

The Republic of Sierra Leone

**Public Financial Management
Performance Assessment Report**

December 2007 (Published May 2008)

PREFACE

This Public Financial Management (PFM) Performance Assessment Report is based on the PEFA PFM Performance Measurement Framework, which includes a performance rating on 31 indicators covering the entire PFM cycle in the central government, and assesses impact on budget goals. The report also examines progress made in recent years, and identifies broad measures to strengthen the Government of Sierra Leone's National PFM Action Plan.

This work was jointly led by the UK Department for International Development (DFID) and the World Bank on behalf of development partners, and was carried out in close collaboration with the Government of Sierra Leone and the European Commission. Other development partners working on PFM issues in Sierra Leone (African Development Bank and the IMF) were also consulted.

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

This final draft of the report is based on discussion among the various interested parties and their comments on a first draft. We are grateful to the various reviewers including the PEFA Secretariat for the useful comments and suggestions.

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Glossary

AfDB	African Development Bank
AGA	Autonomous Government Agency
ASYCUDA	Automated System for Customs Data
BB	Budget Bureau
BCC	Budget Call Circular
BFP	Budget Framework Paper
BoSL	Bank of Sierra Leone (Central Bank)
CAP	Common Action Plan
CFAA	Country Financial Accountability Assessment
CHO	Community Health Officer
COFOG	Classification of the Functions of Government
CPAR	Country Procurement Assessment Report
CSO	Civil Society Organisations
CTB	Central Tender Board
CWIQ	Core Welfare Indicators Questionnaire
DACO	Development Assistance Coordination Office
DBOC	District Budget Oversight Committee
DFID	Department for International Development
DFMAS	Debt Management and Financial Analysis System
DMO	District Medical Officer
DSA	Debt Sustainability Analysis
EBE	Extra Budgetary Expenditure
EC	European Commission
ECOWAS	Economic Community of West African States
EGPRSP	Economic Growth Poverty Reduction Strategy Paper
EPRU	Economic Policy Research Unit
ESO	Establishment Secretary Office
EU	European Union
FRA	Fiduciary Risk Assessment
GBAA	Government Budgeting and Accountability Act
GBS	General Budget Support
GFS	Government Financial Statistics
GoSL	Government of Sierra Leone
GRS	Governance Reform Secretariat
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
IBMS	Integrated Budget Management System
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INGO	International Non Government Organisation
INTOSAI	International Organization of Supreme Audit Institutions
IPASB	International Public Sector Accounting Standards Board
IRCBP	Institutional Reform and Capacity Building Project
LC	Local Council
LG	Local Government
LGA	Local Government Act
LGFD	Local Government Finance Department
LM	Line Ministry
LTU	Large Taxpayer Unit
MDAs	Ministries, Departments and Agencies

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MDBS	Multi-Donor Budget Support
MDG	Millennium Development Goals
MO	Medical Officer
MoDEP	Ministry of Development and Economic Planning
MoEST	Ministry of Education, Science and Technology
MoF	Ministry of Finance
MoHS	Ministry of Health and Sanitation
MTEF	Medium Term Expenditure Framework
NAP	National Action Plan
NaSCA	National Commission for Social Action
NASSIT	National Social Security Insurance Trust
NCP	National Commission for Privatisation
NRA	National Revenue Authority
OGAU	Other Government Accounts Unit
OVP	Office of the Vice President
PAC	Public Accounts Committee
PAF	Progress Assessment Framework
PAYE	Pay As You Earn
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMRU	Public Financial Management Reform Unit
PHU	Peripheral Health Unit
PIU	Project Implementation Unit
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
RMIP	Records Management Improvement Programme
SDPS	Service Delivery and Perception Survey
SLIHS	Sierra Leone Integrated Household Survey
SLP	Sierra Leone Police
SLRA	Sierra Leone Roads Authority
SOE	State Owned Enterprises
SSL	Statistic Sierra Leone
SSP	Strategic Planning Action Process
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Programme
USL	University of Sierra Leone
VAT	Value Added Tax

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		Score
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	B
PI-4	Stock and monitoring of expenditure payment arrears	No Score
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	No Score
PI-8	Transparency of inter-governmental fiscal relations	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C
PI-10	Public access to key fiscal information	B
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	C+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	C+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt and guarantees	C+
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurement	C
PI-20	Effectiveness of internal controls for non-salary expenditure	C+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	C
PI-23	Availability of information on resources received by service delivery units	A
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	D+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	C+
PI-28	Legislative scrutiny of external audit reports	D+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	C+
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+
D-3	Proportion of aid that is managed by use of national procedures	D

SUMMARY ASSESSMENT

A. Background

1. By the time Sierra Leone ended its civil war in January 2002, the capacity of the civil service was severely depleted. The war had a devastating impact on public financial management both in terms of loss of skilled personnel, but also damage to infrastructure, including the destruction of the building that housed the Ministry of Finance in 1997. Despite these setbacks, GoSL has made significant progress in rebuilding and strengthening public expenditure systems with support from the international community. In 2002, a limited scope Country Financial Accountability Assessment (CFAA) was undertaken. Since then, as documented in Chapter Four below, **most** of the CFAA recommendations have been implemented and the regulatory framework for PFM has been positively transformed by a number of new laws, including:

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

2. The Government of Sierra Leone has supplemented these efforts in a number of ways: new institutions were established (the National Revenue Authority and internal audit units); procedural innovations were put into place for budget planning and monitoring such as the Medium-term Expenditure Framework (MTEF), sector strategies, budget oversight committees, and Public Expenditure Tracking Surveys (PETS); and improvements were made in the number and quality of staff within the Ministry of Finance, the Accountant-General's Department and the Office of the Auditor-General. In addition, a new Integrated Financial Management and Information System (IFMIS) has replaced the old, unsustainable Financial Management and Accounting System (FMAS). A full accounting of the reforms made since 2002 appears in the timeline attached to Chapter Four.

3. Recent assessments of progress and impact have been documented in the 2004 Public Expenditure Review, the 2004 HIPC Assessment and Action Plan and the Government's own self-administered PEFA from 2005.² This PEFA Progress Report represents the most recent independent assessment.

B. Integrated Assessment of PFM Performance

1. Credibility of the budget

4. Aggregate financial discipline has improved over time, yet there are some emerging features in recent years that cause concern. On the revenue side, there has been a tendency to over-estimate expected revenues relative to actual revenue. Budget support from donors is not predicable and may not be guaranteed to make up any short fall in domestic revenue. The situation may worsen in the future if performance related budget support is to be fully

² The results have not been validated by the PEFA Secretariat.

programmed in annual fiscal frameworks. After initial improvements in 2005, there was a widening in the variance between actual and budgeted expenditure for individual MDAs. This makes it difficult for MDAs to implement planned operations coherently. While IFMIS is being used to control commitments, the overhang of arrears is also an issue.

2. Comprehensiveness and transparency

5. The classification system/chart of accounts uses GFS/COFOG compliant economic classification. Despite this, the printed estimates of revenue and expenditure are not coded using this structure. The implementation of the revised budget classification is still on-going, particularly at MDA and LC level. The advances made under IFMIS to render the budget consistent to GFS/COFOG need to be completed. Budget documentation could be improved reasonably easily.

6. There is an Other Government Accounts Unit in the Ministry of Finance, but it does not produce comprehensive documentation on a regular and timely basis on the forty-seven extra-budgetary and sub-vented agencies which to feed into execution reports. The Local Governments Equitable Grants Distribution Formulae provides clear and timely information on allocations to each of the 19 local councils for each of the devolved services. However, follow up on the monitoring of budget execution is still being developed. The present system for overseeing fiscal risk from other public bodies is in place. It is not well implemented because of the limitations in auditing, which underpins the system.

7. Public policy hearings are held in August each year to review MDA's strategy and ensure that the budget and procurement plans are prioritized based on the resource envelope. Civil society is engaged in monitoring government expenditure through district level budget oversight committees, which involves widespread community sensitisation meetings on budgetary and public financial matters. Public access to key information can be improved by some simple management changes. In-year budget execution reporting is undergoing teething problems with regard to reconciliation and once addressed, reports can be gazzetted within 4 weeks of completion as was achieved in quarters II and III of 2006. However, no audited public accounts have been published since 2001. This backlog is being addressed by the Accountant General and Auditor General during 2007. The procedures relating to the publication of external audits needs to change as Parliament currently takes months to scrutinise audit reports before publication. This is contrary to international best practice.

3. Policy-based budgeting

8. There is a calendar for the preparation of the MTEF and Budget as a combined process. The budget calendar could be improved though the incorporation of a detailed macroeconomic scenario as a precursor to the Budget Call Circular. Presently, the Budget Bureau issues the call circular in the summer months and then awaits an IMF mission in the fall months to revise the macroeconomic forecast and attendant ceilings. The Ministry of Finance determines the ceilings, which are sent to the MDAs in the Budget Call Circular, which is forwarded to the Clerk of Parliament, but not to Cabinet. Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper in mid-September.

9. The 2006 approval of the 2007-09 MTEF budget was the first time that a budget calendar had been adhered to in line with the GBAA, a significant improvement in the budget preparation process. Previous years had seen the budget approved in the second quarter, requiring a presidential warrant during the first four months to enable expenditures. Expenditure was still halted for 10 days in 2005 and 5 days in 2006.

10. The budget document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, the deficit and its financing. The MTEF estimates are updated

each year, without any detailed explanation of changes and the implications for budget ceilings. Expenditures are broken down by economic categories and by sector, which usually corresponds to a ministry. A Debt Sustainability Analysis includes an analysis of both external and domestic debt and is now expected to be conducted biannually. There are no costed sector strategies available with some either close to completion, or in an advanced stage under PRSP and MDG.

