue capacity, but rather actual revenue collection.
5. The formula did not take spillover effects into consideration, whereby services provided in one woreda may be utilized by neighboring woredas free of charge.

Axum University, therefore, developed an allocation formula based on an index of expenditure need, which addressed most of the shortcomings above, and on an estimate of local revenue-generating capacity. The fiscal gap to be filled by the block grant would then be the difference between potential local revenue generation and estimated expenditure needs. Estimation of the expenditure needs index is not a completely transparent and objective exercise, as the identification of needs and their relative importance may be subject to measurement error and political pressure. This risk was mitigated to some extent through development of the formula being carried out in a highly participatory manner, which included field visits to the different woredas and discussions with senior woreda officials.

Sector shares of the block grant were determined partly through the expenditure needs index and partly on the expenditure share of each sector over the past five years. The education sector’s share of the block grant in the rural woredas is 50.7 percent, the share of the administration and general services sector being the second largest at 22.1 percent, with the agriculture sector’s share at 14.8 percent. The sector shares in the urban woredas are 43 percent for education and 40 percent for administration and general services.

Based on the new formula, the percentage share of the block grant for each woreda was calculated and fixed for 3 years, starting with the FY 2013/14 budget (EFY 2006) as approved by the Regional Council. The Budget Proclamation for the FY 2013/14 budget shows the amounts of block grants for each woreda according to the new formula.

(ii) Timeliness of reliable information to woreda governments on their allocations

Most of the block grant to rural and urban city administration woredas is funded through the Federal Government block grant. Prior to the beginning of TNRG’s budget preparation cycle in February, MoFED provides initial ceilings to the regional governments on the likely horizontal allocation of the block grant and, on this basis, regional governments can start preparing their annual work plans and can notify rural and urban city administration woredas in turn as to how much block grant funding they are likely to receive from them. In the case of Tigray, initial ceilings are dispatched to all woredas during the first week of February based on the allocation formula. Any adjustments to the draft woreda budgets prepared by woreda governments, if the Federal Government adjusts the initial ceiling, tend to require only a few days, as the adjustments are small.

(iii) Extent of consolidation of fiscal data

Budget preparation and reporting systems are the same in rural and urban or city administration woredas as at the regional government level and are based on sectoral or functional categories. TBPF produces a consolidated regional or rural and urban city administration woreda government report (i.e. TNRS report) on the estimated (unaudited) budget outturn within six months of the end of the fiscal year. The TNRS reports for FY 2010/11, FY 2011/12, and FY 2012/13 (EFYs 2003-05) were prepared ahead of time.

Table 3.15 PI-8 Results

Score PI-8 (M2)	**Minimum requirement**	**Justification**
A		
(i) A	The horizontal allocation of almost all transfers from regional governments to lower-level governments (at least 90% of transfers) is determined by transparent and rules based systems.	Effective FY 2013/14, block grants were allocated to woredas on the basis of a new and more transparent formula with greater focus on equity. The percentage share for each woreda was fixed for three years.
(ii) B	Woreda governments are provided with reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.	TBPF provides initial ceilings to woredas on their block grant allocations at the start of their budget preparation process. The actual block grant allocations to woredas are not decided until after parliament approves the Federal Government budget at the end of June. Woreda governments may then have to adjust their initial budget proposals, although adjustments tend to be minor and take only a few days.
(iii) A	Fiscal information (ex ante and ex post) that is consistent with regional government fiscal reporting is collected for at least 90% of woreda government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.	Fiscal data is collected from all zones, woredas, and city administrations and consolidated into annual reports within eight months of the end of the fiscal year.

Sources: The study document prepared by Axum University on the new allocation formula, Planning and Budgeting Department, and TBPF Accounts and Finance Department

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

This indicator assesses the extent to which the central government monitors the fiscal position of autonomous government agencies (AGA), public entities (PE), and subnational governments.

(i) Extent of central government monitoring of financial position of public enterprises

TRG has four public enterprises, established by proclamation (that is, by law):

1. Tigray Water Works Construction Enterprise
2. Housing Development Agency
3. Water Construction Design and Supervision Enterprise

4. Tigray Road Construction Enterprise

As specified by the proclamations that established them, the enterprises generate their own revenue and can borrow from banks. They do not receive any government subsidy. The only government financial contribution was in the form of initial capital at the time of establishment. They do not pay dividends to TRG, but pay taxes.

Governance arrangements are also specified in the proclamations. The enterprises are accountable to governing boards consisting of senior TRG officials, including from TBPF, for two of them. Each board approves annual work plans and evaluates quarterly and annual performance reports and audited annual financial statements submitted to it. The Board of Directors of each enterprise is accountable to the head of the TNRS (the Regional President), and also reports directly to the Regional Cabinet, the members of which are then able to obtain an overview of the financial situation of the enterprises. The TBPF does not receive financial reports directly from public enterprises, but has access to them by virtue of its membership of two of the governing boards of these enterprises, and has access to the audited financial statements of all the enterprises.

As was noted in the first PEFA assessment report for Amhara, and the two reports for SNNPRG, the concept of a consolidated fiscal risk report for only four public enterprises, the financial situation of which is monitored routinely, does not appear to be applicable to the situation in Tigray. Any potential fiscal risk can be identified and addressed by board members (and discussed at board meetings), the Regional Cabinet, and BoFED through scrutiny of the quarterly reports and annual financial statements.

(ii) Extent of monitoring of the fiscal position of subnational governments

Woredas are required to have balanced budgets. They are not allowed to borrow (including through bank overdrafts). Financial regulations prohibit overcommitment of expenditure (in terms of the approved or adjusted budget) and are enforced, thus payments arrears through overcommitment are not possible. The budgets include various types of non-tax revenues (e.g. market fees) and so shortfalls in these could cause financial problems. The block grant from TRG is by far the woredas' main source of financing, however, and its monthly receipt is highly predictable. TRG's contingency fund may be used to offset any unexpected financial problems (the budget for this was ETB 126.23 million in EFY 2005, representing about 3.5 percent of the total regional budget (PI-2). TBPF may also loan cash, which is to be refunded by the woreda governments from their budgets for the next year, thus providing an incentive to collect revenue arrears. The balance of such loans as of July 7, 2005 EFY was ETB 5.9 million (Account Code 4206 and 4207), according to the trial balance statements of the woreda governments.

The payables of woredas are monitored by TBPF through the zonal administration offices. The Tigray Revenue Development Authority (TDRA) monitors the extent of revenue collection by woredas, and financial reports are consolidated on a quarterly basis at the TBPF level through these offices, which enable them to monitor the fiscal positions of the woredas. The "single pool" system, whereby Woreda Plan and Finance Offices (WPFOs) manage the finances of the sector offices, greatly facilitates such monitoring.

Table 3.16 PI-9 Results

Score PI-9 (M1)	Minimum Requirements	Justification
A		
(i) A	All major AGAs or PEs submit fiscal reports to the regional government at least every six months, as well as annual audited accounts.	The concept of consolidated fiscal risk reports does not apply to TRG, as there are only 4 such enterprises, none of which receive subsidies, and all of which report quarterly to their governing boards and submit their audited annual accounts to them. The boards in turn report to the regional cabinet.
(ii) A	The net fiscal position of woreda governments is monitored at least annually for all governments and the regional government consolidates overall fiscal risk into annual reports.	Woreda governments are not permitted to borrow or enter into spending commitments that are not covered by the approved budget. Financial problems (e.g. shortfalls of budgeted non-tax revenues), can be offset through use of TRG's contingency fund and loans from TRG against next year's budget. The zonal administrations monitor the financial position of woredas through the quarterly financial reports submitted by them, and can alert TBPF about any potential fiscal risk. The TDRA monitors revenue collection. The concept of annual fiscal risk reports is not applicable in this situation.

Sources: TBPF Bureau Head and senior management; receivables component of trial balance sheets.

3.3.6. PI-10: Public access to key fiscal information

Transparency will depend on whether information on fiscal plans, position, and performance of the government is easily accessible to the general public or at least to interested groups.

Considerable progress has been made over the past few years in providing the public with key fiscal information. However, while coming close to meeting most of the six benchmarks listed below, only one has been met. Websites are not always functioning well due to connectivity problems, which are pervasive nationwide and are outside the control of TRG.

Strengthening fiscal transparency is a major priority for TRG, as in other regions. The Fiscal Transparency and Accountability Program (FTAP), established in EFY 1999 (FY 2006/07) by the Federal Government, has been the main vehicle for strengthening transparency. The FTAP is also the main vehicle used by TRG to communicate with the public, and each woreda has its own FTAP team. Specific methods of communication include a continuous radio program, and members of the Regional Council visiting TRG-financed projects, holding constituent meetings every February–March, and communicating with the public in general (also referred to in PI-27).

Legal, political, and institutional factors in countries influence the extent that the information elements listed below can be met. Countries such as Ethiopia may be progressing very well in improving fiscal transparency, but, because of such factors, may not satisfy all these elements.

Table 3.17 Status of Public Access for PI-10

Elements of information for public access	Availability and means
(1) Annual budget documentation when submitted to legislature	**Met.** The annual draft budget is distributed to civil societies, universities, and selected residents from the general public in hard copy before the public discussion on the draft budget. About 150 participants invited from the universities, NGOs, and media are allowed to watch the debate on the draft budget. The main elements are aired on the radio. The budget speech is publicized on radio and TV, and the Budget Proclamation is published after it has been approved by the Regional Council.
(2) In-year budget execution reports within one month of their completion	**Not met:** Not available to the public.
(3) Year-end financial statements within 6 months of completed audit	**Not met:** Not available to the public.
(4) Availability of external audit reports to the public	**Not met:** the audit reports were not posted on the website of ORAG (http://tigotag.com) at the time of the assessment. The speech of the Auditor General is fully broadcast on both national and regional TV channels, and summary reports are presented on FM radio.
(5) Contract awards with value above US$100,000 approx. are published at least quarterly	**Met:** Contract awards are posted on public notice boards.
(6) Availability to public of information on resources for primary service units	**Met:** Availability of information on resources provided for primary service delivery units (SDU) has improved over time through FTAP and the operations of GEQIP (with regard to primary schools), with information on planned and actual spending and resource availability posted on public notice boards (as elaborated on under PI-23).

Table 3.18 PI-10 Results

Score PI-10	Minimum Requirements	Justification
B	The government makes available to the public three to four of the six types of information listed.	Three of the six information elements (1, 5, 6) are met. The extent that fiscal information is made available to the public is continuously improving through FTAP.

3.4. Policy-Based Budgeting

The indicators in this group assess to what extent the central budget is prepared with due regard for government policy. Table 3.19 below summarizes the assessment.

Table 3.19 Policy-Based Budgeting Performance Indicators

No.	C (i) Policy-Based Budgeting	Score
PI-11	Orderliness and participation in the annual budget Annual budget preparation process	A
PI-12	Multiyear perspective in fiscal planning, expenditure policy and budgeting.	D+

3.4.1 PI-11: Orderliness and participation in the annual budget process

This indicator reflects the organization, clarity, and comprehensiveness of the annual budget process. Dimensions to be assessed are: (i) the existence of and adherence to a fixed budget calendar; (ii) the clarity or comprehensiveness of and political involvement in the guidance on the preparation of submissions (budget circular or equivalent); and (iii) timely budget approval by the legislature or a similarly mandated body (within the past three years).

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

As with other regions, TRG follows the Federal Government guidelines with regard to budget preparation, as described in the Federal Budget Manual (January 2007). The calendar allows six weeks for the submission of "budget requests" after the issue of the Budget Call(BC) in February/March. The BC contains an overall initial ceiling for each BI budget based on the provisional allocations of the block grant to regions by MoFED, the final ceilings not known until Parliament's approval of the Federal Government's budget at the end of the fiscal year. The initial ceiling is conveyed to TBPF.

Most bureaus submit their requests on time, and TBPF claims that timeliness has improved. TBPF evaluates these requests during April and discusses with BIs, resulting in agreement on new spending proposed by BIs in their requests and approval by cabinet. The BIs then have three weeks to prepare detailed estimates to fit within the revised ceilings and to submit them to TBPF, with much of the estimation work already having been conducted during the initial phase of budget preparation. TBPF then prepares the draft Budget Proclamation, Cabinet discusses and approves it and submits it to the Regional Council (RC) in mid-June. The Federal Government Budget Proclamation is approved by the Federal Parliament by the end of June, and the RC is supposed to give its approval by July 7 (end of the fiscal year). Any change in the block grant allocation from the initial one allocated in March requires that BIs adjust their draft budgets accordingly. Usually any such changes are minor, so BIs can make the adjustments quickly.

The BoE Planning and Budgeting Department has few issues with the timetable, the budget preparation system having been in place for several years. It has good relations with TBPF. The Bureau distributes its internal Budget Callto the many bodies falling under the education sector, requesting that they submit their budget requests to the Bureau's Management Committee, which reviews and then submits a consolidated budget request to TBPF. The process has become easier over the past two years as the responsibility for secondary schools has been moved from TRG to woredas.

(ii) Guidance on the preparation of budget submissions

Budget institutions follow the "Guidelines for Public Bodies Preparing Budget Requests" contained in the Federal Budget Manual (2007). Budget preparation is a two-stage process, as indicated in the budget calendar. Firstly, bureaus are required to prepare their budget requests by filling out standard format budget preparation forms (Annex H of the Federal Budget

Manual). The forms provide for the detailed estimation of recurrent and capital expenditures for the coming year based on the expected outturn for the current year; in other words, based on the existing levels of services. They also provide for prioritized and well-justified proposals for new capital projects.

At a later stage, after the submission of budget requests to TBPF and subsequent discussion of these, the Regional Cabinet may agree with proposals by BIs for 'new' spending. Agreement may be based on matching savings identified by the proposing BIs and/or the identification of fiscal space that may have become available. The TBPF then sets firm ceilings for preparation of the detailed budget estimates.

The sector bureaus met had no problem with the clarity of the budget preparation guidelines.

(iii) Timely budget approval by the legislature

In the last three years, the budget has been approved around the start of the Ethiopian Financial Year (EFY) (July 8): July 3, 2011, for FY 2011/12 (EFY 2004); July 8, for FY 2012/13 (EFY 2005); and July 11 for FY 2013/14 (EFY 2006) as indicated on the gazetted Budget Proclamations. The mourning period for the late Prime Minister was the reason for the slight delay in approving the EFY 2006 budget.

Ongoing and planned activities

Program budgeting has not yet been formally adopted in the regions. Some training in program budgeting has started, however, through the Ethiopian Management Initiative.

Table 3.20 PI-11 Results

Score PI-11 (M2)	Minimum Requirements	Justification
A		
(i) A	A clear annual budget calendar exists, is generally adhered to, and allows regional bureaus enough time (at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	Sector bureaus consulted say the calendar, which is well established after several years, provides sufficient time for them to prepare their budgets.
(ii) A	A comprehensive and clear budget circular is issued to regional bureaus, which reflects ceilings approved by cabinet (or equivalent) prior to the circular's distribution to MDAs.	The budget is prepared in two stages: (1) budget requests are prepared using standard formats for projecting spending next year under existing service levels and for proposing new spending; (2) cabinet reviews the proposals and agrees to the ceilings to be adhered to for the detailed preparation of budget estimates.
(iii) A	During the past three years, the legislature has the budget before the start of the fiscal year.	This is required by the Financial Administration Law. The Regional Council approved the draft Budget Proclamation before the end of each of the past three fiscal years.

Source: TBPF Planning and Budget Department; Budget Proclamations; meetings with planning and budgeting staff in Bureaus of Education and Health; Federal Budget Manual; and Committee for Budget and Audit (Regional Council).

3.4.2. Multiyear perspective in fiscal planning, expenditure policy, and budgeting

This indicator looks at the link between budgeting and policy priorities from the medium-term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process.

(i) Multiyear fiscal forecasts and functional allocations

The federal budget manual (Section 6, Budget Calendar) indicates that regional governments, as with the Federal Government, should prepare a medium-term macroeconomic and fiscal framework (MEFF), which would show realistic projections of the resource envelope (regional revenues and transfers) available to finance expenditure. This is not yet being done. A regional government MEFF would be simpler than the Federal Government one, which has to incorporate a debt management strategy. However, although three-year revenue forecasts are prepared by TBPF, accurate forecasting remains a challenge, due to capacity constraints and the mainly agricultural economic base (agriculture comprises about 40 percent of regional GDP). Accurate projections of transfers also pose a challenge as they are mainly an exogenous variable under the control of the Federal Government and DPs.

A Medium-Term Expenditure Framework (MTEF), showing projections of functional allocations, is also not yet in place for the following reasons:

- The MEFF, which would provide the aggregate spending ceiling for the MTEF, is not yet in place;
- Sector bureaus are not yet preparing rigorous forward expenditure estimates (FEE), a prerequisite for an MTEF; FEEs (also known as baseline estimates) are projections of expenditures under existing service delivery levels and include the recurrent costs implied by committed capital expenditures. Although very worthwhile, preparing FEEs is time consuming and is not a straightforward exercise, requiring the skilled efforts of both TBPF and sector bureau staff;
- A program budgeting framework is still being rolled out at the federal level within the Federal Government's MTEF and it is better to wait until this exercise has been completed before rolling out to regions. Nevertheless, a program budgeting framework is being piloted in some regions (e.g., SNNPR);
- Capacity constraints. As with all aspects of PFM systems, sound institutional and human resource capacity is a prerequisite for the development and operation of robust MEFFs and MTEFs.

(ii) Scope and frequency of debt sustainability analysis (DSA)

This dimension is not applicable, as TRG does not borrow on formal terms (apart from temporary overdrafts) and has no formal debt obligations. The Financial Administration Proclamation permits TRG to borrow. As indicated under PI-17, it can guarantee loans as it has done through a guarantee on a bond issued by the Housing Agency.

(iii) Existence of costed sector strategies

Sector strategies are prepared at the Federal Government level and then adapted to the regional level, consistent with the regional Growth and Transformation Plan (GTP) covering the period FY 2010/11-2014/15, derived from the Federal Government's GTP. The GTP follows on from the previous plan, covering the years 2006-2010. Regional strategies cover woreda governments as well as regional governments as most public services are delivered at the woreda level.

The GTP does not show detailed costing, but Table 12 in Part 4 of the GTP on the financing of the Plan shows annual costs on an aggregate basis—recurrent and capital—by the pro-poor sector (agriculture, education, health, water, roads). Costs over the five-year period covered by the GTP amount to ETB 33.7 billion. Projected resources amount to ETB 29.4 billion (Table 3.41), split roughly equally among regional revenues, federal transfers, and external aid.

It is assumed that somehow the gap will be filled, for example through strengthened revenue administration. At the same time, the issue of low implementation capacity is raised (Part 5 of the GTP), which increased availability of financial resources cannot itself resolve. An alternative way of preparing the GTP would have been to determine what could feasibly be achieved given the capacity constraints.

The Bureau of Education (BoE) indicated that it had prepared an Education Sector Strategic Plan (ESSP) consistent with the GTP for Tigray and covering the same period. Education sector spending comprised 23 percent of total TNRS expenditure in FY 2012/12. The BoE indicated that it would provide a soft copy of the ESSP to the assessment team via TBPF, but it was not provided, perhaps due to internet connectivity problems, which also precluded the team from accessing it online. BoE says that the plan is costed, but its fiscal realism is doubtful if it was prepared in the same way as the GTP. BoE mentioned that the strategy assumes that expenditure on education as a share of total TNRS expenditure increases over the GTP period, but such a top-down assumption may be fiscally unrealistic.

The same observation applies to the Health Sector Development Plan, based on a meeting with the Bureau of Health. Health sector spending comprised 7 percent of total TNRS spending in FY 2012/13.

Capital projects included in the proclaimed budget are selected based on sector strategies, themselves based on the GTP. The "Guidelines for Preparing the Capital Budget" (contained in the 2007 Federal Budget Manual) stipulate that a public body should assess the recurrent budget implications of new capital projects before it includes them in its Budget Request; the templates in the Budget Callinclude a form for this purpose. When estimating the size of the block grant allocation to each region, MoFED takes into account the recurrent costs implied by committed capital investments. The establishment in FY 2011/12 of the MDG Grant for funding capital projects in regions has reinforced this through the influence of the DPs helping to fund the grants. In the education sector, the linkage between investments and recurrent costs is implicit, as the investments are partly driven by enrollment projections and associated recurrent costs based on norms such as pupil/teacher ratios.

Estimated spending projections are not yet formally prepared by TRG, as budget preparation does not yet have a medium-term perspective. However, projections of the recurrent cost implications of capital projects help to inform annual budget preparation.

Table 3.21 PI-12 Results

Score PI-12 (M2)	Minimum Requirements	Justification
D+		
(i) D	No estimated projections of fiscal aggregates are undertaken.	The Federal Government's MEFF and MTEF have not yet been established in TRG.
(ii) NA	*Scope and frequency of debt sustainability analysis*	The regional government has not borrowed and has no debt liabilities.
(iii) C	Statements of sector strategies exist for several major sectors, but are only substantially costed for sectors representing up to 25% of primary expenditure.	Costed education and health sector strategies are in place, consistent with the GTP and comprising about 30% of total expenditure. However, although they are consistent with the GTP, they appear to be fiscally unrealistic.
(iv) C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in estimated budget projections only in a few (but major) cases.	Investment decisions are based on sector strategies. Recurrent cost implications are partly taken into account during annual budget preparation, but a system of estimated budget projections is not yet in place.

Sources: TBPF Budget & Planning Department; Bureaus of Education & Health; GTP; Budget preparation manual.

3.5. Predictability and Control in Budget Execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

Table 3.22 Predictability, Control, and Budget Execution Performance Indicators

No.	C (ii) Predictability, Control and Budget Execution	Score
PI-13	Transparency of taxpayer obligations and liabilities	A
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for the commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt and guarantees	B+
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for nonsalary expenditure	B
PI-21	Effectiveness of internal audit	B+

3.5.1. PI-13: Transparency of taxpayer obligations and liabilities

Background

The Constitution of the Federal Democratic Republic of Ethiopia (FDRE) clearly defines the power and distribution of taxation responsibilities of the Federal Government and regional state governments (Articles 96-98). The Tigray Revenue Development Authority (TRDA) was established by Proclamation no. 210/ 2011 (EFY 2003); it was previously a department of TBPF. TRDA is responsible for administering the tax and non-tax revenues of the region. It is a member of the Regional Executive Council and is accountable to the President. It has three Core Processes: (1) Collection and Data Measurement; (2) Education and Customer Handling; and (3) Enforcement. TRDA has 600 employees located in the 53 woredas or city administrations in Tigray, one branch per woreda or city administration.

The tax assignments between the Federal Government and TRG are summarized in Table 3.23.

Table 3.23 TRG Revenue Assignments

TRG revenues (Article 97)	• Taxes on incomes of regional and private sector employees • Fees for usufructuary land rights (Land Use Tax – both urban and rural) • Taxes on the incomes of private and unincorporated farmers • Taxes on the profits of resident merchants • Sales Tax/Turnover Tax • Water transport fees within the region • Rental incomes on regional government houses and properties • Taxes on regional government enterprises (including excise tax) • Regional license fees • Royalties on the use of forest resources
Revenues shared between the Federal Govt. & TRG(Article 98)	• Taxes on jointly-owned enterprises • Taxes on corporation profits and shareholder dividends • Taxes on large scale mining, petroleum and gas operations

VAT, which was introduced after the Constitution was written, is shared between the Federal Government and the regions as follows:

- VAT assessed on incorporated bodies with a head office in Addis Ababa is assigned to the Federal Government;
- VAT assessed on incorporated bodies with a head office in Tigray is split 70:30 between the Federal Government and TRG;
- VAT assessed on sole traders is assigned to the region in which the trader is based;
- Recently, excise tax on Chatt was assigned to TRG.

There are no tax revenue sharing arrangements between TRG and woreda governments. Tax revenues collected by woreda offices belong to TRG. In the interests of efficiency, they may be retained by the offices, the block grant from TRG being reduced commensurately. Most non-tax revenues belong to the woreda governments.

Taxpayers are classified according to three categories. A and B taxpayers comprise 10 percent of all taxpayers of the region. Category A taxpayers are those with annual turnovers higher than ETB 500,000, who therefore have to be registered for VAT. Category B taxpayers are those with annual turnover less than ETB 500,000 but higher than ETB 100,000 a year. They do not have to be registered for VAT, but are liable for turnover tax (tax on gross sales) and therefore are required to keep books of account. Category C taxpayers are those with turnover under ETB 100,000. They are not required to keep books of account, but are liable for presumptive tax. Presumptive tax is a scheme for estimating the daily sales of Category C taxpayers and then applying the tax rate to these sales. All presumptive tax assessments in FY 2012/13 (EFY 2005) were posted at every TRDA branch.

The total number of taxpayers is about 140,000, of which about 12, 000 fall into categories A and B.

(i) Clarity and comprehensiveness of tax liabilities

The TRG has already implemented the following tax laws:

- Income Tax Proclamation no. 68/2003 (1995 E.C.) for all taxes on income, capital gain, and profits; as amended by Proclamation no.180/2010 (2002 E.C.);
- Proclamation no. 96/2006 (1998 E.C.) for Agricultural Income Tax and Rural Land Use Fee as amended by Proclamation no. 137/2008 (2000 E.C.);
- Stamp Duty and Sales Proclamation no. 124/2007 (1999 E.C.), as amended by proclamation no. 203/2011 (2003 E.C.);
- Proclamation no. 285/2002 (1994E.C.) for VAT on goods and services, as amended by Proclamation no. 609/ 2008 (2001E.C.) and Regulation no. 79/2003 (1995 E.C.);
- Excise Tax Proclamation no. 125/2007 (1999 E.C.) as amended by Proclamation no. 202/2011 (2003 E.C.); and
- Turnover Tax Proclamation no. 72/2004 (1999 E.C.) as amended by Proclamation no. 182/2008 (2000 E.C.)

The legislation is reasonably comprehensive and clear, with clearly stated discretionary powers for specified officials within or above clearly stated thresholds, although the criteria for exercising those powers leave room for interpretation. Under the Income Tax Proclamation (as amended in 2010), the General Manager of TDRA has the discretionary power to waiver tax liabilities less than ETB 50,000 in cases of "grave and unavoidable hardships," the definition of these not being explicitly specified. Similarly, the head of TBPF can waive tax liabilities up to ETB 100,000. The approval of the is required for waivers of tax liabilities greater than ETB 100,000. Similar discretionary powers are provided in the case of the turnover tax (section 39) and the land use fee and agricultural income tax (for example because of drought). Presumptive taxation (businesses with less than ETB 100,000 turnover a year) implies discretionary powers by definition, as, in the absence of books of account, the TRDA has to estimate turnover and reach agreement with the business on this.

As organized by TBPF, the assessment team met with representatives of the Mekelle City Chamber of Commerce and sectoral associations (CoC): the Chairperson, the Secretary, a member of the executive body of CoC, and a tax expert. The team discussed tax administration-related issues with the representatives. The CoC members indicated that overall, the tax legislation and tax administration system was comprehensive and clear, although there was room for improvement in terms of understanding of the system.

(ii) Taxpayers' access to information on tax liabilities and administrative procedures

TRDA aims to enhance the awareness of all regional taxpayers and thereby encourage voluntary compliance. Tax regulations and explanatory brochures in English and Tigrinya (local language) are available to all government offices, businesses, and the public, with dissemination facilitated by the establishment of TRDA branches in woredas and towns, as well as through TRDA's website (www.trda.gov.et). All the major taxes noted under dimension (i) are covered. TRDA makes soft copies available to the CoC for distribution to its members. The TRDA runs television radio programs twice a week, issues flyers and monthly bulletins, and prepares newspaper columns. Question-and-answer sessions are periodically organized in tertiary education institutions and in schools, via 814 tax clubs with 16, 000 members. Tax training is provided face to face to category A, B, and C taxpayers, the last being provided with periodic training at the woreda level. The CoC confirmed that TRDA is improving taxpayer relations.

As is the case for the other regions assessed, the major taxes noted under dimension (i) are covered by these programs.

(iii) Existence and functioning of tax appeals mechanism

The tax proclamations have provisions for appeals related to the four major taxes (income tax, VAT, presumptive tax, and excise tax), and the appeal mechanism is the same for each type of tax (details are contained in the Income Tax Proclamation (68/2003, EFY 1995) with summaries in the other tax proclamations. The appellate procedure was put in place a year after the Income Tax Proclamation.

The appellate processes have three tiers:

- *Review Committee (RVC)*: The RVC is an ad-hoc committee within TRDA. An RVC may be formed in any of the 53 TRDA woreda branches. Members number three to five, are appointed by the respective branch head, excluding the original assessor, and are approved by the General Manager of TRDA. The responsibility of the RVC is to examine taxpayer queries over their tax assessments and, where appropriate, recommend waivers of assessed tax liabilities and any associated penalties and interest charges. Many queries relate to the presumptive tax, since queries are likely to be higher under this tax scheme than for other taxes. Queries arising from inadequate understanding of the tax laws and regulations are usually resolved by the RVCs. Decisions are usually made within five days, although sometimes they may take up to 10 days.
- *Tax Appeals Commission (TAC)*: A taxpayer who is not satisfied with the way the RVC has addressed his or her request or complaint can go to the second tier, the TAC. This was established two years ago through a directive under the Income Tax Proclamation at the regional and woreda levels(including the seven sub-cities in Mekelle) and is independent of TRG. Members are selected from bureaus (TBPF, Trade and Industry, Justice) as well as the Mayor or his Deputy in town administrations, and the CoC, representing taxpayers. The CoC has access to a number of tax advisors who help appellants with the complaints process. TRDA is also a member of the commission, but does not have a vote.

  Submission of an appeal requires: (1) lodging the appeal within 30 days of receipt of the tax assessment notice or the date of the decision of the RC concerning the tax assessment; and (2) depositing 50 percent of the disputed amount with TRDA. Complaints are supposed to be resolved within five days after the submission of the complaint, but sometimes take longer. The Commission has the authority to confirm, reduce, or cancel the tax assessment. The Chair of the Commission (usually the deputy administrator) is required to prepare an annual report. At the woreda level, a clerk is employed to serve the contesters during the process.

- *Court of Appeal:* A taxpayer dissatisfied with the decision of the Tax Appeals Commission may appeal to the Court of Appeal within 30 days of the decision on the grounds that the decision is erroneous in terms of the law. However, he or she must first deposit 100 percent of the assessed tax liability.

In practice, nearly all queries or complaints are resolved at the RVC stage. The extensive taxpayer education campaign has helped reduce the number of queries, especially in FY 2012/13 (EFY 2005), during which a survey of the annual turnover of category C taxpayers was conducted. The survey indicated the presence of 70,529 registered regular taxpayers and 28,098 house rent income earners in Tigray, amounting to 98,627 category C taxpayers. Only 5,335 (5 percent) of these contested the assessments. Of these, 1,448 cases were resolved through discussions, while 3,887 cases were submitted to the RVCs. The RVCs reached decisions on 2,553 (66 percent) of these, 32 percent in favor of the contesters and 68 percent in favor of the RVCs. Most of the contesters (75 percent) accepted the decision, while 651 (25 percent) took their appeal to the TAC. The proportion of appeals being escalated to the TAC has fallen substantially over the past three years.

In the Mekelle City Administration, where most of Tigray's category A and B taxpayers reside, the following appeal cases were also heard in FY 2012/13 (Table 3.24). Most of the appeal cases were resolved at the RVC level. For both levels of appeal, half of the decisions were in favor of the taxpayer, the other half in favor of TDRA.

Table 3.24 Mekelle City Administration Appeal Performance in FY 2012/13

No.	Authorized Body	Cases received	Decisions passed	For taxpayers		For TDRA	
				Number	%	Number	%
1	RVC	3,241	3,168	1,572	49.6%	1596	50.4%
2	TAC	624	615	311	50.6%	304	49.4%
Total		3,885	3,783	1,883	49.8%	1900	50.2%

Source: TRDA Customer Service and Education Core Process

Ongoing and planned activities

According to the Secretary of the CoC, an MoU was recently signed with the TRDA to work more closely. As a result, the TRDA and CoC are meeting quarterly to discuss issues raised by taxpayers. An important issue is the need to train taxpayers in preparing books of account.

Table 3.25 PI-13 Results

Score PI-13 (M2)	Minimum requirement	Justification
A		
(i) B	*Clarity and comprehensiveness of tax liabilities* Legislation and procedures for all major taxes are comprehensive and clear, with limited powers for the government entities involved.	The legislation and procedures for all major taxes (listed above) appear to be clear and comprehensive. Discretionary powers can be exercised in the event of "grave and unavoidable hardships" although the definition of these is not explicitly stated.

Score PI-13 (M2) A	Minimum requirement	Justification
(ii) A	*Taxpayers' access to information on tax liabilities and administrative procedures* Taxpayers have easy access to comprehensive, user friendly, and up-to-date information on tax liabilities and administrative procedures for all of the major taxes, and the revenue authority supplements this with active taxpayer education campaigns.	TRDA has prepared explanatory brochures in both English and Tigrinya, uses the mass media and its website to educate taxpayers, and conducts training programs, including through tax clubs in schools through face-to-face training.
(iii) A	*Existence and functioning of a tax appeals mechanism* A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	The tax proclamation laws provide for the RVC and the independent TAC. These mechanisms are functioning effectively, with most complaints resolved at the RVC level.

Sources: Tax proclamations listed above and meetings held with the general manager of TRDA and his staff, including the Mekelle city administration Appeal Review Committee, and with the CoC.

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

Effectiveness in tax assessment is ascertained by an interaction between the registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Effectiveness is determined by reviewing: (1) controls in the taxpayer registration system; (2) the effectiveness of penalties for noncompliance with registration and declaration obligations; and (3) planning and monitoring of tax audit and fraud investigation programs.

(i) Controls in the taxpayer registration system

Under the current taxpayer registration system, every taxpayer in the country should have a taxpayer identification number (TIN) (Article 44 of the Income Tax Proclamation in the case of Tigray). An automated TIN registration system has been developed, deployed, and supported by a biometric fingerprint-based system at the national level, which is being developed in Tigray.

TRDA wants to ensure that all who should have a TIN do have one and, therefore, that the following requirements are being met:

- The Trade and Industry Bureau provides business licenses to new businesses only if they have a TIN (Article 46 of the Income Tax Proclamation). Business owners that operate without a license face penalties of seven to 15 years in prison;
- Banks check that loan applicants have a tax clearance certificate, which requires a TIN. A TIN is not currently required to open a bank account;
- A TIN is required in order to register for VAT. This enables TRDA to check that businesses are compliant with the Income Tax Proclamation (2002) and that employees of the business have TINs.

Effective from September 2009, all taxpayers (current and potential, for example, students) are required to have biometric fingerprints. According to the TRDA general manager, about 123,000 category C taxpayers (of whom 45,000 are house rent income earners) and 12,000 category A and B taxpayers, 135,000 in total, have already been registered. Since the introduction of the automated SIGTAS-linked TIN registration system in 2009, based on biometric fingerprinting technology, 204,443 fingerprints including those of students, government employees, and business enterprises have been collected. Of these, about 142,904 should already be registered, indicating that approximately 95 percent of all those who should currently be registered and paying tax are in fact formally registered. Once a taxpayer is registered, a card containing the TIN and bearing a photo of the taxpayer is produced and issued as soon as possible. Registered fingerprints are stored in a Federal Government register.

There are now 19 online fingerprint services in the 19 city administration tax centers in Tigray where fingerprints are being converted to TINs. Three years ago, there was only one online fingerprint service tax center (in Mekelle). There is still some work to be done to ensure that all 53 tax centers are covered, but the fingerprint system along with the taxpayer education campaign (PI-13) appear to be helping to strengthen tax compliance. Connectivity is an ongoing issue, specifically with regard to the reliance on SIGTAS (as in other regions).

The introduction of electronic cash registers in FY 2011/12 (EFY 2004) is helping to strengthen compliance with the tax proclamations. Retail businesses are required to have these registers, and transactions posted through them are automatically registered in SIGTAS. To date, over 3000 registers have been issued to businesses.

TDRA has also conducted house-to-house surveys or taxpayer validation exercises over the past three years in order to check that people who should be registered are registered. A survey conducted in 2003 contributed to a large increase that year in revenues to ETB 1.3 billion from ETB 260 million the previous year.