11. The Development and Recurrent budgets are currently produced separately. The budget speech in 2006 indicated their future integration in terms of functionality, administration and economic classification and that their preparation and execution will be the responsibility of the Budget Bureau under the supervision of the Financial Secretary. At present, there is little formal linkage between the two budgets. The rationale for the development – recurrent split (rather than the internationally accepted capital – recurrent split) is based on the traditional post independence budget structure throughout Africa (and indeed the subcontinent (Plan and non Plan categories)). No current formal mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.

4. Predictability and control in budget execution

12. The National Revenue Authority has made considerable progress in improving the national taxation system and the taxpaying culture by bringing together the revenue mobilisation functions of the Income Tax and Customs Departments into a single unified authority. NRA is planning to move forward and make progress at a greater pace through a combination of a modern revenue service and a taxpaying culture where taxpayers understand and have confidence in the revenue administration system. These are designed to eliminate the many weaknesses NRA inherited in tax administration.

13. The overall budget strategy is based upon the level of estimated revenues determining expenditure levels. The Budget Bureau prepares quarterly cash flow forecasts at the start of the fiscal year and notifies MDAs of the quarterly ceilings based on procurement plans for non-salary/non interest expenditures. Wages and salaries are calculated centrally. Quarterly allotments are made to all MDAs. The Net Domestic Financing Committee meets on a weekly basis and monitors the cash position and the Budget Bureau is developing a model to provide more regular cash flow projections. This process gives heads of budget organizations an expenditure plan at the beginning of the fiscal year. MDAs reported considerable uncertainty with the timing and the overall availability of funds for non-interest, non-wage expenditure during the year. Quarterly allocations are often paid in tranches and fourth quarter budget cuts result in the accumulation of arrears to contractors.

14. A Single Treasury Account (the Consolidated Revenue Fund) has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and therefore excludes a significant number of departmental bank accounts, mainly for externally assisted projects and sub-vented agencies. Consolidation of many of these balances into the treasury system would be a major improvement in the present cash management arrangements.

15. All central government loans and guarantees have to be endorsed by the MoF and approved by Parliament, however the criteria and ceilings are not clear.

16. MDAs' personnel records are maintained by the Establishment Secretariat. The Sierra Leone Police and Ministry of Education, Science and Technology maintain separate personnel databases. Payroll matters are handled centrally by the Accountants General

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Department. The payroll module of IFMIS was introduced in April 2006. This has improved controls, audit trails and reporting facilities. However, recent independent audits have shown major concerns regarding the completeness of personnel records. These audits indicate that the risk of large-scale undetected payroll fraud is extremely high in respect of the incidence of ghost workers and out-of scale payments.

17. Work on cleaning up civil servants personnel records has focused on Education, Health, Agriculture and the Establishment Office. There are plans to ensure that everyone on the payroll has a complete master file and that all working files in key MDAs are a mirror image of Establishment Secretary's master files. A similar cleaning up exercise will need to be carried out for teachers.

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

19. For civil servants, personnel details and payroll are integrated in one database with different access and supervisory rights for ESO and AGD staff, which ensures a basic segregation of duties in the system. Logbooks control the movement of amendment forms between ESO, MoEST, SLP and the AGD. However, beyond the logbooks, there is no batching system to control the movement of amendment forms between and within Departments.

20. In reporting their procurement activities all entities should provide the National Public Procurement Agency regular reports within 14 days of the end of the quarter. However, as with some other elements of the procurement law in Sierra Leone, this has yet to be universally implemented. The Procurement Act regulatory requirements have established criteria for the use of open competition. Contract splitting to avoid thresholds has resulted in widespread use of non-competitive methods of procurement. This will become harder as procurement planning and implementation is more widely applied. The Act also provides for complaints. This is a two tier system providing (i) a review by the head of the procuring entity and (ii) a review by an Independent Procurement Review Committee, which has received three cases so far. While the complaints mechanism is well defined, implementation is extremely weak and significant levels of capacity building will be required.

21. The appropriations module of IFMIS became operational June 2005 and provides a hard budget control to ensure that spending does not exceed overall quarterly budget allocations. The implementation of the purchasing module commenced in late 2006 has the capacity to record specific commitment obligations and Local Purchase Orders. However, a recent independent evaluation of the implementation of IFMIS noted that this module was not well understood even within the AGD. The AGD is able to produce monthly statements comparing approved budget with the total of the executed budget and the outstanding contractual commitments. However, these reports are not routinely issued to MDAs. The AGD does not allow the budget/cash limits to be exceeded. In practice, the main focus at present is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments. The budgetary control system for domestic goods and services is tightly operated and there is no possibility of a budget being exceeded.

22. At the time of the review, the Financial Administration Regulations were reasonably comprehensive and well understood by those who apply them, but they were being updated

for conformity with the GBAA 2005 as well as some of the recent changes in the PFM system.³

23. The concept of public sector internal audit is new to Sierra Leone. The GBAA 2005 established the requirement for MDAs to establish and maintain internal audit units, which meet international standards. There are now 14 separate Internal Audit Department units functioning. These IADs function independently from the finance department and report directly to Vote Controllers. The MoF Internal Auditor has statutory authority to coordinate and manage the internal audit cadre, to set standards and monitor performance.

24. Internal audit reports prepared by the MoF IAD indicate that these are well structured, comprehensive, have clear objectives and focused on key risk areas. Overall, they demonstrate a practical understanding of modern internal audit techniques. However, recent quality assurance reports for the IA function in four key MDAs indicates that the development of fully functioning internal audit departments will prove to be a considerable challenge. In addition, the management response to internal audit reports is poor at present. Audited entities are often slow to respond to internal audit reports or fail to address issues raised in reports adequately.

5. Accounting, recording and reporting

25. In the past, failure to conduct regular bank reconciliation between the Treasury bank accounts in the BoSL with the cash book had been a major weakness in the overall control environment. This had also been a contributory factor to the delay in the production of the public accounts. Addressing weaknesses in a timely manner and the procedures relating to bank reconciliation has been made a priority by the AGD and considerable effort has been made to deal with the reconciliation backlog and improve procedures. In March 2007, the reconciliations unit had completed the treasury single account reconciliations for fiscal years 2002 - 2005. In 2007, reconciliations are carried out on a regular basis throughout the month and reports (reviewed and signed by the Deputy AG) are completed by the 15th of the month following the month end. The reconciliations module of IFMIS has also been revised and is more user-friendly, which provided a firmer foundation for the reconciliation process.

26. Public Expenditure Tracking Surveys are undertaken annually (and bi-annually from September 2007). PETs are regarded as a central component of the monitoring system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency under the Good Governance Pillar of the PRSP.

27. In-year budget reports can be generated at any time and MDAs can request reports at any time. At present, only expense analysis reports (detailed dates of cheques paid) are routinely sent to MDAs on a quarterly basis within 4 weeks of quarter end. Other reports are not routinely sent to MDAs though some MDAs are aware of their existence. In the future, it is intended that a full set of reports would be sent to MDAs, including the allocation monitoring report and commitment/obligation analysis report.

28. The production of the public accounts has fallen seriously behind the schedule. The last public accounts were issued in 2001. At the time this report was under preparation, public accounts had been completed and submitted to the Auditor General for 2002, 2003 and 2004 – following the appointment of a new, qualified Account-General.⁴ Government has timetabled the completion of all outstanding public accounts by mid-May 2007. The draft 2002 and 2003 public accounts are an improvement on previous years and include extensive disclosures of accounting policies and notes to the accounts. However, they only include

³ The FMR were subsequently laid before Parliament, adopted by MOF and gazetted in June 2007.

⁴ The accounts for 2005 and 2006 were completed just after the review.

activities for MDAs, which are included in the single treasury account. Various government departments, sub-vented agencies and Project Implementation Units are shown as a net flow of funds (transfers adjusted for movements in agencies bank accounts). Through this treatment, the Government omits a significant amount of public revenue and expenditures from the public accounts.

6. External scrutiny and audit

29. The Auditor General is required to submit a report to Parliament within 12 months of the end of the financial year covering a summary of irregularities arising and other matters that should be brought to the notice of Parliament. At the time this report was under preparation, the Auditor General had completed the Annual Reports up to end-2004. These were submitted to Parliament in April 2007 and were under review by the Public Accounts Committee (PAC).⁵ The long delay in publishing the Annual Reports diminishes the impact of the Auditor General's work. The Audit Service's interpretation of a Parliamentary Standing Order results in the publication of audit reports only after they have been discussed by the PAC and approved in Parliament.

30. The Audit Service issues a management letter to the Vote Controller highlighting systems weaknesses and other recommendations arising from the audit. The audited entity is required to respond within 30 days. Responses are rarely received on time and many of the responses received have been less than satisfactory.

31. Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members. The Finance Committee carries out the scrutiny function on the budget and Public Accounts Committee on audited accounts.

7. Donor Practices

32. Forecasts from the donors could be formalised, and it should be noted that there is significant volatility in disbursements compared to estimates, which in other time periods may result in a worse score. This is apparent in the in-year timeliness of the disbursement of budget support, where actual disbursements do not track forecasts well. Actual disbursements of Direct Budget Support exceeded forecasts for 2004 and 2005 and fell short in 2003 and 2006.

33. Financial information, including its completeness and timeliness, provided by the donors for budgeting and reporting on project and programme aid is often weak. This reflects both weak donor practices (particularly the UN and non-traditional donors such as China), the plethora of INGOs through which much donor aid is channelled. However, it exposes, as well, the fragmented nature of aid management within the Government of Sierra Leone.

34. There is no evidence of aid using national procedures in Sierra Leone. Only budget support, which is less than 50% of aid funds, qualifies as using national procedures.

C. Institutional factors supporting reform planning and implementation

35. The reform programme is an essential part of the GoSL's democracy and stabilisation plan as set out in the PRSP and Vision 2025. It is supported by the political process and implemented through the Vice President and the Minister of Finance.