(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations

Penalties for noncompliance are set out in the tax proclamations and appear to be high enough to have potential significant impact. Penalties are levied for noncompliance with registration and declaration requirements. These penalties are levied according to the tax law (which is essentially the same as the federal law in all regional and city administrations), on taxpayers who do not make their income declarations or file late, those who understate income, those who pay late, and those who do not keep proper books of accounts. Other penalties apply for not withholding tax and not acquiring a TIN. Criminal offenses are also applicable.

Failure to have a TIN may result in fines and prosecution. Section VII of the Income Tax Proclamation provides for seizure of property in the event of default, while Section VIII provides for administrative penalties.[11] Section IX provides for criminal penalties and the

[11] *(i) Penalties for late filing or nonfiling of tax declarations*: ETB 1,000 for the first 30 days, ETB 2,000 for the next 30 days, ETB 1,500 for each 30 days thereafter; *(ii) Penalties for understatement of tax in tax declaration:* 10 percent of understated amount, or 50 percent if the understatement exceeds 25 percent of the tax required to be declared or exceeds ETB 20,000, whichever is smaller; *(iii) Penalty for late payment*: 5 percent of unpaid tax on the first day after the due date; an additional 2 percent for each following month; *(iv) Penalty for failure to keep proper records*: 20 percent of tax assessed and loss of business license if the failure continues for two years; *(v) Penalty for failure to withhold tax*: ETB 1,000 on the manager or senior accountant for each instance of failure;

TRDA has its own prosecution department.[12] The turnover, VAT, and Excise Tax Proclamations have penalties of similar scale as well as interest charges on late payments. The penalty for late payment under the Agricultural Income Tax Proclamation is 2 percent of the amount of tax due for each month the payment is in default, and criminal penalties are according to the penal code.

Penalties, however, are waived in whole or part by the city or woreda revenue authority head based on the penalty directive under Income Tax Proclamation no. 180/2010 (EFY 2002) if payment of tax liabilities is made according to the requirement of the directive. The penalty directive permits penalties to be waived if taxpayers pay past tax due and associated interest. The incentive for complying with the directive is the avoidance of heavier penalties (due to accrued interest) at a later date; the quicker payment is made, the greater the proportion of the waiver.[13] In the end, the government's revenue is higher than in the absence of such a penalty waiver scheme. In general, it appears that the penalties provide sufficient incentive for payment and that revenue would be lower without it.

Currently, in 19 urban woredas of the 53 woredas in the region, SIGTAS is used to monitor compliance; the system picks up nonfilers and late filers.

(iii) Planning and monitoring of tax audit programs

About 9 percent of the 135,000 taxpayers in TNRS fall into categories A and B (5,500 in category A, 6,000 in category B). The remainder falls into category C, most of whom are small taxpayers who do not maintain books of accounts and who pay presumptive tax.

This dimension applies, therefore, only to taxpayers in categories A and B who pay the bulk of regional tax revenue (80 percent). Under the direction of the Audit and Investigative Core Process at TRDA-HQ, audit plans are prepared at the regional, woreda, and city administration levels and then compiled centrally. According to the TRDA tax audit strategy document (November 2012, EFY 2005), in order to audit all of the 12,000 category A and B taxpayer files in FY 2012/13, 607 auditors had to be hired in that year alone, but there were only 239 auditors (123 in the 19 city tax centers and 116 in the 34 rural woredas).

Auditee selection, therefore, had to focus on taxpayers who posed relatively significant risk. The version of SIGTAS used by TRDA does not allow for the identification of taxpayers who should be audited according to rigorous risk-based criteria. Instead, audit time was allotted as follows: 45 percent for desk audit, 35 percent for spot audit, 15 percent for comprehensive audit, and 5 percent for investigative audit selected according to tax area. Based on these shares, audit

(vi) Failure to meet TIN requirements: a withholding agent who makes a payment to a person who has not supplied a TIN is required to withhold 30 percent of the payment and the person to pay a fine of ETB 5,000.

[12] *(i) TIN violation*: If a person has more than one TIN, he or she is required to pay a fine of ETB 20,000 to ETB 50,000 and face imprisonment for each extra TIN; *(ii) Tax evasion:* At least five years in prison; *(iii) False or misleading statements:* Fines ranging between ETB 1,000 and 200,000 and/or imprisonment of one to 15 years, depending on the extent of underpayment and the extent to which the falsification was deliberate; *(iv) Obstruction of tax administration*, offences by tax authority employee, unauthorized tax collection: fines of at least ETB 10,000 and two years imprisonment; and *(v) Failure to keep receipts generated by sales register machines*, two years imprisonment.

[13] Payments are made on a monthly basis for up to six months. The sooner the payment is made, the higher the rate of the penalties waiver (from 20 percent up to 100 percent). If tax liabilities are paid within one month, the probability of a penalty waiver is 100 percent; if within two months, up to an 80 percent waiver, depending on the reasons given by the taxpayer for not complying. SIGTAS is programmed to administer these waivers.

was conducted on businesses that operate in sectors where risk is considered to be high, namely in the contractor, import/export, building materials and hotel sectors.

During FY 2012/13, the 123 auditors audited 5,905 self-assessed files in the 19 tax centers (city administrations) where most category A and B taxpayers reside. Taxes declared amounted to ETB 356.5 million, but the audit effort generated an additional ETB 106.5 million in revenue, indicating a substantial return of ETB 865,000 per auditor.

Table 3.26 shows TRDA's audit plan and performance in FY 2012/13. TRDA managed to execute 87 percent of its audit plan.

Table 3.26 Tigray Regional State Audit Plan and Performance for FY 2012/13

No.	Type of audit	Planned	Performed	Achievement %
1	Desk audit	2,549	2,417	94.8%
2	Spot audit	2,225	1,900	85.4%
3	Comprehensive audit	2,196	1,721	78.4%
4	Investigative audit	84	73	86.9%
	Total	7,054	6,111	86.6%

Source: Audit and Investigation Core Process of TRDA

Ongoing and planned activities

TRDA is planning to introduce a requirement for bank account applicants to have a TIN.

Table 3.27 PI-14 Results

Score PI-14 (M2)	Minimum requirement	Justification
B		
(i) B	Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	All taxpayers should be registered in the database (partly through SIGTAS, partly manually). The main checkpoints are (1) the requirements for businesses to have TINs in order to obtain a business license and to borrow from banks; (2) the biometric fingerprinting program being implemented; (3) the requirement since FY 2011/12 for retail businesses to have electronic cash registers; and (4) periodic taxpayer surveys and validation exercises.
(ii) B	Penalties for noncompliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.	Penalties for noncompliance are set out in the tax proclamations. They appear high enough to provide an incentive for compliance, but noncompliance is significant. The penalty waiver scheme was introduced in FY 2012/13, but it is too early to determine its impact on compliance.

Score PI-14 (M2)	Minimum requirement	Justification
B		
(iii) C	There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	Tax audits are managed and reported according to a documented audit plan for auditing category A and B taxpayers operating in sectors considered relatively high risk, rather than for selective risk-based audits according to tax area. The ORAG also conducts tax audits as an integral part of its audit plans.

Sources: Tax proclamations, audit strategy document for FY 2012/13 (EFY 2005), meetings with the general manager and staff of TRDA, and a meeting with the Mekelle City Chamber of Commerce.

3.5.3 PI-15: Effectiveness in collection of tax payments

(i) Collection ratio for tax arrears

SIGTAS is operational in 19 of the 53 TRDA branches in Tigray. In practice, connectivity problems are constraining operations. In the 34 branches where it is not yet operational, manual ledger cards are maintained instead for tracking arrears. Table 3.28 summarizes arrears owed to TRDA at the end of FY 2010/11-2012/13, based on SIGTAS and ledger cards.

Table 3.28 TRDA Revenue Arrears Data for FY 2011/12-2012/13 (EFY 2004 -2005) (ETB, millions)

	2010/11	2011/12	2012/13
1. Revenue collections	755	1307.6	1715.9
2. End-year tax debts carried over to next year	11.39	8.84	0
3. As percentage of revenue collections (2/1)	1.5	0.7	0
4. Carried forward tax debts collected next year		11.30	8.8
5. As percentage of tax debts carried forward		100	100%

Source: TRDA Tax Audit, Investigation and Fraud Core Process

The end-year stock of taxes due at the end of FY 2010/11, FY 2011/12, and FY 2012/13 was less than 1 percent of revenue collections in those years. All end-year tax debts for FY 2010/11 and FY 2011/12 were paid off the following year.

According to the TRDA General Manager, a year after its establishment, the authority developed and has been implementing a tax debt-collection strategy that emphasizes timely payment of overdue tax debts and current taxes due.

It is possible that the information on the extent of end-year tax arrears is incomplete due to the manual nature of the system. For example, someone may be in arrears on paying an income tax obligation that has not been recorded properly in the system. This error would be detected through the reconciliation system assessed under dimension (iii). If this worked properly (which it does not) the rating for (i) might be lower (and the score for dimension (iii) higher).

(ii) Effectiveness of transfer of tax collections to TBFP

Revenues collected by TRDA branches in woredas and town administrations are supposed to be deposited daily into bank accounts (Treasury C accounts) held in local branches of CBE by Woreda/Town Plan and Finance Offices (WPFO/TPFO).[14] Revenues deposited into the C

[14] The daily deposit requirement is adhered to as far as possible. According to the TDRA General Manager, a bank will even stay open after its official closing time if the TDRA cashier is running late.

accounts in CBE are transferred to TBFP's bank account daily. Taxpayers can also deposit payments directly into these accounts. The TRDA branch cashier attaches copies of daily deposit receipts to taxpayer files. Bank advices and third copies of the receipts are then registered and enumerated on a form known as Me – Hi – 65 and delivered to WPFO/TFPO, where the final Treasury receipt is given to the cashier. All revenues collected should be deposited the same day into the C account, except for up to ETB 5,000 that can be kept by the TRDA cashier in a safety box in order to fund petty cash requirements. For this reason, according to the TBPF deputy head, cashiers at the woreda level may not deposit the money right away.

In the interests of efficiency, the WPFO/TPFOs tend to keep the agricultural income tax revenues and rural land use fees collected in order to expeditiously finance expenditures, with the amount of the block grant from the regional government reduced by the same amount.

(iii) Frequency of reconciliations between tax assessments and amounts received by the Treasury

Revenue collected by TRDA is reconciled monthly, with the amounts credited to TBPF's bank account within 15 days of the end of the month. With regard to arrears tracking, the module in SIGTAS could have been used, but only 19 woredas are connected to SIGTAS and even for these unreliable connectivity is an issue. The other 34 woredas use the manual system of taxpayer ledgers for arrears. The manual ledgers number in the thousands (one ledger per taxpayer) and are maintained in TRDA branch offices all over the region, making routine and frequent reconciliation difficult, even though TRDA divides taxpayers into groups to make reconciliation easier. No reconciliation of opening arrears, assessments, penalties, collections, waivers, and closing arrears could be submitted to the assessment team.

Table 3.29 PI-15 Results

Score PI-15 (M1)	Minimum requirement	Justification
D+		
(i) A	*Collection ratio for gross tax arrears* The total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).	The total amount of end-year tax debts due was less than 1% of annual revenue collections in both FY 2011/12 and FY 2012/13.
(ii) B	*Effectiveness of transfer of tax collections to TBPF by TRDA.* Revenue collections are transferred into accounts controlled by TBPF.	Revenues collected by TRDA branches in woredas and town administrations are supposed to be deposited daily into WPFO/TPFOs C accounts, the funds then being deposited into TBPF's account on the same day. In practice, the deposit may not take place daily, particularly at the woreda level.
(iii) D	*Frequency of complete accounts reconciliation* Complete reconciliation of tax assessments, collections, arrears, and transfers to Treasury does not take place annually.	SIGTAS is operational in only 19 of the 53 woredas or city administrations. Routine reconciliation based on thousands of taxpayer files contained in the manually maintained debt tracking ledgers is logistically too difficult.

Source: Meetings held with TBPF Treasury and Accounts Core Process and with the TRDA general manager and his department heads.

3.5.4. PI-16: Predictability in the availability of funds for the commitment of expenditures

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure.

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

The revised Financial Administration Proclamation that came into effect in 2011, underpinned by supporting financial regulations and directives, placed greater emphasis on the need for good cash flow forecasting.

The draft Budget Proclamation is approved by the RC in July, but full implementation does not begin until September/October, as the Proclamation is not disaggregated into account codes. Prior to that the recurrent budget is released monthly based on one-twelfth of the approved budget.

Sector bureaus prepare a monthly cash flow projection for the new budget year at the beginning of the year, with projections taking into account disaggregated revenue and expenditure projections taking into account procurement plans. The bureaus send the projections to the TBPF Planning and Budgeting Department for review. Once agreed (TBFP generally accepts the forecasts with few modifications), BIs prepare a quarterly cash flow, with effect from September/October, taking into account actual cash inflows and outflows to date. TBPF holds meetings with BIs to discuss their forecasts and monitors their cash flow situation. The assessment team was shown some examples of cash flow forecasts by the sector bureaus visited.

(ii) Reliability and horizon of periodic in-year information to regional bureaus on ceilings for expenditure commitment

Based on the cash flow forecasts, the accounts department in TBPF sets quarterly expenditure ceilings and monthly limits on the amount of cash to be to be made available to BIs through their “virtual” zero balance accounts (Z accounts) in CBE. Within this quarterly framework, BIs can delay making expenditure commitments if funding is not going to be sufficient to make the payments when they become due. Alternatively, they can request that TBPF make an adjustment by providing funding through the reserve or contingency, or by reallocating funds from other BIs with their agreement (e.g., particularly if they are underperforming in terms of budget execution), or through rephasing of the BI’s cash flow forecast.

BIs can commit expenditure for payments several months away by purchasing on credit early in the year and then paying against delivery according to the cash flow forecast. For example, the Bureau of Health can commit to purchasing a year’s supply of drugs and then paying against delivery. TBPF takes the projected payable into consideration when setting the monthly cash limit for the month in question. If the timing and size of payments differ from the original cash flow forecasts, the TBPF can make the same sort of adjustments as mentioned in the previous paragraph.

The predictability of the block grant from MoFED and the large proportion of TRG’s financial resources that it comprises imply a high probability of sufficient resource availability for budget execution.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of regional bureaus

There are two adjustments that TBPF can make to budget allocations: (1) transfers between bureaus that leave total spending unchanged, for which presidential approval is required; and (2) a change in allocations that results in an increase in total spending, for which prior Regional Council approval is required via a supplementary budget.

In the case of (1) above, some BIs may request reallocations if they need extra funding for a number of reasons. BIs with unutilized budget (for example, due to capital project implementation occurring more slowly than planned, often the case due to capacity constraints) may notify TBPF, which can then reallocate to other BIs. Reallocations from capital budgets to recurrent budgets are not allowed. TBPF first consults with BIs about the possibility of reallocating away from their approved budgets. As indicated to the team by BoE, if it is underperforming on its budget TBPF may ask why and may request reallocation to BIs that might be overperforming. The reserve/contingency item in the Budget Proclamations (about 3 percent of the proclaimed budget) might be used to supplement BI budgets during the year.

The detailed budget execution reports show, for each BI by economic classification item, the total value of "Transfers In" and "Transfers Out", but do not show the frequency of adjustments, although the date of each adjustment is presumably contained in the original source data. Separate reports are prepared for recurrent and capital expenditure. The report for FY 2012/13 (EFY 2005) shows "Transfers In" and "Transfers Out" out for nearly every BI, and covering many of the economic classification items. Total transfers amounted to ETB 5.1 billion in FY 2012/13, representing 77 percent of the total proclaimed budget. Transfers under the capital budget are much larger than under the recurrent budget, representing 70 percent of total transfers in FY 2012/13. The C+ rating for PI-2 also implies a significant extent of reallocation between BIs during the year.

Supplementary appropriations proclamations tend to be infrequent, once or twice a year, and are much smaller in value than the reallocations. Supplementary adjustments totaled ETB 0.5 billion in FY 2012/13 (80 percent under the capital budget), representing 8 percent of the total proclaimed budget.

Table 3.30 PI-16 Results

Score PI-16 (M1)	Minimum Requirements	Justification
C+		
(i) B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.	Information is provided by the TBPF accounts department and sector bureaus.
(ii) A	Bureaus are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	The TBPF accounts department sets monthly cash expenditure limits based on the cash flow forecasts prepared by BIs. BIs can commit expenditures according to the as-yet uncommitted approved budget and may request adjustments to the monthly cash limits if the timing of the required payments differs from the cash flow forecast.

Score PI-16 (M1)	Minimum Requirements	Justification
(iii) C	Significant in-year adjustments to budget allocations are frequent, but undertaken with some transparency.	Significant in-year adjustments take place through transfers between bureaus. The federal Financial Administration Proclamation and the annual Budget Proclamation laws provide for a degree of transparency in making adjustments. The adjustments are sizeable.

Sources: Meetings with TBPF Planning and Budgeting and Accounts departments; Financial Administration Proclamation (2009); annual Budget Proclamations; detailed budget performance reports; and cash flow forecasts shown to the team by sector bureaus.

3.5.5. PI-17: Recording and management of cash balances, debt and guarantees

(i) Quality of debt recording and management

The TRG may borrow from domestic sources with authorization of the Regional Council as per Financial Proclamation 173/2003, Article 40. The TRG has only just started to borrow, through its issuance of a bond on behalf of the Housing Development Agency.

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

TBPF's approval is needed for the opening of bank accounts by BIs, including bank accounts for the implementing units of DP-funded projects and programs. There are about 962 bank accounts at the regional and woreda government levels. There are four categories of bank accounts, namely the Z account, B account, MDG account, and DP accounts (Channel 1a and 1b accounts). Z accounts are referred as "zero balance accounts," which are virtual bank accounts opened by TBPF at the Commercial Bank of Ethiopia (CBE) for 53 sector bureaus. A monthly cash withdrawal ceiling is set by TBPF for each BI based on its monthly cash requirement forecasts, as agreed by TBPF (PI-16). BIs effect payments from the Z account to the extent of the ceiling. The CBE clears the balance from Z accounts daily against TBPF's Central Treasury Account (CTA) at CBE. This arrangement represents the Treasury Single Account (TSA), which has been operational since FY 2007/08. TBPF knows the consolidated CTA cash balance position on a daily basis, and the CTA constitutes more than 70 percent of the cash balances of TRG.

B accounts are deposit accounts (revenue accounts) into which revenues collected by the BIs and woredas are deposited.

The MDG Fund account was established in FY 2011/12 (EFY 2004). Funds are deposited into it by MoFED. The funds can only be used for funding capital expenditures at the woreda level. The account is not part of the TSA as funding occurs on a reimbursement basis.

There are DP-funded accounts maintained at the TBPF and BI levels. TBPF itself holds more than 30 bank accounts in addition to the CTA and MDG account. The larger BIs, including BoE and BoH, may hold multiple DP-fund bank accounts, with the BoE and BoH specifically holding more than ten. The balance in each account is known at the level of BIs and reconciled periodically, but is not consolidated into the overall TRG cash balance position.

(iii) Systems for contracting loans and issuance of guarantees

As per the Financial Administration Proclamation, TBPF has the sole responsibility for issuing bonds and loan guarantees. The criteria for issuing these are indicated in the Proclamation, and prior Regional Council approval is required. The Council has approved the issuance of a bond for the construction of condominiums with a maximum total value of ETB 1.197 billion. At the time of this assessment, ETB 910,000 had been transferred to the Housing Development Agency.

TRG also issues an annual guarantee to CBE for loans to agricultural unions and cooperatives in the region, for their annual purchases of fertilizer for distribution to farmers, who repay the loans through the proceeds of their farming activities. The ceiling for the guarantee is determined by a proclamation issued by TRG for every crop season. Woreda governments are given the responsibility of ensuring that farmers repay the loans. Shortfalls result in TRG making offsetting reductions in transfers to woredas. The guarantee system is simple and clear.

Table 3.31 PI-17 Results

Score PI-17 (M2)	Minimum Requirements	Justification
B+		
(i) NA	*Quality of debt data recording and reporting*	TRG does not borrow.
(ii) B	Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement	Most cash balances are calculated and consolidated at least weekly through the CTA/Z account system. About 30% of cash balances fall outside the system.
(iii) A	Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets and are always approved by a single responsible government entity.	There is a system of issuing bonds and loan guarantees as evidenced by the proclamations issued by the Regional Council indicating the criteria to be followed. TBPF has the sole responsibility for issuance, and prior TRG and Regional Council approval are necessary.

3.5.6. PI-18: Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. This indicator is concerned with the payroll of public servants only; wages for casual labor and discretionary allowances are included in the assessment of general internal controls (PI-20).

Payroll and personnel management are decentralized to a public body in Ethiopia. Given the decentralized nature of personnel and payroll management, the assessment team met officials from three BIs in addition to TBPF: BoE, BoH, and the Bureau of Rural Road Construction (BRRC). Microsoft Excel is used to prepare the payroll; salaries are paid into bank accounts.

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

The human resource departments (HRD) of the respective BIs are responsible for maintaining HR-related documentation (e.g., promotion, termination) and communicating relevant changes to the Finance Department (FD) of the BI. Each department head within a BI is responsible for ensuring that employees are on duty. This used to be done through an attendance monitoring system administered by the Internal Audit Unit (IAU) in the BI, but this practice was discontinued in FY 2008/09 (EFY 2001) as a result of the business process reengineering (BPR) exercise, on the basis that department heads would monitor attendance, so there was no need for IAUs to do so. Department heads within BIs have reportedly detected some, but not all, instances of absenteeism to HRD. The BRRC has since reinstated the use of attendance sheets following instances of nonattendance that had not been detected by department heads.[15]

For the monthly payroll preparation exercise, HRDs submit documentation of changes to personnel records to FDs in hard copy only, and the FDs then input the changes into the Excel-based payroll preparation program. Some HRDs, for example the HRD in BoH, also send copies of memos of changes to personnel records to IAU in their BI, thereby facilitating their monthly payroll–personnel reconciliation checks.

The scope for tampering with the changes in personnel records submitted by HRDs to FDs in hard copy seems significant, hence the need for ex-post reconciliation of the current month's payroll against the previous month's payroll and the records of the changes. Payroll accountants in FDs perform ex ante checks as a matter of procedure (as indicated by BoH), but ex post reconciliation is needed for complete assurance that there has been no tampering and/or that no errors have been made.

The IAUs of BIs are in a good position to perform this role and it appears they are in fact performing it, as judged by the team through its meetings with the Inspection Unit in TBPF, and with the IAUs in TBPF (as its own BI), the BOE, the BOH and BRCC.

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

Payroll changes are made by FDs within a few days from receipt of the letters from HRDs indicating changes in personnel records. Changes received after the 22nd of the month are reflected in the payroll in the subsequent month. Most changes are made before the 22nd, so retroactive adjustments to payroll records are rare. If a staff member resigned after receiving a full month's payroll on the 22nd of the month, the excess payment of seven days salary would be deducted from his termination-related benefits and fees.

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

At the beginning of the year, HRDs submit the list of employees together with their pay information to FDs. The documentation for changes in personnel data are copied to FDs and the relevant operational department by letter. In some of the BIs, IAUs are also copied by letter.

Payroll preparation is conducted by one or two persons in FDs using Excel. The Excel files for each employee are password protected and only one or two people know the password. Changes to the Excel payroll sheet are supported by copies of HRD letters.

The audit trail thus consists of letters of authorization of changes in personnel records signed by the head of HRD, the supporting documentation for these changes, records of changes made in the Excel-based payroll preparation in FDs, and the letter of authorization of the payroll run by the head of FD.

Generally, internal control of payroll is strong. Both the ID in TBPF and the Auditor General confirmed that internal control of payroll is generally good.

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

As noted under dimension (i), IAUs in BIs check monthly payrolls against the previous month's payroll and the supporting documents for changes. These checks do not constitute a

[15] For example, the head of BRRC fired two engineers who had claimed to be working onsite, but were detected to be offsite.

comprehensive payroll audit, which would include a check that the personnel records are correct. A comprehensive audit that covers both payroll and personnel records has not yet been conducted. Personnel records are mainly audited separately (i.e., verifying their correctness). Payroll payments are also audited separately as part of the monthly financial audit, which includes review of bank transfer letters for payroll payment against the payroll sheet and of the master account list, which contains the bank accounts of employees. However, a comprehensive payroll audit would identify how well the two systems integrate with each other.

The ORAG has not yet conducted a comprehensive payroll audit, but it may detect irregularities in the payroll system while conducting financial and compliance audits. For example, it checks the payment of salaries and benefits against personnel records and may discover instances of payment to an employee who has left (i.e., a "ghost worker") or who has been absent.

Ongoing and planned activities

The responsibility for the monitoring of attendance sheets has been reassigned to IAUs in BIs. Heads of departments were not satisfactorily performing this responsibility after it had been given to them as a result of the BPR exercise.

Table 3.32 PI-18 Results

Score PI-18 (M1)	Minimum Requirements	Justification
C+		
(i) B	Personnel data and payroll data are not directly linked, but the payroll is supported by full documentation for all changes to personnel records each month and checked against the previous month's payroll.	The HRDs in BIs submit hard copy documentation of changes to personnel records to FDs every month; the FDs then make the appropriate changes in their Excel-based payroll preparation program. Reconciliation is conducted each month by the internal units of BIs.
(ii) A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.	HRDs have to submit changes to personnel records to FDs before the 22nd of the month in order for the changes to be reflected in the payroll for that month. Changes submitted after the deadline will be reflected in next month's payroll. Most changes are submitted before the 22nd, so retroactive adjustments are rare.
(iii) A	Authority to change records and payroll is restricted and results in an audit trail.	The control system on payroll is strong and the system provides an audit trail so that changes to personnel and payroll records can later be viewed.
(iv) C	Partial payroll audits have been conducted at least once in the past three years.	A comprehensive payroll audit has not yet been conducted. Payroll and personnel records audits are conducted separately but regularly by internal audit departments, while ORAG may identify issues while conducting its financial and compliance audits of the PFM systems of BIs. These constitute partial audits only and do not look at the interface between the two systems.

3.5.7. PI-19: Competition, value for money and controls in procurement

Table 2.2 in Chapter 2 indicates that about 50 percent of expenditure is for the purchase of goods and services and capital assets, thus indicating the importance of the procurement system in providing value for money.

Procurement legislation at the regional government level is based on the Federal Government Proclamation 649/2009. The TNRS Public Procurement and Property Administration Proclamation (#174/2011, EFY 2003) was gazetted on July 5, 2011. The main differences between this proclamation and the previous one (2005) is the unifying of procurement and property administration under one law and the separation of procurement and property administration from the previous Financial Management and Property Administration Core Process. Procurement has since been regulated and monitored by the Public Procurement and Property Administration Core Process in TBPF, the process continuing also to play a standard setting, technical advisory, inspection, and monitoring role.

With the exception of most construction projects, particularly those related to rural roads, procurement operations are the responsibility of BIs. The Bureau of Construction of Rural Roads (BCRR) is responsible for organizing most construction-related procurement, except for school construction-related procurement, which it executes on behalf of BoE, and water resource-related procurement, which is organized by the Bureau of Water Resources.[16]

In principle, all procurement-related expenditure covered in the annual Budget Proclamations comes under the scope of the Procurement Proclamation. The Proclamation however, allows DPs to continue to use their own procurement procedures for projects and programs funded by them, and which are covered by the proclaimed budget, if they so wish.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

The requirements for the scoring of this dimension and whether they were met in FY 2012/13 are listed in Table 3.33.

Table 3.33 Transparency in Procurement

Requirement	TRG practice
1. The legal framework is organized hierarchically and precedence clearly established	**Yes,** as indicated in the TNRS Public Procurement and Property Administration proclamation (#179/2011, EFY 2003), gazetted on July 5, 2011. The TBPF remains the regulatory body and has sole authority for preparing procurement directives under the Proclamation.
2. It is freely and easily accessible to the public through appropriate means	**Yes,** as provided for by Article 7 of Chapter 1 of the Proclamation, which states that the Proclamation and associated directives "shall be made accessible to the public and be systematically maintained for use."
3. It is applied to all procurement undertaken	**Yes,** as provided for in Chapter 1, Article 3 of the

[16] The BCCR informed the team that the World Bank believes that it would be more efficient if the responsibility for the procurement and contract execution processes was not divided between two different organizations.

using government funds	Proclamation, which is applicable to all procurement in the region funded wholly or partly by the regional government budget.
4. Open competitive procurement is the default method of procurement and defines clearly the situations in which other methods can be used and how this is to be justified	**Yes.**
5. It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	**No**. The Proclamation only provides for public access to bidding opportunities.
6. It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	**Yes.** The Proclamation provides for a complaints review process in TBPF (Chapter 12, Article 57). It does not explicitly state that it is independent of the procurement process and the location of the Complaints Review Committee in TBPF would appear to compromise any independence. However, the Public Procurement and property Administration Core Process in TBPF plays only a standard setting, technical, advisory, inspection, and monitoring role and is not involved in the procurement process itself.

(ii) Use of competitive procurement methods

Procuring entities are required to maintain documentation on their procurement operations (Chapter 2, Article 11, Section 1), including the grounds for using procurement methods other than open bidding. TBPF is required to check that procuring entities are complying with the Proclamation and associated directives (Chapter 1, Article 8A, Section 9).

The Proclamation lists six procurement methods that can be used: open bidding, restrictive bidding (invitations to bid sent to a restricted number of qualified suppliers), request for quotation (for procurement below the value specified in the procurement directive), direct procurement, request for proposals (in relation to consultancies), and two-stage tendering (Chapter 2, Article 20, Section 1).

Open bidding is the preferred procurement method (Chapter 2, Article 20, Section 2), and is obligatory for procurement over ETB 60,000. Procuring entities can only use other methods if the conditions specified in the Proclamation for use of such methods are satisfied (Chapter 2, Article 20, Section 3). The bureau head has to request the approval of TBPF for the use of restrictive procurement methods; BoE indicated to the team that this is what it has done. TBPF decides whether requests from procuring entities to deviate from the prescribed procurements are justified (Chapter 1, Article 8, Section 5).

The Proclamation lays out three conditions for the use of restricted tendering methods; at least one condition must be satisfied (Chapter 4, Article 36). The conditions are: (1) the required object of procurement is available from a limited number of suppliers; (2) the cost and time for evaluating many bid documents is higher than the value of the object to be procured, with the procurement directive establishing a maximum value for such an object; and (3) repeated advertisements fail to attract bidders.

The Proclamation lays out the conditions for use of direct procurement methods (sole sourcing) (Chapter 6, Article 40): (1) only one supplier is available; (2) additional deliveries of goods from the same supplier are needed since the use of different suppliers using different parts would be impractical as they may not meet interchangeability requirements; (3) additional works under a contract have become necessary due to unforeseen circumstances and tendering for such works is impractical, with the procurement directive setting limits for the procurement of such works; (4) a contract has finished and new works or consultancies are required in the same areas covered by the completed contract, or when continued use of the same contractor or consultant, previously selected through competitive procurement methods, is preferable to re-advertising in the interest of efficiency; (5) emergency situations.

The bureaus implement their procurement operations based on the directives issued under the Proclamation. The BoE, for example, has a tender evaluation committee for bids larger than ETB 100,000, with five members (four from the Financial Administration and Public Procurement Core Processes; one from Administration). Open tendering is the main procurement method used for procurements above the threshold for open tendering.

Tables provided to the team by the Procurement and Property Administration Core Process in TBPF indicate that open competitive bidding was the main form of procurement of goods and works in EFY 2005 for TRG:[17]

- Open tender: ETB 1,415.4 million;
- Limited tender: ETB 156.3 million;
- Direct purchase: ETB 2.7 million.

Total = ETB 1,574. 4 million

Percentage of open tender = 90%

These data were compiled for the team by TBPF, which requested the data from the BIs. The BIs are not yet submitting procurement operations data to TBPF routinely, as confirmed by BoE to the team. During FY 2012/13, only 11 percent of BoE’s procurements above the threshold were not conducted using open tendering and during FY 2013/14, virtually all its procurement above the threshold was conducted through open tendering. The same applies to BCRT. The BoH obtains 80 percent of its supplies from the TRG-owned Pharmaceutical Funds Supply Agency, so PI-19 has less relevance to it than for BoE. BOH indicated that it has used restrictive tendering for the procurement of optic lenses, as there were very few potential suppliers. Otherwise, it follows the same procurement procedures as BoE.

Procurement-specific audits are only just starting to be performed by the internal audit units in BIs, partly as a condition of the PBS program, which states that at least 10 percent of procurement entities have to be audited. Such audits are the best way for the Core Process in TBPF to evaluate the use of restrictive tendering methods. At the PEFA workshop held on October 24, 2014, TBPF indicated that a recently completed procurement audit found that, on

[17] The figures exclude (1) requests for quotations, which represent competitive methods of procuring goods and services for monetary amounts below the threshold above which open tendering is the default procurement method; (2) requests for proposals for consulting services; (3) two-stage bidding, which is a form of open competition; and (4) large value procurements conducted by a central body that procures in bulk for more than one public body.

the basis of a 30 percent sample, all uses of restrictive competition had been justified (although the audit found instances of noncompliance with the rules in other areas).

In the absence of procurement audits conducted by the Core Process, the only office that can provide an objective opinion on whether procurements using restrictive tendering methods are justified is the ORAG, which checks the validity of the use of such methods as part of the audit process. ORAG also pointed out to the team that the use of restrictive tendering is rare nowadays, and if it is used it is often due to lack of planning. The Regional Council requested that ORAG increase its audit focus on procurement in FY 2012/13.

(iii) Public access to complete, reliable, and timely procurement information

Four information elements are required: procurement plans, bidding opportunities, contract awards, and data on the resolution of procurement complaints. Open tenders are required by the Proclamation to be advertised (Chapter 3, Article 21, Section 1). Bureaus post the results of their bid evaluations on their public notice boards and websites, although, at the time of the assessment, the latter were not operational for a while, due to connectivity problems. Bureaus do not publicize contract awards per se, but the results of the bid evaluations indicate the successful bidder. Procurement plans and information on complaints resolution are not publicized, as this is not required by the Proclamation. As indicated under PI-16, BIs are required to prepare procurement plans at the beginning of each new fiscal year as an input to the cash forecasting exercise (PI-16).

(iv) Existence of an independent administrative procurement complaints system

The Public Procurement and Property Administration Proclamation establishes the complaints process (Chapter 12, Article 56). Following the communication of tender results to bidders, the procuring entity waits five days before awarding the contract in order to allow time for unsuccessful bidders to appeal; BoE indicated that it adheres to this requirement.

The first stage is the submission of a complaint to the head of the procuring entity (Article 57). The second stage (Chapter 1, Article 8, Section 7 and Chapter 12, Articles 57-58), if the complaint is not resolved at the first stage, is the referral of the complaint by the aggrieved bidder to the grievance hearing process in TBPF. This was not defined in the Proclamation, but was later defined through the procurement directive as the Complaints Review Committee (CRC), which is a unit located in TBPF. Upon receipt of the complaint, TBPF instructs the procuring entity to suspend the procurement process.

The Secretariat to the CRC is a staff member of TBPF, where the Public Procurement and Property Administration Core Process is located, and which provides the procurement regulatory function. At first sight, the CRC's impartiality appears to be compromised and in fact, the independence of the process is not explicitly stated in the Proclamation. The head of TBPF indicated to the team at the workshop on October 24 that the CRC is in fact independent of the procurement process. Firstly, the Core Process itself is a regulatory body, which is not involved in the procurement process and is therefore impartial in principle. The fact that it is carrying out procurement audits of procuring entities indicates impartiality. Secondly, any decision of the CRC chair is final and the TBPF head plays no role.

BoE indicated that the number of complaints has fallen sharply in recent years, with only one complaint submitted in FY 2012/13 (EFY 2005). The main reason for the drop is improved supplier awareness of regulations and procedures, helped in part by the streamlining of procedures as a result of the BPR exercise during FY 2007/08 and FY 2008/09. BoE does not publicize the resolution of complaints.

According to BoE, many complaints are from bidders who in fact did not meet the specifications; therefore, complaints generally do not go beyond BoE. The BCRR received only three complaints in FY 2012/13 and only two so far in FY 2013/14, and none of these was later referred to the CRC.

The Mekelle Chamber of Commerce (CoC) often advises potential appellants on how to handle perceived injustices in the tender evaluation process as such perceptions often arise from a lack of understanding of procurement procedures. The CoC even provides training to staff in Mekelle sub-city offices in procurement matters. The CoC's main issue with the Public Procurement Proclamation is that it does not apply to state-owned enterprises, which then may have an unfair advantage in terms of competing for government contracts.