⁵ The OAG subsequently also completed the accounts for 2005. The PAC formally adopted the reports for 2002 through 2005 on 23 June 2007.

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

37. Institutional factors, which appear to be critical in supporting the reform programme, include the following:

- The full, including geographical, integration of the PFMRU into the MOF, with clear lines of responsibility for the implementation of PFM reform
- Strengthening of parliamentary capacity in the analysis of public finance, such as increased numbers of parliamentary clerks, researchers and exposure to best practice in other countries
- Strengthening the management of aid,. Although DACO (OVP) appears to have primary responsibility for aid management, elements are still the responsibility of other institutions such as MODEP, MOFA as well the MOF. The current development of an Aid Policy will, no doubt, look to resolve the current fragmented nature of aid management
- Autonomy of the Auditor General. Although autonomy has been secured *de jure*, logistical independence has not been secured (e.g. the Auditor General's offices are owned by a client). A review to promote full independence should therefore be considered
- The implementation of the Budget Speech aim of integrating the recurrent and capital/development budgets should be furthered, which would imply the integration of the MOF and MODEP, or at least many of the MODEP functions with MOF.

D. Targets for Reform

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

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

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A1 Budget credibility	<i>In order for the budget to be a tool for policy implementation, it is necessary that it is realistic and implemented as passed.</i>		
The budget is realistic and is implemented as intended	In the past two years, domestic revenue has been below that forecast, but the recurrent (non-interest) budget has not suffered from cuts. While revenues fell short of targets, outgoings on interest payments have also been declining and not all donor budget support is included in the budget. The level of arrears is significant and is not fully quantified.	The challenge will be to better forecast revenue and sharply reduce or eliminate the use of tax waivers. This will allow a better allocation of resources at the planning stage rather than reducing allocations during the budget execution stage.	The recent years have shown improved aggregate expenditure discipline but due to compensatory cuts and increases at the MDA level (particularly 2006). These deviations mean that planning of inputs needed to achieve better and more efficient service delivery is being sacrificed to achieve aggregate fiscal balance.
A2 Comprehensiveness and transparency	<i>Comprehensiveness of budget is necessary to ensure that all activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important institution that enables external scrutiny of government policies and programs and their implementation.</i>		
The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget	The 2007 budget was produced according to the statutory timetable and the need for a Presidential Warrant (and temporary cessation of expenditure of 2005 and 2006) was avoided. While procedures for the assessment of fiscal risk from other fiscal bodies are in place, these are not implemented effectively.	Availability of information on the budget and scrutiny of the budget by Parliament and its Finance Committee provides adequate transparency. Public access to information is weak, though this has been improving and can easily be improved further. The delays in producing annual accounts (and therefore audited accounts) mean that oversight has been compromised as the Parliamentary Public Accounts Committee has been carrying out its reviews with	District level budget oversight committees and PETS are able to provide timely feedback on service delivery even though there are delays in the formal political process via the PAC.

		considerable delay.	
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
A3 Policy-based budgeting	<i>A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy.</i>		
The budget is prepared with due regard to government policy	The adoption of the MTEF allows government policy to be linked to planning. However, the resource envelop to which this relates has not been realised in recent years.	The budget calendar does not provide sufficient time for due deliberation by Parliament (Finance Committee). Cabinet involvement in establishing ministerial ceilings that reflect broad policy objectives is minimal. The absence of fully defined sector strategies has meant that ceilings are defined more by macro considerations than costed plans.	The underdeveloped nature of the bottom up element of the MTEF with respect to costed strategies and linkages of recurrent and capital budget will inhibit optimum service delivery
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
B1. Predictability and control in budget execution	<i>Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.</i>		
The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use	The execution of the budget is based on planned allocation limits that are conveyed to budget holders. These limits are based on revenue forecasts and are set to ensure fiscal discipline is maintained. The AGD does not allow the budget/cash limits to be exceeded. In practice, the main focus is on keeping payments within approved limits,	Budget execution and control is based on the set budget in terms of both institutions and line item economic categories. There is scope for virement.	Heads of budget organizations receive an expenditure plan at the beginning of the fiscal year. MDAs reported considerable uncertainty with the timing and the overall availability of funds for non-interest, non-wage expenditure during the year. Quarterly allocations are often paid in tranches and fourth quarter budget cuts provide a disincentive to contract for goods and services even if these are included in procurement plans.

of public funds	rather than closely supervising outstanding expenditure commitments. The budgetary control system is tightly operated and there is no possibility of a budget being exceeded.		
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
B2. Accounting, recording and reporting	<i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i>		
Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes	<p>The Single Treasury Account has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and therefore excludes a significant number of departmental bank accounts, mainly for externally assisted projects and sub-vented agencies.</p> <p>The production of Annual Financial Statements has been constrained by the lack of Audited Accounts</p>	<p>The IFMIS generates reports on expense analysis, (weekly or more frequently if required) Cash Flow, Allocation monitoring and Commitment/Obligation reports. Flash reports on release of funds to MDAs are produced manually by the Budget Bureau, as well as there being the opportunity for MDAs to access IFMIS to select parameters based on the Chart of Accounts periods, etc. to filter, sort and group information in reports. Analysis can be based on any segment in the Chart of Accounts, including all the mapped codes, allowing data to be compared to the original budget. Expenditure is covered at both commitment and payment stages.</p>	<p>The data that is being recorded will enhance the bottom up element of the MTEF and improve on service delivery at the planning and budget formulation stages.</p>
	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery

C1. Effective external scrutiny and audit	<i>Effective scrutiny by the legislature and through external audit is an enabling factor in the government being held to account for its fiscal and expenditures policies and their implementation.</i>		
Arrangements for scrutiny of public finances and follow up by executive are operating	The (now eliminated) backlog of accounts had minimised the impact of the audit and parliamentary accounts scrutiny function. The Parliamentary Finance Committee scrutinises the budget, but cabinet is not involved in the budget formulation process until a later stage in the calendar. Capacity constraints in support for committees are an issue.	The Audit Service has developed an audit manual and a Code of Ethics; audits are based on INTOSAI and IFAC International Standards of Auditing. Audits predominantly comprise transactions audits i.e. whether accounts have been properly kept, rules and procedures followed, resources expended for the purpose appropriated and proper accounting records have been maintained.	The Audit Service does some financial audits and systems reviews, but performance audits reporting to Parliament have yet to be developed.

1: INTRODUCTION

Background

Emerging from 10 years of conflict in 2001, Sierra Leone continues to recover strongly from the effects of the war, with real GDP growth consistently above 6 percent over the last 5 years. In 2005, the Government of Sierra Leone (GoSL) set out its policy strategy to promote economic growth, food security and job creation in its Poverty Reduction Strategy Paper (PRSP). According to this plan, one of the foundations for sustained pro-poor growth is the maintenance of macroeconomic stability and continued improvement in public financial management.

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

- The Government Budgeting and Accountability Act, 2005
- Financial Administration Regulations (1998, under revision)
- National Revenue Authority Act, 2003
- Local Government Act, 2004
- Public Procurement Act, 2004

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

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

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

The PFM Performance Assessment Study

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

This PFM Performance Assessment Report is based on the PEFA PFM Performance Measurement Framework, which includes a performance rating on 31 indicators covering the entire PFM cycle in the central government, and assesses impact on budget goals. The report also examines progress made in recent years, and identifies broad measures to strengthen the National PFM Action Plan.

Public financial management at the level of central government (including ministries, departments, autonomous agencies and deconcentrated entities) may cover only a limited amount of public expenditures that take place in a country, depending of the devolution of responsibilities to sub-national governments and public enterprises. In Sierra Leone, public finances cover the Central Government and transfers to the Local Councils and any transfers to subvented organisations and parastatals. The analysis of PFM in this report for the most part focuses on central government, but there has been an additional analysis of a sample of local councils, which is included as a separate annex.

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

Institutions	Number of entities	% of total public expenditures
Central government*	69	86.7%
Autonomous government agencies	30	9.6%
Sub-national governments	19	3.7%

* Includes ministries, departments and agencies.

Source: Budget Bureau (MoF) - 2006 Budget Estimates

Central Government is the dominant fiscal force.

2: COUNTRY BACKGROUND INFORMATION

2.1: Description of the Country Economic Situation

The population of Sierra Leone is estimated at 5.1 million and stood at 4.977 million in the 2004 Census, the first for some 20 years. Life expectancy at birth has improved to 41 (2006 UNDP HDR), but overall social indicators reflect a poor country that has suffered the ravages of war for a long time.

Table 1: Sierra Leone: Social Indicators

Population (2004 Census)	4,976,899
Urban	35.7
Rural	64.3
Aged 21 and above	42.8
Crude Birth Rate	42 / 1000
Crude Death Rate	19 /1000
Infant Mortality Rate	165 / 1000
Under Five Mortality Rate	284 / 1000
Maternal Mortality Rate	1,800 / 100,000 live births
Life Expectancy at Birth (2002)	34.3 years
Average Completed Fertility	5.9 births / woman
Total Fertility Rate (per women) 2002-2005	6.5
Contraceptive Prevalence Rate, 1995-2001	4 percent
Disability Prevalence	7.0 per thousand
Underweight Prevalence	27.2 percent
Stunting Prevalence	34 percent
Prevalence of HIV	4.9 (preliminary results)
Access to Health Services	40percent
Access to Safe Water	57 percent
Access to Sanitation	66 percent

Source PRSP, 2004 Census

Poverty Profile

Poverty is widespread and deep in Sierra Leone as extensively described in the Government's Poverty Reduction Strategy Paper. The eleven-year war compounded an already bad situation, deepening the level of poverty in both rural and urban settings. However, combined with bad governance, the violent conflict is generally perceived as the major cause of poverty in Sierra Leone as it affected the livelihoods of virtually every Sierra Leonean.

Sierra Leoneans consider the lack of food or hunger as the strongest manifestation of poverty in their communities. There is also wide disparity in the spatial/geographical distribution of poverty.

The Sierra Leone Integrated Household Survey (SLIHS) shows that the employment status of household heads, the sector in which they are employed, and their level of education, determine the degree of household poverty. The incidence of poverty is higher among farmers most of whom are engaged in subsistence farming on smallholdings, using crude implements, as well as households whose heads have little or no formal education. School attendance across households improves with household income. Poverty is high across all ages of household heads. In particular, the poverty rate of 58 percent among the youth working population indicates clearly the lack of employment and economic opportunities for this productive bracket of the labour force.

In addition to the high incidence of income poverty, Sierra Leone's poor social indicators – including infant and maternal mortality, illiteracy rates, access to education, health care and safe drinking water – reflect the low level of human development.

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

Sierra Leone falls in the Low Human Development category (less than 0.5) and is ranked 176 out of 177 countries in the UNDP report.⁶ In 2003, its HDI was 0.298 and in 2004 0.334. With respect to the individual components in 2004, the ranking and score were.

Indicator	Life Expectancy	Education Enrolment	Adult Literacy	GDP Per capita (US\$PPP)
	41 years	64.8	35.1	561
Rank	170	119	122	172

The human development indicators also clearly reveal the severity of poverty among women. The maternal mortality, infant mortality and fertility rates are extremely high among women and among the worst in the world. The contraceptive prevalence rate and the age at first childbirth remain low. School attendance is higher among males than females for both poor and non-poor households. The quantitative data also indicated that income levels are extremely low among women, particularly those in the rural areas.

The cessation of hostilities has had a major positive impact on economic growth. From a shrinking economy at the turn of the millennium, real GDP grew by 18.2 and 27.5 percent in 2001 and 2002. Real growth has continued at rates that are more modest, though still high.

⁶ Norway was ranked first with a HDI of 0.963 in 2003 and 0.945 in 2004 and Niger 177th with an HDI of 0.281 in 2003 and 0.311 in 2004. HDIs are taken from UNDP's Human Development Report for 2005 and 2006.

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Agriculture has been the engine of growth because of farmers being able to go back to cultivation. Nevertheless, per capita GDP is low at less than \$240. An inflation rate in excess of 35 percent in 1999 has been reduced to 13 per cent in 2005.

Table 2: Sierra Leone: Economic Indicators

	1999	2000	2001	2002	2003	2004	2005
GDP L million	1,267,721	1,330,319	1,487,724	1,663,332	1,862,767	2,854,489	3,518,200
of which Agriculture %			39.8	44.4	43.8	46.1	47.6
of which Industry %			8.1	8.9	9.9	10.2	10.3
of which Construction %			1.7	1.6	1.5	1.6	2.4
of which Trade and Tourism %			14.4	14.9	13.8	11.0	10.3
of which Transport, Storage and Communication %			6.8	6.5	8.4	6.8	7.6
of which Services (including Government)			29.1	23.9	22.5	24.3	21.8
GDP L per capita						573,536	689,843
GDP \$ per capita (parallel)						201	233
Real GDP Growth	-8.1	3.8	18.2	27.5	9.3	7.4	7.3
Consumer Price Inflation Freetown (Year on Year %)	36.7	-2.8	3.4	-3.1	11.3	14.4	13.1
Export of Goods (\$m)	4.5	12.0	28.3	114.8	146.3	171.3	210.7
Import of Goods (\$m)	79.4	145.9	183.6	254.9	294.8	248.4	312.9
Current Account Balance excluding official transfers(\$m)	-17	-53	-131	-44	-75	-53	-101.1
Foreign Exchange Reserves(\$m)			52	85	59	125	123
Foreign Exchange Reserves months of imports			1.9	2.5	1.8	2.9	2.8
Total debt (\$m)	1,202	1,214	1,427	1,535	1,662	1,710	1,998
Exchange rate L/\$							
Official	1,804	2,104	1,974	2,099	2,338	2,698	2,889
Parallel	2,443	2,315	2,169	2,266	2,530	2,855	2,965

Source: Statistics Sierra Leone, IMF, EPRU

With respect to the external account, exports have resumed with peace, but so too have imports so there is a chronic balance of payments deficit before official transfers. Official transfers contribute to a positive foreign exchange reserve, which translated into 2.8 months of imports in 2005. Total debt has been on an increasing trend. The Leone has depreciated against the dollar on an annual basis, but the differential between the official and parallel rate narrowed on an annual basis falling from 35% in 1999 to just over 2 per cent in 2005.

Overall government reform programme

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

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

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

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

Pillar 1: Promoting good governance, security and peace;

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

Pillar 3: Promoting human development.

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

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

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

Rationale for PFM reforms

The central rationale for PFM reforms is the rebuilding of PFM legislation and skills commensurate with a parliamentary democracy following the civil wars and rule by military with its focus on PFM by decree.

Support to Government Program

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

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

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- World Bank assistance on Civil Service Training Centre and Institute of Public Administration and Management, and assistance on pay issues.

The African Development Bank support to AGD (through a project that started in 2001). A major component of this project has been to provide funds for capacity building leading to the upgrading of the formal qualifications of AGD staff.

Specific support to Public Financial Management from DfID includes:

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

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

- Improved budget preparation: decentralised procurement training workshops, linking the budget and PRSP training, MTEF training, training of district budget oversight committees, training on budget hearings and accountants training
- Improved accounting control, management, monitoring and reporting of expenditure:: provision of internal audit manuals and handbooks and training activities in their use, computer auditing training, training of internal audit units, procurement training workshops, public expenditure, management and control training to vote controllers and managers, provision of computers and IFMIS licenses and IFMIS training to 4 largest spending ministries, business processes training for IT staff , training workshop in the role of ICT and provision of GoSL ICT policy, operationalising the records management unit and stores management unit in Accountant Generals Department, and development of personnel files and payroll controls in ESO

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- Reduction in fraud and waste: procurement training workshops: review of internal audit units of local councils; review of imprest accounts of MDAs, review of internal audit units in MDAs and local councils, review of teachers salary payments and other education expenditures, public expenditure and management and controls training, district oversight committee and CSO training, budget monitoring visits to districts,
- Sustainability of public financial services through Institutional Strengthening and capacity building: remuneration and other expenses of LTAs and ETAs conducting training and capacity building activities, nation wide training/sensitisation workshops on local and national taxes; accountancy training for accountants (diploma training and overseas training), IFMIS training, IFMIS rollout and related training, records and stores management

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

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

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

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

2.2: Budgetary Outcomes

Table 3 presents the aggregate budget and fiscal position for central government sector in Sierra Leone from 2000 to 2005. The coverage of central government includes all expenditure made by MDAs, as well as transfers to subvented agencies. It includes also

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transfers to local councils⁷ and contribution payments (as part of salaries) made by central government to National Social Security Insurance Trust (NASSIT) to cover pension payment, survivor grant and invalidity grant to qualifying beneficiaries.⁸

With respect to expenditures, there was a major decline in total expenditure caused by the fall in recurrent expenditure, from a peak of 34 per cent of GDP in 2002 to 23.5 per cent in 2005. It is noted, however, that (real) GDP has changed very rapidly from 2003 to 2005 which makes inter temporal comparison difficult. Thus, a decline in expenditure and revenue relative to GDP ratios may well be explained by a large increase in nominal GDP rather than a large decrease in nominal expenditure and revenue.

With respect to revenue, grants have become a more important source of funding over time as tax revenue fell as a share of GDP. By 2005 grants and tax contributed virtually equally to the country's revenue mobilisation.

The budget deficit declined from 17.3 per cent of GDP in 2000 to 11.7 per cent in 2005. Including grants, the budget deficit was less than 2 per cent of GDP in 2005. The primary balance was negative in all years signifying the inability to raise domestic revenue to fund non-debt expenditure. There was a switch from foreign to domestic as the main source of deficit financing over the period.

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

	2000	2001	2002	2003	2004	2005
Domestic Revenue	11.4	14.0	14.5	15.4	12.5	11.8
Tax	10.2	12.9	13.4	14.4	11.2	10.0
Non Tax	1.3	1.0	0.9	1.1	1.3	1.9
Grants	8.0	6.4	9.7	9.6	9.1	10.0
Expenditure	28.7	29.8	34.2	32.1	24.1	23.5
Recurrent	22.7	24.9	28.9	26.1	19.4	17.6
Development and net lending	6.1	4.8	5.3	6.0	4.7	5.9
Overall Deficit (Commitment Basis)						
Excluding Grants	-17.3	-15.8	-19.7	-16.7	-11.6	-11.7
Including Grants	-9.3	-9.4	-9.9	-7.0	-2.5	-1.7
Primary Deficit	-5.5	-5.4	-4.5	-7.3	-2.9	-3.1
Changes in arrears	3.3	-35.8	-0.2	-0.7	-1.1	-0.2
Overall deficit (cash basis)	-6.1	-45.3	-10.1	-7.8	-3.7	-1.9
Financing						
Net External Financing	6.1	42.0	8.7	3.0	3.4	0.8
Net Domestic Financing	0.1	3.5	1.1	5.4	-0.1	1.2
Float (unaccounted)	-0.1	-0.4	0.2	-0.7	-0.6	-0.1

Source: Ministry of Finance

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

- General Public Services and Education have been the largest recipients of public expenditure with education peaking at 5.5 per cent of GDP in 2003 and then declining.

⁷ Central Government transfers to Local Councils accounts for roughly 95% of local council revenue.