In terms of rating this dimension, the manager of the Core Process indicated that six of the seven criteria were met (using the draft revised framework, which is less restrictive in scoring than the current version, listing six criteria to be met, not seven). The criterion not met was the third concerning the charging of fees.[18] To score higher than D, the complaints review body cannot be "involved in any capacity in procurement transactions or in the process leading to contract award decisions" (criterion (1)). As indicated above, this criterion was met, along with four of the remaining five.

Ongoing and planned activities

The TRG is planning to convert the Public Procurement and Property Administration Core Process in TBPF into an independent procurement agency (as at the federal level). The Complaints Review Committee would become a Board, with the Chamber of Commerce being a member.

Table 3.34 PI-19 Results

Score PI-19 (M2)	Minimum requirement	Justification
B		
(i) B	The legal framework meets four to five of the requirements listed.	The fifth and sixth requirements are not met.
(ii) A	The total value of contracts awarded through competitive methods in the most recent fiscal year was 80% or more of the total value of contracts.[19]	Based on data provided to the team by the Public Procurement and Property Administration Core Process in TBPF.
(iii) C	At least two of the key procurement information elements are complete and reliable for	Bidding opportunities and contract awards are routinely made available to the public. The legal

[18] The draft revised framework that entered its testing phase on January 28, 2015, following the consultative phase that started in August 2014, contains six elements for dimension (iv) compared to seven previously. The element that has been dropped is the first one that states that the composition of the complaints review body should include private sector and civil society representatives. This is a major change, so it makes sense to assess dimension (iv) according to the revised framework.

[19] The team used the scoring criterion provided in the draft revised framework that was circulated for comment by the PEFA Secretariat on August 7, 2014. The current scoring criterion for dimension (ii) is very demanding in terms of the evidence required and so is very difficult to score, resulting in D ratings even if open competition is in fact the norm. The draft revised framework entered into the testing phase on January 28, 2015 without any change to dimension (ii), thus strengthening the validity of using it.

Score PI-19 (M2)	Minimum requirement	Justification
	government units representing 50% of procurement operations (by value) and made available to the public through appropriate means.	framework does not require that the other two procurement information elements be publicized.
(iv) B	The procurement complaints system meets criterion (1) and at least three of the other criteria.	The complaints review system meets criterion (1) in terms of its independence of the procurement process and four of the five other criteria; the criterion not met concerned the charging of fees.

Sources: Public Procurement and Property Administration Proclamation (2011) and associated directive; meetings with TBPF, BoE, BoH, and BCRR senior staff; and meetings with ORAG and Mekelle Chamber of Commerce and sector associations.

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

This evaluation refers to the internal controls for non-salary expenditures as of the time of assessment (April–May 2014).

The financial control systems are embedded in the financial regulations (themselves derived from the Financial Administration Proclamation) and associated internal directives. Other control systems, such as those related to personnel management, are embedded in the Civil Service Regulations. The following directives and guidelines have been adapted from the federal directives and guidelines and distributed to all BIs. The adaptation is mainly a matter of translation into Tigrinya and to the region's context.

- Proclamations and Regulations:
  - Financial Administration Proclamation (Proclamation no. 173/2010)
  - Financial Administration Regulation (69/2011)
  - Procurement and Property Administration Proclamation (174/2010)

- Guidelines/Directives:
  - Guideline/Manual for the procurement of goods and services (125/2011[20])
  - Guidelines for the procurement of construction works (126/2011)
  - Property Administration Manual (127/2011)
  - Guidelines for the procurement from micro and small enterprises (128/2012)
  - Guideline for property valuation (1/2012)
  - Manual for cash management (3/2011)
  - Cash disbursement manual (4/2012)
  - Accounting procedure (5/2012)
  - Financial accountability (6/2012)
  - Internal audit guideline (7/2012)

[20] The corresponding EFYs are 2004 and 2005.

- Internal control standards (8/2012)
- Handover procedure (10/2012)
- Guideline for guarantor for employment (11/2012)
- Manual for the administration of budget (12/2012)

In addition, the Internal Audit Manual of the TNRS contains the basic principles of internal control systems. Internal auditors and ORAG are responsible for ensuring that the internal control systems are respected.

(i) Effectiveness of expenditure commitment controls

IBEX has a budget control module, which is not uniformly used by BIs in the region. For the control of commitments, some BIs use a manual ledger (nonautomated and handwritten), while others use Excel spreadsheets, very few use the IBEX budget control module. According to the TNRS Financial Administration Regulation 173/2010 (Article 32(2)), a BI cannot enter into an expenditure commitment without an approved budget and approval of the head of the BI, and unless there is "sufficient unencumbered balance from the budget to discharge any debt." In other words, approval of proposed expenditure commitments depends on whether the proposed expenditures are included in the approved budget, and, if so, if there is sufficient remaining uncommitted balance in the approved budget.

The IBEX commitment control module is more of a commitment reporting module than a control module. It indicates the remaining unencumbered budget balance after BIs enter new purchase orders and contracts into it, which they are required to do. It does not block commitments entered that would result in payments leading to monthly cash expenditure limits being breached that month and within the quarter. As indicated by the head of the Accounts Department in TBPF, financial administration departments in BIs through their manual control processes, block commitments that would result in these limits being exceeded; thus, cash availability is taken into consideration as well as unencumbered budget availability.

Through their manual control processes, BIs can also commit expenditures for payments in later quarters based on their cash plans, which are themselves based on the cash flow forecasts, as approved by TBPF. Monthly cash expenditure limits eventually set by TBPF for later quarters take into account the projected payables arising from the earlier commitments. Most purchases are on a cash-on-delivery basis, the main exceptions being long-term construction projects and the provision of consultancy services.

(ii) Comprehensiveness, relevance, and understanding of other internal controls and processes

As indicated above, a number of guidelines and directives were issued in FY 2011/12 and FY 2012/13 with the objective of strengthening the internal control systems. The Proclamation, regulations, and guidelines are compiled in two volumes and provided to all regional and woreda BIs and are accessible to staff. The internal control systems include segregation of duties for preparing, checking, certifying, and approving the movement of resources, including through cash and check disbursement, as well as receipt, issuance, and disposal of stock items and properties. The segregation of roles applies to all processes, including payroll preparation (PI-18), procurement (PI-19), staff advances, use of real assets, and personnel administration.

The processes are both financial (e.g., bank reconciliation) and physical (e.g., stock counts) and so involve most of the personnel within an organization, not just those in the financial management area. The internal audit function (PI-21) ensures compliance with the manuals and guidelines.

Most of the irregularities reported in internal audit and ORAG reports can be attributed to the lack of capacity and understanding of the rules and regulations. In terms of magnitude, however, the scale of the irregularities is very small. The high level of staff turnover is the main reason for understanding of the rules being less than perfect.

The PFM steering committee at the regional and woreda levels coordinates PFM reforms, including capacity building, and awareness building on new procedures and policies. Various training courses have been provided in procurement, auditing, accounting, IBEX, property administration, and budgeting through the PBS program, as part of the EMCP program.

Procedures have generally improved since the implementation of BPR. Payment procedures are not lengthy; departments approve payments up to ETB 1.5 million and only payments above this thresholds are submitted to the head of the bureaus (as indicated, for example, by BRRC). Payments for approved payment certificates are effected very quickly.

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

In addition to administrative penalties for non-compliance, the implementation of evaluation performance measurement procedures has improved the level of compliance. Rules are generally respected and complied with, according to the Inspection Department (ID) and ORAG reports. The rates of noncompliance tend to be low, as noted below, and relate mainly to parts of a system rather systems as a whole; that is, noncompliance is not systemic. Noncompliance tends to arise from errors, particularly in the case of new staff.

Common areas of noncompliance reported by ORAG, ID, and IAUs in certain BIs and woredas include: not conducting a cash count (10.6 percent of the cash counts audited); not reconciling bank accounts (5 percent); not implementing an imprest system for petty cash (9 percent); not settling advances on time (34 percent); not collecting revenue (4 percent); not fully complying with the disbursement guideline (12 percent); incomplete supporting documents (12 percent); not fully complying with procurement procedures (17 percent); not complying with property administration guidelines (26 percent); and not complying with human resource guidelines (31 percent). These percentages of noncompliance are calculated from the EFY 2005 audit report of ORAG, which covers 216 audit entities at the regional and woreda levels.

Table 3.35 PI-20 Results

Score PI-20 (M1)	Minimum Requirements	Justification
B		
(i) B	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.	The Financial Administration Proclamation (2011), which prohibits entering into commitments without availability of uncommitted budget balance, the cash flow forecasts prepared by BIs, the cash plans prepared on the basis of those forecasts, and the TSA-Z account system, all help to guard against cash unavailability at the projected time of payment.

(ii) B	Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive.	Financial and non-financial control systems are comprehensive, well documented, and generally understood. The revised manuals are available to staff in all BIs. Training courses are enhancing the understanding and awareness of staff and managers.
(iii) B	Compliance with rules is fairly high, but simplified or emergency procedures are used occasionally without adequate justification.	Rules are generally respected and complied with. As indicated in ORAG and internal audit reports, there are instances of noncompliance in certain areas in some of the BIs.

Sources: Financial Administration Proclamation (2009), Regulations (2011) and Directives (2011); TBPF Accounts Department staff; ORAG annual report; Committee for Budget and Audit (Regional Council); BRRC.

3.5.9 PI-21: Effectiveness of internal audit

Regular and adequate feedback to management on the performance of the internal control systems is required and achieved through an internal audit function (or equivalent systems monitoring function).

Background

The internal audit (IA) function is provided for in the Financial Administration Proclamation (no. 173, 2010) and financial regulations, and its development is one of the components of the EMCP. The pre-audit function was phased out during FY 2006/07, in tandem with the phasing in of the post-audit function.

As mandated by Article 5 of the Financial Administration Proclamation, TBPF has a duty to oversee the internal audit functions of BIs and to help them develop. The ID at TBPF is discharging this responsibility. The following manuals have been issued (based on the ones prepared by MoFED) by the ID:

- Audit Manual (December 2005)
- Internal audit guideline (7/2012)
- Internal control standards (8/2012)
- Audit committee guidelines (129/2014)

The ID currently has eight internal auditors. According to this department, there has been considerable government-wide support for the internal audit function for the past five years. The ID was under the authority of the Accounts Department until becoming its own department five years ago, with the ID head now reporting directly to the head of TBPF. The ID's staff numbers increased from three in June 2013 to eight in June 2014.

(i) Coverage and quality of the internal audit function

All BIs and woredas have internal audit departments (IAD). Depending on the size of each BI, the number of internal auditors ranges between one and four. BIs visited by the PEFA team (BoE, BoH, and BRRC) have about four internal auditors each. Hospitals and colleges have internal auditors, who work in collaboration with internal auditors in BoH and BoE.

Turnover of internal auditors is not a serious concern in Tigray, unlike in the Federal Government, Oromia, and Amhara. At the time of the assessment, more than 233 of 279 internal auditor positions (83 percent) were staffed. According to ID, better professional freedom, pay, and organizational status have contributed to the low level of turnover and thus the high quality of the audit function.

In addition to its oversight role, ID also conducts internal audits when IADs in BIs face capacity limitations. It conducted three financial audits in FY 2012/13.

The ID and IADs of each BI prepare annual audit plans to be approved by the respective heads of BIs. IAD heads are also a member of the management committee of the respective BIs. Membership helps with following up on audit findings and recommendations and addressing internal control issues. The internal audit manual used by IADs is customized from the 2006 Internal Audit Manual developed by MoFED, which is in line with the standards of the International Institute of Auditors. The manual was prepared in English, Amharic, and Tigrinya (regional language).

Financial audit and compliance audit are the main routine audits conducted by IADs, in line with the provisions of the Internal Audit Manual. Other audits include property audit, human resource audit, and special audits. Property audit includes physical counts, review against records, audit of use of government vehicles and fuel usage. Procurement and payroll audit are conducted as part of the financial audit. IT auditing and performance auditing are not yet practiced. Training was provided by MoFED on performance audit in February 2014. The scope of coverage of the internal audit function includes the CTA, MDG, and all DP bank accounts. One source of information for IADs is informants, through boxes kept on BIs' premises for this purpose.

While standalone systems audits (for example, of the procurement system) have not yet been carried out, the routine financial and compliance audits carried out by IADs may identify systemic issues during the course of the audits (i.e., the same issues tend to recur unless corrected, for example, the instances of noncompliance referred to under PI-20 dimension (iii)). Over time, auditors are increasingly able to develop a profile of the different areas of risk.

(ii) Frequency and distribution of reports

Financial and compliance audits are conducted monthly and reports are issued quarterly to the head of the respective BI and to TBPF. Reports are not submitted to ORAG, as there is no legal obligation to do this. ORAG can readily access them on demand. As noted by the IADs of BoE and BoH, and ORAG itself, ORAG routinely reviews internal audit reports when conducting audits. It has never been denied access to these reports

(iii) Extent of management response to internal audit findings

Internal auditors conduct exit conferences on their findings with their auditees. There is no standard deadline for submission of response by the auditee. Deadlines for response are determined during the exit conference by agreeing on an action plan to address audit findings. The action plan includes an audit follow-up checklist (in the form of an Excel spreadsheet). The head of the IAD briefs management on the extent of the implementation of the action plan at the weekly management meetings. Internal auditors will also follow up during the next audit, using the checklist to determine the extent to which agreed actions have been implemented. The ID also issues a letter to auditees to advise them to address serious audit findings. According to ID, almost all internal audit findings are responded to by managers. The team also reviewed reports issued by managers on the actions they took against the audit follow-up checklist (spreadsheet). An additional responsibility of internal auditors is to follow up on the audit findings of ORAG, thus providing a further opportunity to follow-up on their own findings.

Common internal audit findings contained in internal audit reports reviewed by the team (prepared by the IADs at TBPF, BoE, BoH, and BRRC) include: incomplete personnel files (lack of personal guarantor, annual leave information not updated); not respecting standard consumption rates (e.g. for fuel per kilometer); not complying with rules (no vendor trade licenses); no attendance for per diems paid for training participants; not maintaining a subsidiary ledger for some receivables accounts; not settling advances on time; and not registering stocks and fixed assets.

Ongoing and planned activities

At the time of the PEFA field work, audit committees were being established in 22 pilot woredas with the objective of strengthening follow-up on audit findings. The committees are composed of heads of sector offices and one member from the public (nongovernment staff);Woreda Finance Office staff are not members. The committee members meet monthly. The ID has been providing training to committee members.

Table 3.36 PI-21 Results

Score PI-21 (M1)	Minimum Requirements	Justification
B		
(i) B	Internal audit is operational for the majority of regional government entities, and substantially meets professional standards. It is focused on systemic issues (at least 50% of the time).	Internal audit is operational for the majority of BIs and substantially meets professional standards. Audit plans mainly focus on routine financial and compliance audits, systemic issues perhaps being identified during the course of the audit and then followed up on. Over time, auditors are increasingly able to develop a profile of the different areas of risk. At least 50% of staff time thus focuses on systemic issues.
(ii) B	Reports are issued regularly for most audited entities and distributed to the audited entity, the finance bureau and the SAI.	Audit reports are distributed to heads of BIs and TBPF. Internal audit reports are not submitted to ORAG, but ORAG has access to them and regularly uses them at the time of its own audit of BIs.
(iii) B	Prompt and comprehensive action is taken by many (but not all) managers	According to the ID, almost all internal audit recommendations are acted upon by managers.

Sources: Meetings with internal audit departments in TBPF, BRRC, BoE, BoH; examples of IA manuals, audit plans, and audit. Reports.

3.6. Accounting, Recording, and Reporting

This set of indicators assesses the timeliness of accounting, recording, and reporting.

Table 3.37 Accounting, Recording, and Reporting Performance Indicators

No.	Accounting, Recording, and Reporting	Score
PI-22	Timeliness and regularity of accounts reconciliation	B
PI-23	Availability of information on resources received by service delivery units	B
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+

3.6.1. PI-22: Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

There are different bank accounts maintained by TBPF and BIs, including the Z account (zero balance account), deposit account, MDG account, and DP accounts. The purpose of these accounts is explained under PI-17.

TBPF's Central Treasury Account (CTA) held at CBE is reviewed every day and reconciled on a monthly basis. Other bank accounts are reconciled monthly within seven days of the end of the month.

Reconciliation statements show deposits in transit that are related to transfers and deposits made near to the end of the month, and outstanding checks that payees are yet to claim from the bank. There are no significant un-reconciled differences, the reconciliation items mainly consisting of un-presented checks, deposits, and transfers made on the closing date; un-cleared bank deposits; and late recording by some budgetary institutions. Bank reconciliation statements are attached to the printed monthly financial reports.

DP-funded accounts are reconciled by TBPF and BIs monthly, with the bank reconciliation statements attached to quarterly Channel 1 reports and often annexed to Channel 2 DP reports. According to the ORAG audit report, 198 entities audited in 2005 (95 percent) reconciled bank accounts properly and on time.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

The balance on suspense account (4201) was ETB 12.2 million, ETB 70 million, and ETB 31 million as of July 7 of 2011, 2012, and 2013 respectively. The purpose of the suspense account is to record unknown debits until they are cleared against documents. In this case, however, the balance on this account was mainly related to cash advances to mobile cashiers that were not settled by the end of the fiscal year.

Unknown deposits and payments identified at the time of reconciling bank accounts are often cleared within two months. The delay in clearing these accounts is related to the delay by CBE in issuing debit and credit advices.

As of July 7, 2013 (end of EFY 2005) receivables balances included the staff advance (4203) of ETB 7 million; the advance to staff from the next year's budget[21] (4205); the advance of recurrent expenditure from the next year's budget[22] (4206) of ETB 1.5 million; the advance for

[21] Recurrent expenditures from next year expenditures relate to additional expenditures incurred (for example due to salary increments), which are to be accounted for in the next year's budget.

[22] Recurrent/capital expenditures effected this year (but to be accounted for in the next year's budget). The expenditures are therefore recorded as advances.

capital expenditures from the next year's budget (4207) of ETB 3.6 million; other staff advances of ETB 26.6 million; prepayments to contractors and suppliers, ETB 584.8 million and other advances, ETB 49.1 million. Advances from the next year's budget relate to advances to woredas, which have shortfalls in revenue collection and/or expenditure overruns in the current year. They will refund the advance to TBPF from their next year's collection (i.e., next year's budget will be lower to the extent of the revenue shortfall in the current year).