⁸ NASSIT was formed by the passing of the Social Security Act of 2001 mandating a compulsory contribution pension and social security scheme for all formal sector employment. It started operations in 2002. Employees contribute 5% of earnings and employers contribute 10% of an employee's earnings. In addition Government pays an additional contribution at the rate of 2.5% of civil service payroll for 20 years for crediting past service. The scheme covers both the public and private sectors and private sector contributions exceeded that of the public sector in 2006. NASSIT accounts are audited via the Auditor General and reports to Ministry Finance though the Other Government Accounts system of reporting. NASSIT also administers government pension payments not covered by the scheme for a fee and both the fee and pensions are included in central government expenditure.

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- There was a declining trend in defence expenditure.
- Health Care expenditures increased until 2003 when it declined thereafter to 1.1 percent of GDP in 2005.
- Spending on Economic Services fluctuated in relative importance.

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

	2000	2001	2002	2003	2004	2005
General Public Services	3.7	4.9	5.9	5.7	4.2	3.9
Defence	3.7	4.0	3.4	3.6	2.2	1.9
Education	4.4	4.6	5.2	5.5	3.9	3.9
Health	1.1	1.6	2.0	2.2	1.2	1.1
Social Security and Welfare	0.5	0.6	1.2	1.1	0.7	0.7
Housing and Community Amenities	0.1	0.1	0.1	0.1	0.0	0.0
Other Community and Social Services	0.4	0.3	0.5	0.3	0.3	0.2
Economic Services	1.2	1.9	2.0	2.1	1.6	1.4
Other purposes	1.5	1.5	2.2	1.1	0.8	1.0
Total non debt Recurrent	16.6	19.5	22.5	21.7	14.9	14.1

Source: Ministry of Finance

Table 5 presents recurrent expenditure by economic category. The wage bill grew annually from 2000 to 2003 but declined to 6.5 per cent of GDP in 2005 as a percentage of GDP. Expenditure on goods and services peaked in 2002 and fell to 5.8 per cent of GDP in 2005. Interest payments have been on a declining trend with foreign interest payments falling from 3.2 per cent of GDP in 2002 to 0.9 per cent in 2005.

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

	2000	2001	2002	2003	2004	2005
Wages and Salaries	6.7	7.5	7.5	8.2	6.3	6.5
Goods and Services	8.8	11.0	12.7	11.9	6.7	5.8
o/w emergency defence	2.2	2.5	2.0	2.2	1.2	1.0
Subsidies and Transfers	0.9	1.0	1.8	1.5	1.9	1.9
o/w Education	0.9	0.9	0.8	1.0	0.7	0.6
o/w Local Government	0.0	0.1	0.1	0.0	0.0	0.4
o/w Pensions/Others	0.0	0.0	0.9	0.5	1.2	0.9
Interest	6.3	4.9	6.2	4.5	4.5	3.6
o/w Domestic	3.8	3.0	3.0	3.5	3.6	2.7
o/w Foreign	2.5	1.9	3.2	1.0	0.9	0.9
Total Recurrent	22.7	24.4	28.2	26.1	19.4	17.8

2.3: Legal and Institutional Framework for PFM

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

- The Constitution;
- Laws made by or under the authority of Parliament as established by the Constitution;
- Any orders, rules, regulations and other statutory instruments established by the Constitution or any other law;

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- Existing law which comprise the written and unwritten laws of Sierra Leone as they existed immediately before the coming into force of the Constitution and any statutory instrument; and
- Common law which comprises the rules of law generally known as the doctrines of equity, and the rules of customary law (applicable to particular communities) including those determined by the Superior Court of Judicature.

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

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

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

The Government Budgeting and Accountability Act and the Financial Administration Regulations authorises the Ministry of Finance as the principal agent in Government on PFM matters. The Minister of Finance has the ultimate responsibility with the Financial Secretary as his principal agent. The Ministry of Finance houses the Budget Bureau, which is responsible for budget preparation (though MoPED is responsible for the Development Budget), and the Accountant-General's Department. Budget execution (payment) and supervision are through the Treasury and the Accountant General though there are Vote

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Controllers and Chief Financial Officer in each of the MDAs who are the first line of responsibility for PFM at the MDA level. There is an Internal Audit department in MDAs, which is supervised by the Ministry of Finance (Internal Audit Department). External Audit is carried out through the office of the independent Auditor General whose report is examined and finalised by the Public Accounts Committee of Parliament.

3: ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

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

3.1. Budget credibility

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

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

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

	Budget	Actual	+, -	%
2003	398,322	420,638	22,316	5.6
2004	468,764	432,951	-35,824	7.6
2005	495,464	522,722	27,257	5.5
2006	617,815	624,729	6,914	1.1

Source Ministry of Finance

The position relating to aggregate expenditure shows an improving picture with the provisional data for 2006 showing a deviation of 1.1% down from 5.5% the previous year and 7.6% in 2003. This has been achieved while revenues have fallen (PI-3) but outgoings on interest payments have also been declining (table 5), and not all donor budget support is included in the budget (D-1).

Whether the three years from 2003 to 2005 or 2004 to 2006 are taken, the score remains the same as the deviation from budget has exceeded 5% in two of the 3 years, and consequently this gives a score of B.

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

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved b	Score: B. In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of budgeted expenditure.

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

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

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

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

Year	Total expenditure deviation (PI-1)	Total expenditure variance	Variance in excess of total deviation (PI-2)
2003	5.6%	12.6%	7.0%
2004	7.6%	13.3%	5.7%
2005	5.5%	11.3%	5.8%
2006	1.1%	14.4%	13.3%

These variances have been derived from the 20 largest MDA expenditure in each year with the rest grouped together to form a twenty-first category. As there are variations in the composition of the top 20 MDAs by expenditure annually, a coherent time series has not been put together.

While there has been an improvement in the control of aggregate expenditure, there has been a worsening of the distribution of expenditure when 2006 is considered. In 2006 under spending by central government on the health budget was 15.0%, on defence 8.8%, and transfers to local councils were 25.4% below budget⁹, whereas the central government education budget overspent by 4.6% and ‘miscellaneous’ (unspecified expenditures by the President, Vice President and Accountant General) were almost four times the Le 4.5 bn budgeted, suggesting major reallocations in actual expenditure during the year and a significant variance with the priorities reflected in the original budget.

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

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score: C. Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.

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

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

⁹ Note that transfers to local councils were below budget in 2006 partly due to delays in procuring teaching materials.

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Outturn and budgeted revenue data for 2003, 2004, 2005 and 2006 provisional actual are presented below. In 2003 and 2004, actual revenue was higher than that forecast in the budget, but fell below in 2005 and 2006.

Economic conditions in 2006 for businesses have been difficult which will have contributed to the downturn. Both the supply of electricity and water in Freetown has been well below average, which has led to increased costs and reduced profitability. Twenty-four companies registered for sales tax out of 58 ceased operations with a further eight fell below the registration threshold. Diamond exports fell by 12 percent in value and 10 per cent in volume.

This deterioration in revenue may also stem from the willingness of Government Ministries to grant duty free importation to commercial operations as part of an incentive package. The most recent example of this is the exemptions given to the Gouji Development Company. The company can import raw materials duty free (as opposed to 5% rate), but also finished goods can be imported at a 3% duty (as opposed to 20% for consumer goods and 10% for intermediate goods) and sales tax at 10% (as opposed to 20%). It is alleged that imports are now being diverted to this scheme from other importers. Irrespective of the veracity of this, there is no doubt that such arrangements are capable of driving a wedge between actual and projected collections. While the NRA have been tasked with policing such arrangements in the 2007 Finance Bill, there may well be nothing that can be done if these arrangements have in effect been ratified by Parliament who is the only authority for granting exemptions.¹⁰ The Government should undertake a review of tax policy with a particular focus on exemptions urgently in this regard, if the revenue position is not to continue to deteriorate.

The scoring structure gives a score of B where actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years for the period 2004 to 2006. The scoring methodology does not in effect recognize underestimation in revenue forecasts, and although an underestimation scoring methodology symmetrical to the overestimation would not be fully justified, consistent underestimation of revenue points to a weakness in revenue forecasts. However, it is appropriate for MoF to be conservative in its revenue forecasting given the recent fall off in revenue performance. When greater than expected remittances have been forthcoming, higher expenditures can be planned.

Central Government Revenue (Leone Million)

	Budget	Outturn	+,-	%
2003	271,678	287,657	15,979	105.9
2004	333,157	356,966	23,809	107.1
2005	434,981	415,981	-19,000	95.6
2006	538,808	497,149	-41,659	92.3

Source Ministry of Finance

Score B: Actual domestic revenue collection was 92.3% of budgeted domestic revenue estimates in 2006.

	Score and PEFA Scoring Criteria met (Scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score: B. Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years

¹⁰ Parliament may delegate this power, but ratifies its application

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

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.

Outstanding payments, end of period

	2004		2005		2006	
	Expenditure arrears, end of period	% of total expenditures*	Expenditure arrears, end of period	% of total expenditures	Expenditure arrears, end of period	% of total expenditures
Domestic Suppliers	1,708		1,895		1,426	
Parastatal Arrears	43,670		43,740		31,401	
Ex-Diplomats Arrears	11,016		11,016		11,016	
	56,394	13.0%	56,651	10.8%	43,843	7.0%

*of the total sum of expenditures, excluding debt servicing and donor financed projects.

Source: Public Debt Department of MoF.

While arrears as a percentage of total expenditures, (excluding debt servicing and donor financed projects) is falling, these are still significant and underestimate the true total for the following reasons.

Arrears to domestic suppliers – This figure relates to accumulated arrears, many of which were incurred during the civil war and were identified during an audit in 2001. Arrears continued to be recorded until 2004 but no further data has been recorded since that date. Given the present fiscal position of the Government, it is likely that MDAs will continue to accumulate expenditure arrears. However, this information has not been recorded or monitored.

Revised procedures put in place in January 2007 require expenditure obligations to be entered into IFMIS centrally and should partially address this issue. However, this would still not address any expenditure arrears accumulated by sub-vented agencies and local government.

Arrears to parastatals – These relate to stocks of utility arrears, which are still subject to audit verification and which stood at Le31.4 billion at the end of 2006. The objective is to institute a verification of these arrears to ascertain GoSL's net liability based on (i) Government claims on each parastatal for outstanding taxes; and (ii) any Government debt service payments in respect of external on-lent loans contracted on behalf of each parastatal.

Ex-Diplomats Arrears – This amount relates to valid claims against diplomatic missions overseas during the civil war.

To sum up not all outstanding payments are reflected in full in the central accounts. Firstly, not all expenditure arrears are fully reported by sub-vented agencies and local governments to the central government; and there is no system to routinely record and monitor these arrears. Secondly, currently no system of commitment controls existed until 2007, so that arrears for the purchase of goods and services are not fully reflected. Thirdly, while wages are a protected item there is no system to record and monitor wages arrears across the public sector.

It should also be noted that not all expenditure arrears are fully reported by sub-vented agencies and local governments to the central government; and there is no system to routinely record and monitor these arrears. The revised procedures put in place in January 2007 that require expenditure obligations to be entered into IFMIS centrally would also not address any expenditure arrears accumulated by sub-vented agencies and local government. However, these do not impact on scoring of the indicator (since the indicator only measures central government arrears). Sub-vented agencies are only included to the extent they are autonomous government agencies, and not state-owned enterprises).

No Score: There is insufficient data. In addition to lack of data on salary arrears, the figure for domestic suppliers' arrears only relates to very old arrears accumulated during the civil war.

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

Effective commitment control to avoid build-up of arrears is available through the IFMIS purchasing module but this is not currently fully utilised. The PFM Oversight Steering Committee has resolved that the AGD should ensure that all LPOs should now be issued using the IFMIS so that outstanding payments can be quantified. However, this would still not address any expenditure arrears accumulated by sub-vented agencies.

Score D: Information on arrears is insufficient.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	<p>Score No Score</p> <ul style="list-style-type: none"> • Dimension (i) No Score as there is insufficient data. • Dimension (ii) Score: D. There is no reliable data on the stock of arrears from the last two years.

This situation can be improved if certain actions are instigated such as the Public Debt Unit maintains a database of arrears, and verifies and clears arrears that are more than 12 months old. Commitment control system is now strengthened by issuing LPO for big MDAs from IFMIS which should stop new arrears building up. A system needs to put in place to obtain statistics on salary arrears.

3.2. Transparency and comprehensiveness

PI-5. Classification of the budget

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

The classification system/chart of accounts used by the GoSL IFMIS for formulation, execution and reporting of the central government's budget uses GFS/COFOG compliant classification. Despite this, the printed estimates of revenue and expenditure, however, are not coded by GFS/COFOG classification. MDAs' budget at MDA is not presented in GFS/COFOG classification (except for MoF and SLP where IFMIS has been rolled out). GFS/COFOG classification is only well understood by a select few technicians in MoF who can translate the non GFS/COFOG codes of most budget documentation into GFS/COFOG compliant codes when required.

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Both revenue and expenditure accounts use a 27-digit code broken down into: organisation, fund source, PRSP activity/project code, location, and object (nature of revenue or expenditure). This system was introduced in June 2005 as part of IFMIS and revised for the 2006 fiscal year to better align the national budget with the PRSP. The activity/project codes can be used to generate poverty reducing and MDG expenditure information.

Budget classification implementation is still on-going, particularly at MDA and LC level. Currently MDAs and LCs are being trained in PRSP Programme Budgeting as many of them do not understand programme classification. For example, the Ministry of Health has over 65 programmes, mostly vertical.

The advances made under IFMIS to render the budget consistent to GFS/COFOG may need to be concretised by classifying all budget documentation as GFS/COFOG. The timing of such a move should take into account the capacity of MDAs and LCs to absorb such changes, which will increase as IFMIS is rolled out over the coming years. In particular, the printed estimates of revenue and expenditure should eventually adopt COFOG functions, a simple matter of dividing some of the 7 present functions into COFOG functions. Transfers to Local Councils should be divided into the COFOG functions as facilitated by IFMIS with untied grants allocated to the relevant subfunction under General Public Services. In-year budget execution reports should also avoid presenting expenditures broken down into COFOG functions plus a non-COFOG miscellaneous item. The latter, essentially transfers to OP, OVP and the Accountant General's Department, should be ascribed to the relevant COFOG function. Training in GFS/COFOG should be part of the imminent roll-out of IFMIS to the MDAs, as well as the development of programme budgeting. Until now, an Excel-based Integrated Budget Management System (IBMS) has been used in most MDAs during formulation.

Score A.: GFS/COFOG standards are being used.

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

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

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

The Annual Budget Speech and the Estimates of Revenues and Expenditures are the documents which are submitted to parliament for scrutiny and approval.

The following elements are included in the Budget Documentation.

Element	Budget Speech and Estimates
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	No
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes
3. Deficit financing, describing anticipated composition.	Yes
4. Debt stock, including details at least for the beginning of the current year.	No

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5. Financial Assets, including details at least for the beginning of the current year.	No
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.	No
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No

Score C: Three of the nine information benchmarks are used.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score: C. Recent budget documentation fulfills 3-4 of the 9 information benchmarks.

Although GoSL has scored a C on this indicator, it is likely that this could be improved reasonably easily. Exchange rate information could easily be inserted to satisfy element 1, as exchange rate estimates are already used to estimate donor flows. Information on Debt Stock and Financial Assets is available but not included in Budget documentation. Similarly the previous year's budget outturn is available but not included in the same format as the budget proposal, which would satisfy elements 6 and 8. Element 9 could also be addressed but would take more analytical work.

PI-7. Extent of unreported government operations.

(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.

The Other Government Accounts Unit (OGAU) is housed in the Accountant General's Department of the MoF to collect and collate quarterly financial information for subvented agencies and PIUs. Over the past two years, a major effort has been made to collect basic financial information from these agencies, including follow-up on non respondents. In spite of this effort, it does not produce comprehensive documentation on a regular and timely basis of the operations of the 47 extra-budgetary and sub-vented agencies (one extra was added in Q2 2006). As a result, data is not fed into the execution reports generated by IFMIS, the Accountant General's Department nor the Budget Bureau. However, transfers to these agencies are included in the budget estimates, and are therefore approved by Parliament.

In 2006, total budgeted government expenditure was estimated to reach almost 900 billion Leones. Expenditure by extra-budgetary agencies was estimated to be 1 billion Leones in the first quarter of 2006. This would seem to indicate that unreported expenditure is below 1% of total expenditure. However, the reliability and comprehensiveness of the OGAU figures are open to question and therefore it is not possible to score this dimension.

The latest official OGAU report was produced in September 2006. In the first and second quarters of 2006, 45 extra-budgetary agencies reported out of a population of 47.(46 in Q1), though this fell to 36 in Q3 and 34 in Q4 Little had been done with the collected data, with no analysis or introduction into MoF accounts or reports. In addition no attempt had been made to reconcile fiscal data collected with BSL expanded monetary data, or even to verify that basic information submitted by agencies is correct, such as the amount of transfer reported.

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Work has now intensified to address these informational gaps¹¹ and the MoF is now able to compare the monetary data provided by the BoSL with those of the agencies. Differences identified are being investigated so as to facilitate a comprehensive verification of figures prior to incorporation into the Public accounts.

It should be noted that the Head of OGAU highlighted the fact that reporting was sometimes incorrect in that there was confusion between reporting Leone amounts as nominal or in '000s.

The management capacity of the OGAU needs to be addressed, so that data is regularly collected, analysed and introduced into the accounts of AGD and fiscal reporting of the Budget Bureau. Compliance with reporting requirements should be enforced by MoF, with the sanction of the withholding of the budget transfer considered. Finally, an action plan for the future financial management of these agencies should be considered so that the government's budget management and accounting system is respected. This may include the withdrawal of the present level of autonomy, and their placement within MDA management.

It is expected that once these improvements feed through a positive score could be expected.

No Score: Sufficient and clear data are not available.
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(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.

Reporting on donor-funded projects is seriously deficient. This is for a number of reasons:

- GoSL management of donors is highly disaggregated with MoF, MoDEP, Office of the Vice President (OVP), and the Ministry of Foreign Affairs all responsible for elements of donor aid. OVP is expected to collate information but at present appears to have difficulty in accessing information from some donors and other MDAs
- Information presented on Chinese aid is almost non-existent though it is likely that it is one of the major donors, in particular for loan financed projects
- The Budget Bureau includes about half of projected donor expenditure in its annual budget estimates. It has apparently been advised to do this to reflect poor execution rates of donor projects
- OGAU only collects partial information from PIUs. In quarters 1 and 2 2006, 22 out of 30 PIUs reported on their activities. Veracity of this partial data has not been checked.
- Major donor funding in the security sector does not appear in fiscal reports, with about \$50 million (approximately 150 billion Leones) off-budget in 2006

Score D: Information on donor-financed projects is seriously deficient.

It would be possible for GoSL to improve this dimension if all loan-financed projects were included in fiscal reports. At present, EPRU collects multilateral loan data. This could be expanded to include bilateral loans. Effort should be made to assess whether Chinese Aid information can be easily accessed by MoF. On the wider issue of donor-financed projects, GoSL needs to clarify its central institution for the collection of project data, as well as define donor requirements in terms of information to be provided. The solution to low execution

¹¹ Getting some accounts into the Treasury system has met with some "political" resistance.

rates of projects is to improve management rather than adjust donor estimates to reflect this. Improvement of the OGAU has been addressed under dimension (i).

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-7. Extent of unreported government operations	<p>Overall: No Score</p> <ul style="list-style-type: none"> • Dimension (i): No Score • Dimension (ii) Score: D. Information on donor-financed projects included in fiscal reports is seriously deficient and does not even cover all loan-financed operations.