Suspense payments, which are part of the petty cash system, are reconciled periodically and subject to the scrutiny of monthly internal audits. As per the guideline, suspense balances that are not cleared within seven days will be transferred to the staff advance and will be deducted from the salary. According to the 2005 ORAG audit report, advances amounting to ETB 319 million (about 5.3 percent of EFY 2005 expenditure) in 75 audit entities were not settled on time. The report does not state for how long these suspense and advances have been outstanding without being settled or cleared. The consolidated financial report for EFY 2005 included disclosures on long outstanding unsettled advances.

Table 3.38 PI-22 Results

Score PI-22 (M2)	Minimum Requirements	Justification
B		
(i) A	Bank reconciliation for all regional government bank accounts takes place at least monthly at aggregate and detailed levels, usually within four weeks of the end of the period.	Bank reconciliation is conducted for all government and DP accounts monthly generally within seven days of the end of the each month.
(ii) C	Reconciliation and clearance of suspense accounts and advances take place at least annually in general, within two months of the end of the year, but a significant number of accounts have uncleared balances brought forward.	Suspense items from the petty cash fund are generally cleared within seven days. Uncleared accounts shown in the bank statements are cleared within two months of the end of the month. Other advances are cleared normally within two months of the end of the year. However, certain advances may be long outstanding without being settled, as indicated in the ORAG audit report and the TBPF 2005 consolidated annual financial report.

Sources: TBPF Accounts Department; consolidated annual financial statements of TBPF; ORAG's audit report for FY 2011/12; trial balance sheets; information provided by BoE, BoH, and BRRC.

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

Woreda governments have the main responsibility for primary education and health care service delivery units (SDUs). Primary schools are not cost centers; they do not have individual recurrent budget classification codes assigned to them (although capital expenditure—funded by the regional government—on primary schools is captured in the project codes in the budget classification system). Thus, budget execution reports cannot explicitly report on the financial resources they receive relative to their approved budgets. The woreda education bureaus (which are cost centers) are responsible for allocating the physical resources purchased under their budgets to the SDUs, although, in practice, the WPFO (WoFED) acts as the financial manager for the education bureau (single pool system). The education bureau maintains standardized manual ledgers for each school and in this way, the flow of resources to primary schools can be tracked.

Prior to the launch of GEQIP, woreda education bureaus were supposed to send estimated projections of physical activity reports to zonal education bureaus, which would then send them to the regional bureau, and on to the regional cabinet. These would show the physical resources received by SDUs (Service Delivery Unit) relative to the amount they should be receiving. In practice, this was not happening due to capacity constraints and in any event, did not cover financial activities.

The GEQIP, which started in FY 2009/10 through World Bank and Federal Government funding, has helped improve the transparency of the operations of primary schools. GEQIP has the following components: Curriculum, Textbook and Assessment; Quality Improvement; Capacity Development; Management Information System; Monitoring and Evaluation; and School Grants. Funds Utilization Reports are prepared monthly through the BoE and the Channel One Unit in TBPF. Primary schools have their own bank accounts under GEQIP, which facilitate the tracking of resource use, as they are able to purchase inputs in cash rather than receive them in kind. The purchases are registered immediately in the Woreda Education Office computer system and eventually reported in the BoE’s system.

Health service delivery takes place, at the woreda government level, through health centers (covering both in-patients and outpatients) and health posts (smaller client base, outpatients only). Health centers are classified in the budget classification as sub agencies and have finance offices; their budgets and the execution thereof are therefore captured in woreda government budget reports. Health posts are not captured in the budget classification system, except, as with primary education, in the case of capital expenditures. However, manual ledgers maintained in the Woreda Health Office enables the tracking of resources to health posts. A GEQIP type project is not in place.

Information on resources being provided to service delivery units is being increasingly disseminated through the media. In addition, a system for recording resources received on notice boards posted outside SDUs, by type of resource (e.g., teachers, books) relative to minimum standards established at the federal level (and adapted to the regional level), was developed during 2007-2009 under the Financial Transparency and Accountability Program (FTAP). The system has been rolled out across the region and now has 100 percent coverage. Related to this, Tigray has developed, and is operating, a traffic light-style system (green, amber, red) for monitoring the quality of service delivery.

Table 3.39 PI-23 Results

Score PI-23	Minimum Requirements	Justification
B	Routine data collection or accounting systems provide reliable information on all types resources received in cash and in kind by primary schools and health clinics across most of the region, with information compiled into reports at least annually.	Routine data collection or accounting systems providing reliable information on all types of resources received in cash and in kind by either primary schools and health posts are not cost centers, but purchases made by GEQIP-financed primary schools through their bank accounts are eventually reported in the Bureau of Education’s computer system, while manual ledgers maintained by health offices capture the flow of in-kind resources to health posts. GEQIP and FTAP have greatly contributed to tracking of resources.

Sources: Meetings with BoE and BoH; GEQIP Funds Utilization Reports

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

This indicator assesses the scope of reports, their timeliness, and the quality of information on actual budget implementation.

About 57 reporting entities (27 sector bureaus and 30 woredas), including TBPF, have been interconnected through a wide area network referred to as WoredaNet. The remaining 119 entities are still using IBEX on a standalone basis. Connectivity issues detract, however, from the usefulness of WoredaNet.

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

The monthly in-year financial reports generated through IBEX contain a detailed comparison of budget and outturns for revenues and expenditures. They also include detailed trial balance statements, which contain payables and receivables, and an aging analysis summary for all types of receivables. The reports do not include expenditure commitment information as BIs are using different systems, including Excel spreadsheet and manual budget ledgers, as well as IBEX, to control and report on commitments. The budget control modules of IBEX include commitment control, which actually represents commitment reporting rather than control, as explained above. IBEX does not have a feature for consolidating commitment data at the level of TBPF.

According to MoFED, the issue of nonreporting of commitments is a national issue, not a regional one, as reporting on commitments is currently not allowed.

The financial reports for Channel 1a (funding from MoFED to TBPF) and 1b (DPs direct to BoFED) projects are prepared in separate books of accounts managed by separate accounting software (mainly Peachtree) or Excel spreadsheets, and are included in the above-mentioned IBEX-generated reports. The channel 1a projects, with the exception of GEQIP, fall under the Federal Government, and so are not relevant in relation to this dimension. With regard to channel 1b projects, until EFY 2005, there was no report that consolidated these projects with the TRG-funded projects, except in very aggregated terms, as the projects use codes that are different from the IBEX codes. Starting in EFY 2006, however, use of conversion codes has enabled reporting on channel 1b project expenditure in IBEX, although not on a detailed economic classification basis.

(ii) Timeliness of the issue of the reports

BIs prepare monthly reports in IBEX within seven days of the end of the month. TBPF consolidates reports into one report that is submitted to its management. TBPF submits monthly financial reports to the regional cabinet on an on-demand basis and also submits quarterly financial reports to MoFED within 20 days of the end of the quarter. The extent to which these reports include GEQIP and channel 1b expenditures depends in part on the agreements reached between TRG and the DPs. Financial reports for GEQIP are prepared 45 days from the end of the quarter.

(iii) Quality of information

There is no material concern regarding the accuracy of data. The quality of monthly and quarterly reports has improved as IBEX is used by all BIs. According to TBPF, 95 percent of in-year financial reports are accurate and reliable. In certain cases, data may not be up to date when debit and credit advices are not issued in a timely manner by the bank. According to

ORAG's audit report for FY 2011/12 (EFY 2004), 39 of the BIs audited received a qualified audit opinion and the remaining six an adverse opinion, thus indicating no major problems with quality. As with other regions, woreda governments (which are covered in ORAG reports) tend to have a higher incidence of qualified audits than regional governments. Delays in clearing suspense accounts and advances (PI-22) affect the quality of reports. Reporting on channel 1b DP-funded spending has improved, starting in EFY 2005, as IBEX-captured spending is reported in greater detail in terms of economic classification.

Ongoing and planned actions

The establishment of the WoredaNet wide area network infrastructure is ongoing, with the remaining reporting entities (about 116 of 173) being interconnected.

An Integrated Financial Management Information System (IFMIS) is expected to be rolled out at regional levels under EMCP. This would eventually replace the IBEX system.

Table 3.40 PI-24 Results

Score PI-24 (M1)	Minimum Requirements	Justification
C+		
(i) C	Classification allows direct comparison with the original budget. Information includes most items of budget estimates. Expenditure is covered either at the commitment or payment stage, but not both.	Detailed comparison is possible for revenues, recurrent expenditures, and domestically financed capital expenditure for each BI and by economic classification. Reports do not cover expenditure at the commitment stage. Starting in EFY 2005, financed capital expenditure is captured externally in greater detail than before, although still in less detail than for domestically financed capital expenditure.
(ii) A	Reports are prepared quarterly or more frequently and issued within four weeks of the end of the period.	Wide area networking has enhanced the timeliness of reporting at the level of TBPF. Each BI reports monthly with reports being submitted within seven days of the end of the month and 20 days from the end of the quarter.
(iii) B	There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/usefulness	Generally, there is no material concern with the quality of financial reports prepared by most of the BIs, although quality could be improved in some of them. Delays in clearing suspense accounts and advances (PI-22) and incomplete information on DP-financed project expenditures detract from quality.

Sources: TBPF Accounts Department staff; Accounts Department staff from BoE, BoH, BRRC; IBEX-generated budget performance reports.

PI-25: Quality and timeliness of annual financial statements

Background

The Financial Administration Proclamation (no. 173/2010, EFY 2002) lists the content of the annual financial report, which includes consolidated fund, debt, and contingently liabilities, budget outturn, budget subsidy transfer, special funds, and the opinion of the Auditor General.

There are 173 reporting entities at all administrative levels in the region, including 51 regional sector offices, 69 branches of regional sector offices, and 53 WPFOs. All sector bureaus use IBEX. About 57 reporting entities including TBPF are interconnected through the WoredaNet wide area network and the remaining 119 are using IBEX on a standalone basis.

(i) Completeness of the financial statements

TBPF prepares one consolidated annual financial report. The annual financial reports prepared by TBPF contain information on the initial and supplementary proclaimed budget for the year, budget revenue, and expenditure outturn by sectors and woreda for the reporting period and for the previous year. The reports also contain budget transfers, MDG budget outturn (by capital and recurrent classification), trial balance details by account, and trends in the growth of internal revenue. They include a revenue and expenditure summary of some of the channel 1b programs and projects (namely those funded by UN agencies). Disclosures are not provided on revenue arrears.

(ii) Timeliness of the submission of the financial statements

The Financial Administration Proclamation and Regulations of TNRS (no. 69, EFY 2003 (FY 2010/11) require that BIs submit their annual financial report to ORAG no later than three months from the end of the fiscal year.

The timeliness of submission of the report to ORAG deteriorated from four months after the end of EFY 2003 (FY 2010/11) to nearly seven months after the end of EFY 2005 (FY 2012/13). According to TBPF, a system change in the CBE (Core Banking System Implementation) caused delays in obtaining credit and debit advices from the bank. To clear unknown and unreconciled deposits and payments, and ultimately to process the related transactions, the bank advices were vital.

Table 3.41 Timeliness of Submission of Financial Statements to ORAG

Financial statements	EFY 2003 (FY 2010/11)	EFY 2004 (FY 2011/12)	EFY 2005 (FY 2012/13)
Statements received by ORAG	November 16, 2011	February 6, 2013	January 30, 2014
Timeliness of submission (from the end of the EFY)	4 months, 7 days	6 months, 28 days	6 months, 22 days

Source: TBPF

(iii) Accounting standards used

The annual financial statements are prepared on an historical cost basis, using a modified cash basis of accounting. Revenue is recognized on receipt, except for aid in kind (which should be valued before being brought to account),[23] employee income tax and fines (recognized on processing of payroll), and deduction of withholding tax from payments to suppliers (on

[23] This has not always been the case. Aid in kind received by BIs in the form of assets and consultancy services was not recorded.

payment of invoices). Tax revenues are recognized on receipt, and advance payments are recognized as an asset. External assistance is also recognized on receipt. The Financial Administration Proclamation requires the recognition of contingent liabilities, but TBPF does not estimate these, although it does have some (PI-17).

Expenditure, including expenditures on fixed assets and property, is recognized on a cash basis during the year, but capital expenditures are accrued at the end of the year for the annual statements. The accounts are kept open for a grace period of one month after the end of the financial year so that outstanding liabilities are paid and cash payments catch up to recorded expenditure. Salary and pension payments are recognized on processing of the payroll (monthly). Interest on public debt is recognized on payment. Investments in public enterprises are recorded as expenditure (Account Code 6412 and 6413) in the year of payment.

Financial statements are not in line with IPSAS. The financial statements for EFYs 2003, 2004, and 2005 (FY 2010/11-2012/13) contain detailed analysis of financial performance, which includes comparative analysis with the previous year. Financial assets and liabilities are presented separately. The financial statements do not contain cash flow statements, statements of financial position, and statements of financial performance. Extensive notes and analysis were not provided. Accounting policy, disclosures on some of the accounts, off balance sheet commitments (such as loan guarantees provided by TRG), and aging analysis were not provided.

Ongoing and planned activities

The WoredaNet wide area network connectivity project is ongoing and is expected to interconnect all reporting entities, including woredas. The project will avoid hard copy transaction exchanges with reporting entities and increase the timeliness of reporting.

Table 3.42 PI-25 Results

Score PI-25 (M1)	Minimum Requirements	Justification
C+		
B	A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities	Annual consolidated financial reports are prepared and contain all expenditures, revenues, assets, and liabilities. Some channel 1b DP- funded projects are included, but not all. Disclosures are not provided for revenue arrears.
B	The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.	The statements for FY 2010/11 to FY20012/13 were submitted to ORAG by five, seven, and seven months respectively from the end of the fiscal year.
C	Statements are presented in consistent format over time with some disclosure of accounting standards.	Financial statements are prepared on a modified cash basis of accounting, but financial statements are not fully in line with IPSAS

Sources: Accounts Department, TBPF; annual financial statements; trial balances

3.7. External Scrutiny and Audit

Table 3.43 External Scrutiny and Audit Performance Indicators

No.	External Scrutiny and Audit	Score
PI-26	Scope, nature, and follow-up of external audit	B+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	B+

3.7.1. PI-26: The scope, nature and follow up of external audit

Background

The Office of the Regional State Auditor General (ORAG) was reestablished in 2012 (EFY 2005) under Proclamation no. 230/2005, in accordance with Article 98 of the 1995 Constitution of Tigray Regional State. The Auditor General and Deputy Auditor General would be appointed by the Regional Council (RC) for six years with the possibility of extension. They would audit the annual consolidated fund report prepared by TBPF, carry out financial and performance audits of public bodies and report to the RC twice a year, and follow up on the implementation of audit recommendations.

ORAG has 143 auditors, 92 of whom are engaged in financial and compliance audits and 51 of whom are conducting performance audits.

(i) Scope and nature of audit

This dimension comprises three sub dimensions:

(a) Extent of audit coverage

The ORAG, in principle, covers 338 audit entities, including 42 regional government bureaus and 53 woreda offices, the remainder covering revenue offices, zonal administrations, colleges, health care centers and various other institutions throughout the region. During the audit for FY 2011/12 (EFY 2004), carried out during FY 2012/13 (EFY 2005), ORAG covered 216 entities, representing 64 percent of all entities and 85 percent of total TNRS expenditure, including DP-funded expenditure. Budget institutions with relatively large budgets and relatively low skill levels are priorities for audit, with woreda governments fitting into this category. Of the 42 BIs at the TRG level, 38 were audited, and of the 53 woredas, 46 were audited. Three of 200 health centers were audited; ORAG plans to outsource these in the future.

(b) Nature of Audit

The emphasis is on financial (covering revenue, expenditure, and financial assets and liabilities) and compliance audits (covering internal controls). ORAG conducted 216 financial audits, eight performance audits, five special audits, and three environmental audits in relation to FY 2011/12 (EFY 2004). It has not conducted any IT audits.

c) Adherence to Auditing Standards

Publication of Audit Reports (INTOSAI Standard):

Audit reports are not publicized through the ORAG website (http://tigotag.com), mainly because of its partial functionality.

Independence of ORAG from the Executive (INTOSAI Standard)

ORAG follows the INTOSAI audit standards. Currently, it uses the 2012 Regulatory Audit Manual and the performance and environmental audit manuals. ORAG is accountable to the RC and submits its budget to it for approval.

Cooperation and Public Relations

The law governing ORAG provides for the right of access to all the information required for it to fulfill its responsibilities (Article 17, paragraph 12), thus meeting another INTOSAI standard.

Audit Methodology

The annual audit focuses mainly on internal control systems using a risk-based approach. Audits, such as human resource audits, are conducted on a sample basis. ORAG looks at internal audit department reports (PI-21) as part of its work, with these departments also following up on ORAG's audits. ORAG also provides training to internal auditors.

Table 3.44 Scope and Nature of Audits Carried out in FY 2012/13 for FY 2011/12 (EFY 2004)

Elements covered	% of expenditure audited	Audits carried out	Audit standards applied
- Expenditure - Assets - Liabilities - Revenue	85% of TNRS expenditure	- Financial and compliance audits focusing on systemic issues related to disbursement, cash management, payroll, property, procurement, recording, reporting, etc. - Special, performance, and environment audits.	- INTOSAI

Source: TNRS ORAG

(ii) Timeliness of submission of audit reports to legislature

By law, ORAG should audit the annual accounts of TNRS (i.e., regional bureaus and woreda governments) within three months of their submission by TBPF, and then submit its opinion to TBPF, which then submits to the RC (Proclamation 230/2012, Article 14 (3).

Timeliness improved from more than four months for the audit of FY 2011/12 to less than four (Table 3.45) for the FY 2012/13 audit. ORAG also submits biannual reports on its operations to the RC and may submit earlier in order to alert the RC to specific issues. Reports on individual BIs are submitted to the RC upon completion.

Table 3.45 Timeliness of Financial Audits

Financial statements	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Received by ORAG	November 16, 2011	February 6, 2013	January 30, 2014
Dates of submission of audited financial statements to RC	March 16, 2012	July 4, 2013	May 8, 2014
Duration of audit	4 months	4 months, 28 days	3 months, 8 days

Sources: ORAG, TBPF

(iii) Evidence of follow up on audit recommendations

ORAG primarily discuss its audit findings with the relevant staff of the audited organization at the time of the exit conference. Auditees are required to respond to the audit findings within 40 days of receipt of the audit report. The Follow-up, Support and Research Department (Core Process) in ORAG is responsible for recording and following up on actions taken by auditees. The department has about 15 auditors who often visit auditees. When woredas fail to respond, auditors communicate this to the Woreda Council, which summons the auditees to a meeting in the presence of the auditors to discuss the issues.