PI-8. Transparency of Inter-Governmental Fiscal Relations

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

Inter-government budget relations are regulated by The Local Government Act, 2004 (Act No 1 of 2004) (LGA) and the supporting Statutory Instrument which provides the Regulations outlining the functions of the MDAs that have been devolved to local councils and the timetable for this transfer over the 2005 – 2008 period. Devolution in Sierra Leone is thus a nascent and evolving process.

The allocation of transfers by the central government is based on articles 46, 47 and 48 of the LGA. Each year, local councils shall be paid tied grants (a) for the discharge of the devolved functions; and (b) towards their administrative costs. The total amount of annual grants to local councils each year forms part of the national budget and is published by Government Notice and in the national newspapers. When presented in the national budget, the total amount of the grants to local councils cannot be changed unless the total amount of funding is changed and, in such circumstances, the changes for individual local councils are based on recommendations of the Local Government Finance Committee. Until and including the financial year ending in 2008, Parliament will appropriate to local councils as a tied grant for each devolved service at least that amount necessary to continue the operation and maintenance of that service at the standard to which it was provided in the year prior to its devolution.

For the period thereafter, Parliament will appropriate the amount that enables the councils to provide those devolved services at an appropriate standard. Annual changes in the total grants for devolved services to local councils as a whole shall not be less advantageous than the annual changes in the total budgetary appropriation made to Government Ministries. Parliament may specify the functions on which these untied grants must be spent to ensure that national priorities and standards of service are met.

Until and including the financial year ending in 2008, the allocation between local councils of each of the tied grants for devolved services is to be recommended to the Local Government Finance Committee by the Ministry responsible for the function that is the subject of a tied grant, and be based on principles of equity. After that period, the allocation of untied grants is to be based on the relative needs of the local councils to provide services for their residents and the relative capacities of the councils to raise revenue.

A tied grant is paid to local councils towards their administrative costs. The allocation of the grant is based on objective factors reflecting expenditure needs, local revenue capacity and the financial and administrative performance of the councils. The amount of the grant is to increase each year at least in line with inflation.

Any local council dissatisfied with the distribution of any grant may appeal to the Minister, the appeal to be accompanied by a detailed statement of how the allocation does not conform to the principles on which the distribution is to be based. Applying procedures specified in law, the Minister considers and determines the outcome of the appeal within thirty days of its receipt and makes public the reasons for findings within fourteen days of his decision.

Subject to their compliance with conditions attached to previous payments by the Ministry of Finance, payments are made to local councils on a monthly basis.

A formulae- based approach has been adopted in determining the horizontal distribution of resources. This approach uses allocation criteria and criteria weights to determine the distribution of grants across the 19 local governments. The type and number of criteria has depended on the kind of grants to be transferred and the function to which it is to service. The factors differ from devolved function to devolved function, but each formulae incorporates the principles of equity and are to be reviewed annually and updated as necessary.

At present only non-wage/salary expenditure is devolved. Most of the functions that are devolved are currently deconcentrated with the associated staff already physically in the respective localities. This also reflects the problems of payroll administration, which still requires a comprehensive validation exercise of personnel before being devolved.

The Local Governments Equitable Grants Distribution Formulae and Allocations paper produced by the LGFD of the MoF in February 2007 provides a clear commentary of the transfer system, the formulae and the allocations to each of the 19 local councils for each of the devolved services. The figures on transfers are the same as that contained in the budget speech of 27th October 2006.

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

(ii) Timeliness of reliable information to Sub National (SN) governments (ATUs) on their allocations from central government for the coming year;

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

The budget process ensures that local councils are informed of their likely allocation in sufficient time before they set their budgets. The Budget Call Circular provides the total for transfers to local councils and how this total is allocated to the individual devolved functions. The LGFD then works with the individual councils in applying the formulae. The resultant allocation in 2007 was detailed in the Minister of Finance's Budget Speech to Parliament on 27th October 2006.

Kenema City Council and Tonkolili District Council presented their MTEF Budget for 2007 – 2009 in December 2006, which contained estimates for 2007 and indicative budgets for 2008 and 2009. The Bo City Council's budget was approved at a council meeting in 27th September 2006 and the Chairman of the Council held a budget hearing on January 5th 2007 where he presented the budget in an open meeting. Nevertheless, PETS reports emphasis that

hospitals, health centres and schools are still to post on the notice boards information on resources received and transferred, but this is at a level below that of a Local Council.

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

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

Given that the local council system is relatively new operationally, full fiscal reporting is yet to be fully functioning. Local councils are required by the LGA to report monthly to the LGFD who also assists the LC in building capacity and design of a fiscal reporting system (currently in Excel). The LGFD reports that timeliness is an issue with monthly reports often coming as consolidated quarterly reports. When these returns are made, the transfers are accounted for in the IFMIS system as expenditure by function. The own funds expenditure are, however, not put in a similar fashion so the whole of local authority expenditure is not recorded in the system. This will be done when IFMIS is rolled out.

The 2007 Budget document only includes transfers as a single figure. There is no reporting of local expenditure funded by own sources and transfers broken down by sectors. Kenema City Council's MTEF Budget for 2007 -2009 has a column for 2006 actual but the column is blank. Tonkolili District Council MTEF Budget for 2007 – 2009 reports on budget performance on both revenue and expenditure for 2005 and 2006, but only in summary form.

Ninety-five percent of LS spending is funded by transfers from Central Government. The reporting system is beginning to develop and as annual reports improve their timeliness, the score should improve.

Score D: The reporting system is being developed and information is not consolidated into an annual report.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	<p>Overall: Score B</p> <ul style="list-style-type: none"> • Dimension (i) Score: A. The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. • Dimension (ii) Score: A. SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. • Dimension (iii) Score: D. Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place more than 24 months delay, if at all.

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

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

The National Commission for Privatisation was established through the National Commission for Privatisation Act 2002. The overall role of the NCP is multi-fold: (i) to serve as the policy and decision-making body with regard to the divestiture and reform of public enterprises; (ii) to transfers management of all PEs to the Commission and remove the interference in the management of PEs from Line Ministries; and (iii) to ensure transparent corporate governance

and avoidance of conflict in the interest of the affairs of public enterprises. It is thus tasked with the supervision of the 24 public enterprises as well as preparing them for divestiture or even liquidation if non-performing. The Secretariat carries out needed analysis and reports to the Commission as the oversight body. The Chairman of the Commission is a Presidential appointee who has the technical and managerial capacity to carry out its role and functions and the members are representatives of the Central Bank, Sierra Leonean trade and professional bodies.

With respect to oversight, the NCP receives annual budget submissions from the PEs and evaluate these in order to make recommendations to the Minister of Finance as to the allocation in the budget. During the execution of the budget, the PEs submit quarterly reports on income and expenditure and the Secretariat compares budget execution with the budget. Often these quarterly reports are late and the NCP sends out reminders. The NCP is also represented at the AGM of a client PE to discuss accounts and audited reports.

PEs only borrow for short-term working capital and this is allowed against revenue projections. There are no long-term loans.

NCP is also tasked with evaluating the annual audited financial statements of the PEs. Most of the PEs accounts are audited by private auditing companies and are generally timely. NCP's own accounts are audited are up-to-date.

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

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

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

The Local Government Act outlines the relationship between local councils and Central Government with respect to monitoring. Monitoring and supervision remains with the Ministry responsible for the individual service so there is, in theory, a wide level of monitoring of service delivery and potential intervention. The main issue is with respect to implementation, given the embryonic position of the local government system and the development of capacity to implement the Act comprehensively.

The salient features are summarized as follows.

A local council may raise loans or obtain overdraft within Sierra Leone within limits agreed previously with the Minister of Finance and the Minister who has the responsibility for the service being delivered. The reason for the loan has also to be agreed.

Every local council is required to maintain financial accounts and has to prepare a statement of its final accounts within the first quarter of the next financial year (in conformity with existing financial regulations). The accounts and financial statements of a local council have to be audited by the Auditor-General or an auditor appointed by the A-G within six months after the close of the financial year. The Auditor-General submits a report of the audit to the local council concerned and the Minister, drawing attention to any irregularities in the accounts in the report. The accounts and the Auditor-General's report are to be posted in a conspicuous place in the locality for public scrutiny. Each local council Chairperson must submit a report to the Minister on actions taken by the local council on the report within sixty

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days of receipt of the report. The Minister then lays the report of the Auditor-General and a report of actions taken if any, before Parliament.

Every local council has to have an Internal Audit Department whose head prepares a quarterly report on the internal audit work during the three months immediately preceding the preparation of the report, and submits it to the local council. A copy of the report is required to be sent to the Minister. However, this is the law and is not the practice as yet. There is currently very little internal audit in the LCs. The Ministry inspects and monitors the activities of every local council to ensure that it acts within the scope of LG Act or any other relevant enactment. If the Ministry finds that a local council is not performing adequately within its areas of responsibility, it decides the reason for the default; how the default can be rectified; the type of action or intervention that is needed; and any support or capacity building that must be given to the council to strengthen its management in order for the council to exercise its functions and powers properly. The Ministry may direct or advise the local council to perform such of its functions in such manner and within such time as it may specify. Where the local council does not have the capacity to rectify the default, the Ministry can undertake the functions on the council's behalf and take immediate steps to develop the necessary capacity of the council. Where a local council fails or refuses to rectify a default within ninety days, the Minister may reduce or withhold any grants or funds due to the local council, until the Minister is satisfied that the function or service will be provided adequately. The Minister communicates any action taken and the reason for such action to the people in the locality.

Every local council must maintain a comprehensive inventory of the assets of the council on an annual basis, and must submit it to the Ministry. All revenues of local councils are documented in receipts on special numbered forms made by the Government Printer.

Local councils post on a notice board in a conspicuous place on the premises of the council and on a notice board in each Ward for at least twenty-one days.