At the regional level, a forum, established in FY 2012/13 (EFY 2005) and comprising the Speaker of the House, the Deputy Speaker of the House, the Chair of the RC Budget and Audit Committee, and the Auditor General, discusses the status of actions taken on audit findings and recommendations. ORAG plans to broadcast audit findings to enhance the timeliness of actions to be taken by auditees.

Twenty-eight entities (13 percent of the audited entities) did not respond to audit findings on EFY 2005 (FY 2012/13) in a timely manner.

Ongoing and planned activities

ORAG plans to outsource the audits of health centers and to broadcast its audit findings to enhance the timeliness of actions to be taken by auditees.

Table 3.46 PI-26 Results

Score PI-26 (M1)	Minimum Requirements	Justification
B+		
(i) B	TNRS entities (regional bureaus) representing at least 75 percent of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits is performed and generally adheres to auditing standards,	216 audit entities, representing 85% of the TNRS budget, were audited during EFY 2005 in relation to EFY 2004 (FY 2011/12). Full financial audits and compliance audits are conducted, broadly in compliance with INTOSAI standards.

Score PI-26 (M1)	Minimum Requirements	Justification
	focusing on significant and systemic issues.	Audit reports are not published however, violating a key INTOSAI standard.
(ii) A	Audit reports are submitted to the legislature within four months of the end of the period covered and in the case of financial statements, from their receipt by the audit office.	The audit report covering FY 2012/13 (EFY 2005) was completed within four months of receipt of the annual financial statements from BPF. Individual audit reports are submitted when completed. In addition, ORAG submits six monthly reports on its operations to the RC.
(iii) A	There is clear evidence of effective and timely follow up.	Only 38 of the 216 auditees did not respond in time to ORAG's audit findings and recommendations. A department in ORAG is dedicated to follow-up on audit findings. In addition, a forum formed by top-level stakeholders for following up on audit findings has strengthened the level of response.

Sources: Auditor General; ORAG reports; ORAG Proclamation; RC Committee for Budget and Audit.

3.7.2: Legislative scrutiny of the annual budget law

The power to give the Government authority to spend rests with the legislature and is exercised through the passing of the budget law.

The Tigray Regional Council has 152 members and five Standing Committees (SC), including the Budget and Audit Standing Committee (BAC); the others are the Legal and Administrative Affairs, Economic Affairs, Social Affairs and Women's Affairs. Each SC has seven members, the Chair being the only permanent member. Until 10 years ago, there was a Budget Committee and Audit Committee. They then merged to form the BAC, which scrutinizes both the draft budget and the audit reports prepared by ORAG.

(i) Scope of the legislature's scrutiny

The BAC scrutinizes the annual draft Budget Proclamation submitted to it by the regional cabinet. This is submitted very close to the end of the fiscal year and is the only time that the legislature reviews the draft budget. The draft Proclamation contains revenue and expenditure estimates plus details of budget subsidies to woredas and a summary table of financial resources (subsidies from the Federal Government, domestic revenues, external assistance) and expenditures (recurrent and capital). It also examines supporting documentation, such as the capital budget for each sector, and budget performance reports. It checks whether the Proclamation is consistent with the GTP for the region, which it reviewed ahead of RC approval. It also reviews sector strategic plans to determine their consistency with the GTP.

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

The committee's procedures (as for the Council as a whole) are governed by the Standing Orders of the regional council. Revised Standing Orders were issued in FY 2009/10 (EFY

2002), representing an improvement over the previous ones, according to the Chair of the BAC, as they added the procedures for budgetary oversight (Section 2, Articles 46-49) of the Standing Orders. The revised Standing Orders were accompanied by the introduction of a manual to help guide legislators in the RC and woreda councils.

In the process of reviewing the draft budget, which usually includes discussions with TBPF, the BAC prepares a concept paper for the RC as a whole to consider. The changes it recommends to the draft budget are usually very small.

(iii) Adequacy of the time for the legislature to provide a response to budget proposals

The regional cabinet is supposed to submit the draft budget to the RC for review at least one month before the end of the fiscal year. However, it was late by a week in submitting the draft Budget Proclamation for FY 2013/14 (EFY 2006) and has, at times, been late by two weeks. The draft budget has to be approved by the end of the fiscal year, so late submission to the RC shortens the time available for review.

The BAC (as it reiterated at the workshop on October 24) finds that one month is not enough time to review the draft budget. The sector standing committees in Parliament are also required to review the budget. Furthermore, CSOs are invited in late June to the RC to discuss the draft budget. Capacity constraints preclude faster meaningful review of the budget.

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

The Financial Administration Proclamation and the annual Budget Proclamations specify the rules for in-year amendments to the budget. Reallocations between budget institutions can be made without the requirement for ex-ante approval by the RC, except that reallocations to recurrent expenditure from capital expenditure are not allowed. As noted under PI-16, the extent of reallocations is significant.

Increased spending relative to the originally approved budget requires that a supplementary proclamation be approved by the RC ex-ante, regardless of the source of the additional resources, unless the resources are to be used to finance an increase in personnel emoluments. The BAC chair emphasized that this requirement is strictly adhered to. One supplementary budget at most is presented to the RC each year.

Table 3.47 PI-27 Results

Score PI-27 (M1)	Minimum Requirements	Justification
D+		
(i) C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	The documentation submitted to BAC at the end of the fiscal year consists of detailed revenue and spending estimates, supporting documentation, the summary of the resource envelope for the following year, and a table showing the allocation of subsidies to woreda governments. The documentation contains no policy-based analytical review. The limiting factor in rating this dimension is the very late submission of the documentation to the BAC, too late for any analytical review to have significant meaning.
(ii) B	Simple procedures exist for the legislature's budget	The committee's procedures are governed by Standing Orders, established in law. They were strengthened in FY 2010/11 (EFY 2003) to explicitly provide for review of the draft budget. The

Score PI-27 (M1)	Minimum Requirements	Justification
	review and are respected.	procedures do not provide for specialized review committees and negotiation procedures.
(iii) D	The legislature has significantly less than one month to review the budget proposals.	The time available for review is supposed to be 30 days, but the cabinet sometimes submits the budget proposal one to two weeks late.
(iv) B	Clear rules exist for in-year budget amendments by the executive and are usually respected, but they allow extensive administrative reallocations.	The rules are contained in the Financial Administrative Proclamation and the annual Budget Proclamations. As indicated in PI-16 (iii), in-year reallocations between budget institutions that do not require ex ante approval by the RC are extensive. The requirement of ex ante approval by the Regional Council of supplementary budgets (spending of additional resources, including those provided by DPs) is met.

Source: Head, BAC; Financial Administration Proclamation; Budget Proclamations

3.7.3. PI-28: Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved.

(i) Timeliness of examination of audit reports

The BAC takes about two months to review the audited annual financial statements. The review time for individual audit reports is shorter. At the time of the meeting with the team, it had received 34 reports and had reviewed 11 of them.

(ii) Extent of hearings on key findings

Hearings are conducted for audit reports with qualified or adverse opinions. Of 209 audit reports submitted for FY 2011/12 (EFY 2005), 45 had such opinions (PI-24 (iii)) and hearings were held on some of them. Hearings take up to a day. The media and civil society organizations (CSOs) are allowed to attend. The quality of hearings has improved through the issuance in February 2013 of guidelines on how to conduct hearings (prepared with the support of UNDP's Democratic Improvement Program). As indicated under PI-26 (iii), BAC is a member of a regional forum for follow-up on audit findings. Since 2013, the forum has been holding quarterly meetings to follow-up on the implementation of agreed actions taken by BIs on audit findings.

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

Following each hearing, the BAC prepares a report for submission to the RC on its findings, including a recommended Action Plan, indicating actions that should be taken by BIs to address the issues raised by BAC. Since the beginning of EFY 2006, implementation has been monitored by a Joint Forum, consisting of the Anti-Corruption Committee, the Supreme Court, the head of the Justice Bureau and ORAG. An MoU, signed by the auditee and the Joint Forum, formalizes the process. An informal monitoring process was in place beforehand, so the Joint Forum is formalizing a process that was already in place. The monitoring process includes site visits: 29 woredas had been visited since the establishment of the forum. Auditees are required to prepare quarterly reports on implementation of action plans. ORAG reports to the forum on audit findings that have not yet being acted on, and also highlights in its next year's report the extent to which the action plans have been implemented.

The team requested a copy of an action plan and the extent of implementation. The BAC, however, does not yet have a comprehensive database on implementation. Budget constraints prevent it from travelling more extensively to see if actions plans are being implemented. The BAC also believes that more training is needed to improve its effectiveness.

Table 3.48 PI-28 Results

Score PI-28 (M1)	Minimum Requirements	Justification
B+		
(i) A	Scrutiny of audit reports is usually completed by the legislature within three months of receipt of the reports.	Review of the financial statements audited takes about two months. Review of individual audit reports takes less time.
(ii) B	In-depth hearings on key findings take place routinely with the officers responsible from the audited entities, but may cover only some of the entities, namely those that received a qualified or adverse audit opinion.	In-depth hearings (up to one day long) are held with staff from some of the BIs that have received qualified or adverse opinions from ORAG. Of 209 audit reports submitted in relation to FY 2011/12 (EFY 2004), 454 had received such opinions.
(iii) B	Actions are recommended to the auditee, some of which are implemented according to the existing evidence.	The establishment of the Joint Forum in early FY 2013/14 enhances monitoring of the implementation of action plans under MoUs agreed upon between the forum and auditee.

Source: (i) Chair, BAC, Tigray Regional Council; and (ii) BAC performance report.

3.8. Donor Practices

Table 3.49 Donor Practice Performance Indicators

No.	Donor Practices	Score
D-1	Predictability of direct budget support	Not applicable
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C
D-3	Proportion of aid managed by use of national procedures	At least C

3.8.1. D-1: Predictability of Direct Budget Support

This indicator is not used as Tigray Region does not receive direct budget support (i.e., unearmarked funds that are deposited by donors into the Central Treasury Account and comingled with domestic revenues). Budget support is provided to the Federal Government and helps to finance the block grant from the Federal Government to the regional governments (one of the conditions being adequate funding of the Protection for Basic Services (PBS) program).

3.8.2: D-2: Financial information provided by donors for budgeting and reporting on project and program aid

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

TRG's Budget Proclamations and budget performance reports contain information on DP operations, with the amount of information increasing considerably in FY 2012/13. The DP operations reported on are from Channel 1b, whereby the DPs channel their funds directly through TBPF (as described in Chapter 2 and PI-7 in Chapter 3). Information is provided for ADB, World Bank, UNICEF, UNDP, UNFPA, FINNIDA, GIZ, Italy, DFID (UK), and JICA (as shown in the trial balance sheet for FY 2012/13). The expenditure is disaggregated according to TRG's budget classification system. As shown in the IBEX-generated "Capital Detail Assistance" report for FY 2012/13, but not in reports for earlier years, externally financed expenditure follows TRG's economic classification system (at the four-digit level) for both the approved budget and actual expenditure; the designation "capital" is a misnomer as recurrent expenditure items are shown as well as genuine capital expenditure.

The reason for the sharp increase in the amount of information on DP-financed operations being reported in TRG's budget documentation is the use of an interface between DP and IBEX codes. DP-funded projects and programs tend to use a program budget classification system, with spending classified according to objectives-based activity codes. These are not consistent with the budget classification system used in the regional governments. Therefore, the DPs use their own financial management systems (e.g. Peachtree). The DP codes can, however, be converted into IBEX codes for programs or projects funded by UNEXCOM (UN Executing Agencies) using a protocol known as Fund Authenticity and Certification of Expenditure (FACE). This provides for conversion of project codes (mainly Peachtree) into IBEX codes. Planned and actual expenditures under these projects can therefore be captured in the proclaimed budgets of sector bureaus and the budget execution reports that they prepare. Assistance provided by UNEXCOM agencies comprised 15 percent of the DP-funded projects and programs identified in the trial balance sheet for FY 2012/13 (ETB 20 million of a total of ETB 136 million).

The conversion is much simpler for other DP-funded projects. For example, only one budget classification code is used for the Rural Water Supply and Sanitation project funded by the World Bank: 6324, Construction of Infrastructure. If this had been a domestically funded project, the number of codes would likely have been far more.

External funding channeled directly to sector bureaus (channel 2b) may or may not be incorporated into their proclaimed budgets. If they are, it is as a one-line item. Actual project or program expenditure reports may be prepared by the project implementing unit in the bureaus, but are not captured in the budget execution reports of these bureaus due to the different budget classification codes used. DP funding channeled directly to projects (channel

3) will not be incorporated at all in proclaimed budgets. The magnitude of channel 3 funding is not known.

Table 3.50 D-2 Results

Score D-2 (M1)	Minimum Requirements	Justification
C		
(i) C	At least the five largest DPs provide estimates of planned disbursements for the next year in time for incorporation into TRG's budgets, but use their own budget classification systems.	At least 10 DPs, most likely the largest ones, provided estimates of disbursements of planned assistance in FY 2012/13 in time for incorporation into the Budget Proclamation. Only UNEXCOM agencies (providing about 15% of assistance) appear to be able to disaggregate their planned disbursements according to TRG's budget classification system, using the FACE protocol.
(ii) C	DPs provide timely quarterly reports on actual flows for project support.	The reports are at least quarterly, some more frequent, as shown in the monthly IBEX-generated trial balance sheets.

Sources: TBPF Planning & Budgeting Department; BoE; BoH; budget performance reports; trial balance sheets.

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

The dimension to be assessed is the overall proportion of aid funds to the central government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement and reporting).

DPs are generally still using their own systems, but are starting to use country systems. Prior to FY 2012/13 (EFY 2005), the implementation of projects and programs being monitored by the ACU in TBPF (Channel 1b projects and programs), were scarcely being reported in IBEX, except in highly aggregated terms (i.e., total expenditures with no economic classification). As indicated in the detailed budget performance report for FY 2012/13 (EFY 2005), some of these projects and programs are now being reported on according to the IBEX economic classification codes, albeit at a highly aggregated level (e.g., construction of infrastructure as a one-line item), with the exception of UNEXCOM-funded projects (as noted under D-2). The projects and programs are being prepared and implemented using DP codes, but these codes can be bridged to IBEX codes.

This not the same thing, however, as these projects and programs being budgeted for, executed, reported on, and accounted for through IBEX at the outset and then using bridging codes to translate the IBEX codes to DP codes. Therefore, using bridging codes to map from DP codes to IBEX codes does not really constitute use of country systems.

TBPF approval is required for PIUs (Project Implementation Units) to open bank accounts, but these are not yet part of the TSA or zero balance budget execution system (as noted under PI-17), partly because DP-funded projects and programs do not use IBEX to control budget execution and report on or account for budget execution (as noted under PIs 24-25). Non-use of the TSA or zero balance system creates inefficiencies in liquidity management if surplus cash is sitting in PIU accounts, which cannot be accessed for funding execution of the proclaimed budget.

Government procurement systems are coming closer to international best practice standards, but DPs still mainly use their own procurement systems, with the exception of the UN Executing Agencies (as noted under PI-19).

ORAG and internal auditors have the mandate to audit DP-funded projects and programs, but DPs tend to recruit their own auditors anyway, resulting sometimes in multiple auditing of the same project.

Human resource management systems also tend to be different, with staff of PIUs recruited outside the Civil Service, under conditions different from those of civil servants.

According to MoFED, about 7 percent of the block grants to TBPF from MoFED consists of the budget support provided by DPs to PBS on the basis of the 7.18 percent of Tigray's share of the horizontal allocation of block grants to regions. The total block grant to TBPF (excluding the MDG grant) was ETB 2,780 million in FY 2012/13), so the DP share of this was about ETB 200 million. By definition, country PFM systems are used for budget support spending. Total channel 1b support in FY 2012/13 was 136 million, of which about ETB 20 million was spent using country systems to some extent (mainly the UNEXCOM projects). Channel 2 and 3 aid would therefore have to be at least ETB 200 million a year in order for the rating for D3 to be no higher than a D. Given Tigray's relatively small size (relative to the other four regions assessed), this is unlikely to be the case.

Table 3.51 D-3 Results

Score D-3	Minimum Requirements	Justification
At least C	At least 50% of aid funds to regional government is managed through national procedures.	Donor-financed projects and programs use TRG's PFM systems to a small extent. A substantial amount of DP support is effectively budget support through the block grant from MoFED to BoFED and thus uses TRG's PFM systems by definition. This is likely to be at least 50% of all DP support.

Sources: TBPF; BoE; BoH.

3.9 Predictability of Transfers from the Federal Government

This indicator is assessed in terms of the predictability of the receipt of the block grant, the amount of which is specified in the Budget Proclamation and which is unconditional in its use. Predictability is very good, both end-year and in-year, the amounts disbursed on time in twelve installments for the recurrent expenditure component. The capital expenditure component is disbursed mainly on an as-required basis, so this indicator does not apply to it.

The other main transfer from MoFED is the MDG Fund grant that was established in FY 2011/12. The proposed use of the grant is included in the proclaimed budget by sector bureau (for the water, education, health, agriculture, and rural roads bureaus). Payment is made on a reimbursement basis, conditional on demonstration that the proposed projects have been or are being implemented. Predictability cannot, therefore, be measured.

As indicated under PI-13, profits taxes, VAT, and excise duties are shared between the Government of Ethiopia (GoE) and TRG. The Ethiopian Revenue and Customs Agency (ERCA) directly collect its share of profits taxes through its regional government branches. It collects TRG's share of VAT and excise duties and deposits it into TBPF's account. Transfers depend on actual collections, which cannot be determined ex ante.

As indicated under PI-8, TRG receives a special purpose urban development grant from GoE. Disbursement to projects is based on performance, so predictability cannot be measured. It is relatively small, comprising 5 percent of the total transfers from TBPF to woredas.

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the subnational entity for inclusion in the latter's budget

Annual deviation of actual block grant transfers to TBPF from the original total estimated amounts is very small.

(ii) Annual variance between actual and estimated transfers of earmarked grants

The MDG grant is disbursed on a performance basis. This dimension is therefore not applicable.

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the subnational fiscal year

Predictability is very good, with the amounts disbursed on time in twelve monthly installments for recurrent expenditure, according to a schedule agreed with MoFED. The capital expenditure component is disbursed mainly on an as-required basis, so this dimension does not apply to it.

Table 3.52 HLG-1 Results

PI	Score 2014	Justification
HLG-1 (M-1)	A	
(i)	A	In no more than one of the past three years have HLG transfers fallen short of the estimate by more than 5%.
(ii)	NA	
(iii)	A	Actual transfers have been distributed evenly across the year in all of the past three years, in accordance with a schedule agreed at the time of budget approval.

4. Government Reform Process

4.1. Recent and Ongoing Reforms

All government reforms, at all levels, are planned and managed within the overall national plan, the Growth and Transformation Plan (GTP), led by the Federal Government, and outlined in Chapter 4 of the Federal Government Public Expenditure Financial Accountability (PEFA) assessment. A specific objective of the GTP for Tigray Regional State is the development of information and communication technology (ICT). The goal is to have wide area network coverage reach 100 percent by FY 2014/15. This includes IBEX usage, which stood at 34 percent coverage before the commencement of the GTP (FY 2009/2010).[24]

The Expenditure Management and Control Program (EMCP), coordinated by the EMCP Coordinating Unit in MoFED covers most areas of public finance management (PFM), as addressed in this PEFA assessment. This has been in place since the early 2000s.

The Promoting Basic Services Program (PBS), formerly the Protection of Basic Services Program, is a nationwide program that aims to contribute to expanding access to basic services and improving their quality. The PBS was established in FY2006 and is now in its third phase. Much of the PBS is funded in the form of a block grant from MoFED to regional governments. A portion of it is in the form of specific projects, such as the FTAP, which includes the design of service delivery templates to be posted outside of service delivery units; design of budget performance templates for posting outside of WPFOs ; support for local civil society organizations that improve opportunities for citizens to provide feedback on service delivery to local administrators and service providers; and more recently, as part of the second phase of PBS, in the form of technical assistance and training on PFM strengthening in woredas through PFM support teams provided by TBPFs.

TRG-specific reforms include the following actions:

- A number of PFM proclamations, regulations, and directives were issued in 2010, 2011, and 2012 (See PI-20).
- Double entry accounting, the modified cash base of accounting, and the Single Treasury Account were among the major changes made to the PFM system.
- Assisted by the roll out of IBEX, there has been significant improvement in budgeting, Treasury management, account reconciliation, and reporting. Thirty woredas and 27 sector bureaus are interconnected with IBEX. The remaining woredas are using the IBEX on a standalone basis. Improvements would have been stronger had it not been for the internet connectivity issues that have been a nationwide problem (noted in Chapter 2).
- A fiscal transfer formula (PI-8) was developed.
- A Transparency Forum was established to enhance the implementation of audit findings and recommendations at all levels. The Regional Speaker heads the forum and its members are from TBPF, the ORAG Bureau of Justice, and the Anti-Corruption Commission.
- The Tigray Revenue Authority was established in FY2010. Previously, it had been a

[24] Growth and Transformation Plan – Tigray Regional State: Page 12, 64 (September 2010)

department of TBPF.

- An Internal Audit Committee function was established at the beginning of FY 2014. At the time of the PEFA assessment, internal audit committees had been established in 22 woredas.
- The use of media and holding of public dialogues have resulted in improvements in the transparency of budget execution.

4.2. Institutional Factors Supporting Reform Planning and Implementation

Federal Government leadership and ownership of PFM reforms is high and is the driving force behind PFM reforms at the regional and woreda government levels. Most PFM reforms fall under the EMCP, coordinated by the EMCP Coordinating Unit in MoFED. The EMCP started in FY 2006/07 (EFY 1999) and is managed by a Steering Committee chaired by the Minister of Finance. It also includes senior officers from the Government of Ethiopia (GoE) and representatives of donor partners.[25] The program is divided into 12 projects, each of which has a designated project manager, and performance is monitored against a rolling thee-year action plan. The current action plan lists 56 activities, their implementation by year, and responsible bodies (MoFED Directorates, the Public Procurement Authority, regional and woreda administrations, etc.).[26] Progress is monitored weekly by project managers, monthly by the EMCP Coordinating Unit in MoFED, and quarterly by the high-level Steering Committee. Progress reports are used to revise and update the action plan.

Following the Federal Government's example, government ownership and leadership are also strong in Tigray, and the establishment of PFM reform committees at the regional and woreda levels is an indication of the extent of ownership. The TBPF issues annual reports to the EMCP Steering Committee on progress made with EMCP implementation.

In Tigray, a PFM reform committee was established in TBPF. PFM teams are also in place at the woreda level, composed of the heads of the Woreda Procurement, Budget and Accounts. Working guides and formats are adapted from the guides issued by MoFED.

[25] MOFED (2011) Expenditure Management and Control Reform Program: Tasks and Implementation, 3rd edition, July 2011

[26] MOFED/EMCP (2012) EMCP Action Plan for 2013-2015, November

Appendix A: Calculation of Performance Indicator Two on Budget Variance

Table A.1: Budgeted and Actual Expenditure by Budget Institution FY 2010/2011 (EFY 2003)

FY 2010/2011 (EFY 2003): ETB, millions	**FY 2010/2011**	**EFY 2003**				
Budget Institution	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	%
House of the Speaker	3.89	4.65	4	1	1	23.7
Administrative and General Service	25.37	27.26	24	3	3	11.7
Office of the Auditor General	5.08	5.79	5	1	1	18.2
Bureau of Women's Affair	2.04	2.65	2	1	1	34.6
Bureau of Justice	42.86	42.59	41	2	2	3.6
Supreme Court	13.68	15.44	13	2	2	17.0
Police Commission	37.21	29.76	36	-6	6	15.8
Bureau of Plan and Finance	8.90	8.12	9	0	9	100.3
Bureau of Government Communication	6.00	6.78	6	1	1	17.3
Tigray Institute Management Work	5.49	2.41	5	-3	3	51.9
Agency Revenue	4.11	3.23	4	-1	1	17.3
Mass Media Agency	5.45	5.65	5	0	0	7.9
Agriculture and Rural Development Bureau	31.64	31.73	30	1	1	4.5
Agency Expansion Cooperative Development Purchasing	3.34	3.25	3	0	0	1.5
Agency Environmental and Land Use Administration	5.59	6.59	5	1	1	22.2
Water Resource Development Bureau	191.16	160.16	183	-23	23	12.0
Trade Industry & Urban Development	39.21	35.82	38	-2	2	4.4
Youth and Sports Affairs Office	12.27	8.85	12	-3	3	23.7
Education Bureau	56.99	46.38	55	-8	8	14.4
Health Bureau	77.87	92.06	75	17	17	22.5
All Other Votes (Residual)	330	330	316	15	15	4.4
Total expenditure, excl. reserve/contingency	908.00	869.65	870	0	100	
Reserve/contingency	43.74	0				
Total expenditure	952	870				
Overall (PI-1) variance						8.6
Composition (PI-2) variance						11.4
Contingency share of budget						0.0

Table A.2: Budgeted and Actual Expenditure by Budget Institution FY 2011/2012 (EFY 2004)[a]

FY 2011/2012 (EFY 2004): ETB millions	**FY 2011/2012**	**EFY 2004**				
Budget Institution	**Budget**	**Actual**	Adjusted Budget	Deviation	Absolute Deviation	%
House of the Speaker	4.9	4.8	5	0	0	6.5
Administration Office	33.3	44.1	31	13	13	42.5
Office of the Auditor General	8.1	7.7	8	0	0	2.7
Bureau of Women's Affair	3.2	3.3	3	0	0	8.1
Bureau of Justice	5.2	10.9	5	6	6	124.6
Supreme Court	15.8	18.2	15	4	4	24.0
Police Commission	53.9	43.8	50	-6	6	12.6
Bureau of Plan and Finance	72.2	57.1	67	-10	10	14.9
Bureau of Government Communication	8.5	10.7	8	3	3	34.9
Tigray Institute Management Work	7.5	4.7	7	-2	2	33.0
Revenue Development Authority	4.1	7.8	4	4	4	105.0
Mass Media Agency	46.4	9.3	43	-34	34	78.4
Agriculture and Rural Development Bureau	81.2	100.2	76	25	25	32.7
Agency Cooperative Development Purchasing	4.2	3.3	4	-1	1	15.2
Agency Environmental & Land Use Administration	6.2	8.1	6	2	2	40.8
Water Resource Development Bureau	829.2	657.6	772	-114	114	14.8
Trade Industry & Urban Development	37.9	25.2	35	-10	10	28.4
Bureau of Construction and Transport	463.0	533.7	431	103	103	23.9
Education Bureau	110.8	111.4	103	8	8	8.1
Health Bureau	128.3	132.8	119	13	13	11.2
All Other Votes (Residual)	428.6	393.9	399	-5	5	1.2
Total expenditure, excl. reserve/contingency	2,352.4	2,188.9	2189	0	364	
Reserve/contingency		0.0				
Total expenditure	2,352.4	2,188.9				
Overall (PI-1) variance						7.0
Composition (PI-2) variance						16.6
Contingency share of budget						0.0

a. Actual expenditures of Bureaus of Water Resources and Construction & Transport adjusted upward by assessment team for MDG Fund-related end-year unretired advances to contractors (explained in main text.

Table A.3: Budgeted and Actual Expenditure by Budget Institution FY 2012/2013 (EFY 2005)

	FY 2012/2013 (EFY 2005): ETB, millions	FY 2012/2013	EFY 2005				
	Budget Institution	**Budget**	**Actual**	Adj. Budget	Dev.	Abs. dev.	%
1	House of the Speaker	29.08	8.83	24	-16	16	63.9
2	Administration Office	45.00	64.58	38	27	27	70.8
3	Office of the Auditor General	9.95	9.56	8	1	1	14.3
4	Bureau of Women's Affair	5.22	5.02	4	1	1	14.4
5	Bureau of Justice	14.51	15.73	12	4	4	29.0
6	Supreme Court	30.05	30.08	25	5	5	19.1
7	Police Commission	73.14	83.66	61	22	22	36.2
8	Bureau of Plan and Finance	44.11	56.16	37	19	19	51.5
9	Bureau of Government Communication	9.79	13.40	8	5	5	62.9
10	Tigray Institute Management Work	5.53	4.12	5	-1	1	11.2
11	Revenue Development Authority	17.15	12.96	14	-1	1	10.0
12	Mass Media Agency	68.5	72.1	58	15	15	25.4
13	Agriculture and Rural Development Bureau	376.50	237.21	316	-79	79	25.0
14	Agency Expansion Cooperative Development	15.63	5.05	13	-8	8	61.5
15	Agency Environmental and Land Use Administration	18.53	18.60	16	3	3	19.4
16	Water Resource Development Bureau	1,058.78	830.41	890	-59	59	6.6
17	Marketing Agency	3.60	2.95	3	0	0	2.4
18	Bureau of Construction & Transport	810.96	984.33	681	303	303	44.5
19	Education Bureau	151.91	115.11	128	-13	13	9.8
20	Health Bureau	271.32	167.07	228	-61	61	26.7
21	All Other Votes (Residual)	564	307	474	-167	167	35.2
	Total expenditure, excl. reserve/contingency	3,623.34	3,044.6	3044	0	808	
	Reserve/contingency	126.23	0				
	Total expenditure	3750	3044				
	Overall (PI-1) variance						18.8
	Composition (PI-2) variance						26.5
	Contingency share of budget						0.0

Appendix B: List of People Met

Name	Office	Position
Daniel Assefa	BPF	Bureau Head
Hagos W/Kidan	BPF	Deputy Bureau Head
Berihu Gitet	BPF	Process owner of Procurement & Property Administration
Ababu Tadesse	BPF	Team coordinator (plan and Budget)
Fisha Aregawi	BPF	Inspection expert
Nigsti Aydebeb	BPF	Government finance head
Daniel Berhane	BPF	Senior expert
Eyerusalem Tesfay	BPF	FTA focal (Budget & Plan)
Hadush G/Meskel	BPF	Accounts report coordinator
Daniel Hintse	BPF	GIS & Data expert
Zafu G/hiwot	BPF	Aid Co-process owner
Ataklti G/Selassie	BPF	Chanel I coordinator
Ghidey Mengesha	BPF	M&E coordinator
W/Gebrieal Mesfin	BPF	Senior Auditor
Mulugeta Berhe	BPF	Auditor
Kahsay Atsbha	BPF	Inspection expert
Kahsay G/medihin	BPF	Inspection
Ataklty Woldu	BPF	Support finance & property process owner
G/Meskel Hadgu	BPF	Procurement Officer
Meaza Tadelle	BPF	Program coordinator
Tsegay W/Gebriel	BPF	Program coordinator
Berhane Tsigab	TRRA	General Director
Mihret Beyene	TRRA	Deputy Director
Belay G/Wold	TRRA	Process owner
Sintalem Molla	TRRA	Internal Auditor
Abraha Desta	TRRA	Support process coordinator
Kiflu Seifu	TRRA	Process Coordinator
Freweini Berhane	TRRA	Senior Accountant
Hadush Zewdie	ORAG	D/General Auditor
Tesfai Reda	Office of trade & industry Mekelle Zone	expert
Milat Fessihaye	Office of finance & Plan Mekelle Zone	Finance and Plan process owner
Selamawit Haile	Office Of public relation Mekelle zone	Expert
Mebrahitu G/hiwot	Office of trade & industry Mekelle Zone	Expert
Haile Gebru	Office of trade & industry Mekelle Zone	expert

Name	**Office**	**Position**
Alemu Desta	Mekelle Chamber of commerce	Tax Advisor
G/her Teklay	BPF	Planning
Gebru Teklu	Mekelle chamber	Vice President
Resom Tesfamariam	Mekelle Chamber	Secretary General
Daniel G/Meskel	Mekelle Chamber	President
Neguse Legesse	PAC	Standing committee of Budget and Audit
Habtu Aregawi	PAC	Process owner of research and monitoring
Berhane Teklu	PAC	Legal service process owner
G/medhin Mesfin	BOE	Planning & research head
Edris Mohammed Toum	BOE	Finance, Procurement & Property Admin, head
Tadelle Araya	BOE	Procurement Expert
Eyasu Redae	BOE	Plan &budget expert
Seifu Anbesse	BOE	HRM Coordinator
Meaza Abay	BOE	Finance Expert
Wihib Tesgay	BOE	Internal Audit
Tsegay Berhane	Bureau of Construction , Road & Transport	Plan & budget
Kindeya G.kidan	BCRT	Finance head
Tesfay Kelel	BCRT	Internal Auditor
Kibret Kefialew	BCRT	HRM
Berhe Fiseha	BCRT	Deputy Bureau Head
Ataklti Abraha	BOH	Deputy Bureau Head
Mulu G/Hiwot	BOH	Auditor Head
Belaynesh Teklu	BOH	Finance Head
Yirgalem Alemseged	BOH	Budget expert
Almaz Mulalem	BOH	Finance Officer
Yirgalem Surafeal	BOH	Finance Officer
Mulu Bezabih	BOH	Finance Officer
Gebru Aynalem	BOH	Finance Officer
Libelo Woldu	BOH	Finance Officer
Tewelde G/Hiwot	BOH	Finance Officer
Alemu Woldu	BOH	Finance Officer
H/Mariam Reda	BOH	Purchaser
Tirhas Woldu	BOH	Internal Auditor

Appendix C: List of Documents

List of Document Reviewed / Consulted

Tigray

1. Draft Budget EFY 2006
2. Budget Reform Guide – Issued in July 2011
3. Quarterly Cash flow requirement request – EFY 2004
4. Working guide and code of conduct for the regional council – Issued in 2011
5. Financial Administration Proclamation – 173/2002
6. Financial Administration Regulation 69/2003
7. Various guidelines (Part one and Part two) consisting of guidelines on procurement, procurement property administration, internal control, Cash management, financial accountability, internal audit, internal control
8. Proclamation for the re-establishment of Regional Auditor General 230/2005
9. Performance Report of Bureau of Education – EFY 2005
10. Audit Report of Audit General – EFY 2006
11. Budget Proclamation EFY 2003, 2004 and 2005
12. Internal Audit Report – Bureau of Construction and Design – EFY 2003, 2004 and 2005
13. Annual Cash Flow Forecast and requirement report - EFY 2005
14. Follow report of implementation of audit findings and recommendations by the regional council - Issued on February 2014
15. Performance Report on PFM reform – 9 month performance - Issued in March 2014
16. Monthly financial reports – Treasury and donor reports
17. Procurement Plan – Bureau of Construction and Design – EFY 2006
18. Report on action taken on audit findings and recommendations – By Bureau of Education – Issued in February 2014
19. Report of the Regional council on the status of implementation of audit findings and recommendations – Issued in January 2013
20. Monthly financial reports of Bureau of Education, Bureau of Health and Bureau of Construction and Design.
21. Summary of annual audit reports issued by Inspection department of Bureau of Plan and Finance – EFY 2005 and 2006
22. Regional Financial Report for the EFY 2003, 2004 and 2005 which includes trial balance, Revenue report, Budget and expenditure reports, notes to the accounts, NGO financial reports.
23. Growth and Transformation Plan of the Region -
24. 2010/11 - 2014/15
25. Performance report on Reform program for Expenditures Management and Control Program

26. Income Tax Proclamation No. 68/2003 (1995 E.C.) for all taxes on income, capital gain and profits; as amended by Proclamation No.180/2010 (2002 E.C.);
27. Proclamation No. 96/2006 (1998 E.C.) for Agricultural Income Tax and Rural Land Use Fee as amended by Proclamation No. 137/2008 (2000 E.C.);
28. Stamp Duty & Sales Proclamation 124/2007 (1999 E.C.) as amended by Proclamation No. 203/2011 (2003 E.C.);
29. Proclamation No. 285/2002 (1994E.C.) for VAT on goods and services as amended by Proclamation No. 609/ 2008 (2001E.C.) and Regulation No. 79/2003 (1995 E.C.);
30. Excise Tax Proclamation No. 125/2007 (1999 E.C.) as amended by Proclamation No. 202/2011 (2003 E.C.); and

    Turnover Tax Proclamation No. 72/2004 (1999 E.C.) as amended by Proclamation No. 182/2008 (2000 E.C.)