- (a) monthly statements of financial accounts;
- (b) annual income and expenditure statements;
- (c) inventories of assets of the local councils;
- (d) bye-laws and notices relating to tax rates and fees;
- (e) minutes of council meetings; and
- (f) development plans.

Copies of the reports, notices and statements are made available on request and on payment of a fee to be fixed by the local council. The Ministry promotes participatory processes in local councils and encourage citizen's inclusion and involvement in governance.

Every Councillor, appointed or assigned member of staff of a local council is subject to the Anti-Corruption Act, 2001 and must, not later than thirty days after assuming or leaving office, make a declaration of assets in such form as the Anti-Corruption Commission may determine.

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The Auditor General has issued audit opinions on the audit of the six months financial statements ending 31st December 2004 for all 19 LCs with only 4 LC having unqualified opinion with emphasis of matter. Of the 16 that had qualified opinion, three were adverse, one disclaimer, and one limited in scope. Financial Statements to end 2005 have been prepared and are waiting audit. The 2006 accounts are being prepared with only 4 having submitted their accounts. There are to be audited along side the 2005 financial statements.

Score C: There is no consolidated overview produced in a report.
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	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	<p>Overall: Score C</p> <ul style="list-style-type: none"> • Dimension (i) Score: C. (i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. • Dimension (ii) Score: C. The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.

PI-10. Public Access to key fiscal information

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

Public policy hearings are held in August each year to review MDAs' strategy and ensure that the budget and procurement plans are prioritized based on the resource envelope. A Senior Official from the Ministry of Finance chairs these hearings and a report with all findings and recommendations are prepared for presentation to Cabinet by the Minister of Finance.

Civil society is engaged in monitoring government expenditure through district level budget oversight committees. This initiative has been undertaken by the Budget Bureau in the Ministry of Finance as part of the MTEF process. Each committee at district level comprises 15 members selected through a participatory process, which involves widespread community sensitisation meetings on budgetary and public financial matters. The oversight committees report to the MoF through the MTEF Secretariat or the Budget Bureau. To date, this part of the process has functioned well, with reports being submitted in a timely manner. Procedures within the MoF are to be reviewed in order to ensure that a system is in place that (a) allows rapid acknowledgement and response to concerns raised; (b) provides for routine reporting of proceedings; and (c) the preparation and widespread dissemination of briefings on issues of general interest.

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

Element	Where and when
(i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	Yes. Available from the Government printers. The budget speech is available on the day. The estimates are available shortly afterwards in limited numbers (given its size).
(ii) In-year budget execution reports: The reports	Yes. Two reports have been completed and

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are routinely made available to the public through appropriate means within one month of their completion.	released through the government gazette within 4 weeks of end of quarter. Although the quarter 4 2006 budget reports are 11 weeks late for publication as bank reconciliation (on the revenue side) is being addressed, there is no reason to suggest that they will not be released within 4 weeks of completion.
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No. Audits of annual financial statements have not been completed since 2001. Financial Statements up to 2004 have been produced (May 2007)
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	No. Presently there are substantial delays as the Auditor General only releases audits once they have been laid before and discussed in parliament See PI – 26.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	No. Tenders are published on the official website but not tender awards
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	Yes. Public Expenditure Tracking Surveys Reports are published annually and include coverage in primary schools and primary health clinics.

Score B: Three of the listed types of information is made available to the public.
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The publication of contract awards over \$100,000 on the internet should present no difficulty. However, the publication of year-end financial statements will require auditing of financial statements since 2001. It appears that the backlog could be largely addressed during 2007. External audits require a change of procedure. Parliament currently takes months to scrutinise audit reports.

	Score and PEFA Scoring Criteria met (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score: B. The government makes available to the public 3-4 of the 6 listed types of information.

3.3. Policy-based budgeting

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

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

There is a budget calendar (as laid out in the Budget Call Circular) for the preparation of the MTEF and Budget as a combined process. The Financial Year runs from January 1st. The main elements and dates set out in the 2006 BCC were:

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Element/Activity	Dates
Medium Term Expenditure Framework/TC Meeting	May
Training of District Budget Oversight Committee and CSO in Makeni	May
Budget Committee Meeting at MDA level	Monthly
Budget Call Circular	June 1 st 2006
Basic Computer Training for Budget Committees	June/July
MTEF/TC Members assigned to MDAs Budget Committees to assist in the preparation and updating of Strategic Plans and Estimates.	June/July
Completion, return and review of strategic plans	June/July
Inputting of Strategic Plans and Budget estimates into IBMS	July/August
Submission of Draft FY2007/09 Budget Estimates	July 15 th
Report Design and Printing of Budget Volumes	August/September
Training Workshop for DBOC & CSO for Policy Hearing and Budget Discussions in Bo	August
Policy Hearing Workshop	August
Participatory Budget Workshop	August (2 weeks)
Budget Framework Paper for Cabinet	2 nd week Sept.
Gazetting Appropriation Bill / Finance Bill	End September
Budget Retreat – Compilation of Budget Estimates	1 st -14 th October
Submission of estimates to Government Printer	October 16 th
Budget Day	October 27 th

MDAs were invited to a 2-day workshop in early July in order to finalise their budget submissions. It appears that this step improved the adherence to the calendar. If it is to be repeated then this workshop should be incorporated into the calendar.

From mid September to October, the Government discusses the Budget Framework Paper. Budget day should fall at least 2 months before the beginning of the financial year. The budget should be approved by parliament before the beginning of the financial year. This happened for the first time in 2006. In previous years, approval was not made until about 3 months into the financial year. As a result, the government operated under a warrant.

The PEFA team verified the adherence to the calendar in selected MDAs.

Score A: An orderly and timely budget calendar exists

The budget calendar could be improved though the incorporation of a detailed macroeconomic scenario as a precursor to the Budget Call Circular, and its attendant ceilings. Presently, the Budget Bureau awaits an IMF mission in March to develop the macroeconomic forecast and attendant ceilings. However, not all of the relevant macroeconomic information is passed on to the MDAs via the Budget Call Circular. This could be easily rectified.

In addition, it should be noted that even in 2006, while the Budget was passed by the GBA Act's deadline of December, the Financial Bill that should enact some of the legal provisions in the Budget has not yet been passed by Parliament.

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

In Sierra Leone, the Ministry of Finance determines the ceilings (usually after the March visit of the IMF) which are sent to the MDAs in the Budget Call Circular. The Budget Call Circular is sent to the Clerk of Parliament, but not formally to Cabinet. Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper in mid

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September, 6 weeks before the budget speech at the end of October. As a result, this dimension is scored a C, as cabinet's ability to make adjustments to the budget is constrained. To improve, the budget calendar should incorporate an opportunity for cabinet to review ceilings either before the BCC (to score an A) or after (to score a B). This development would be enhanced if cabinet was provided with resources to guide them in the development and prioritisation of ceilings.

Score C: Cabinet review of the budget is limited.

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

The 2006 approval of the 2007-09 MTEF budget was the first time that a budget calendar had been circulated and adhered to in line with the Government Budgeting and Accountability Act (GBAA) passed on the 3rd February 2005, indicating a significant improvement in Sierra Leone's budget preparation process. Previous years had seen budget approval in the second quarter of the financial year requiring a presidential warrant during the first four months to enable MDA expenditures during that period, though expenditure was halted for 10 days in 2005 and 5 days in 2006.

Scores D: Budget approval by Parliament has been in the time set by the regulations in the most recent year only.

It is likely that the score will significantly improve in the next couple of years, given the encouraging adherence to the 2006 calendar. Significant dates over the past three years are shown in the table below:

MTEF Years	Budget Speech	Approval by Parliament
2007-09	October 27 th 2006	December 18 th 2006
2006-08	November 25 th 2005	May 5 th 2006
2005-07	December 10 th 2004	May 10 th 2005

Source: Budget Bureau, Ministry of Finance

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	<p>Overall Score: C+</p> <ul style="list-style-type: none"> • Dimension (i) Score: A. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. Score A • Dimension (ii) Score: C. A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments. • Dimension (iii) Score: D. The budget has been approved with more than two months delay in two of the last three years.

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

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

The Budget document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, and the deficit and its financing. However, the current Budget document is

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

Expenditures are broken down by economic categories and by sector, which usually corresponds to a ministry.

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

(ii) Scope and frequency of debt sustainability analysis

A Debt Sustainability Analysis was carried out in April 2005 as part of the requirement for HIPC completion. It was a comprehensive document which included an analysis of both external and domestic debt. It is anticipated that the exercise will be repeated during 2007.

Score B: The Debt Sustainability Analysis is not conducted annually.

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

At present there are no costed sector strategies available. The Agricultural, Education and Police Sectors are close to completion, and work on strategies under PRSP and MDG are in an advanced stage in many ministries.

Score D: Sector strategies are not fully costed

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

The Development and Recurrent budgets are currently produced under separate ministries (Planning and Development, and Finance respectively). The budget speech in 2006 indicated that “we hope to deepen the MTEF process by integrating the development and recurrent budgets in terms of their functionality, administration and economic classification...(and) the preparation and execution of the recurrent and development budgets will be the responsibility of the Budget Bureau under the supervision of the Financial Secretary.”

At present there is little formal linkage between the two budgets. The Development budget is generally accepted by the Ministry of Finance “as is” from the Ministry of Planning and Development, as long as it is within ceiling. No mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.

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

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy	<p>Overall Score: D+</p> <ul style="list-style-type: none"> • Dimension (i) Score: C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are

and budgeting	<p>prepared for at least two years on a rolling annual basis.</p> <ul style="list-style-type: none"> • Dimension (ii) Score: B. DSA for external and domestic debt is undertaken at least once during the last three years. • Dimension (iii) Score: D. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. • Dimension (iv) Score: D. Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.
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3.4. Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

There are a variety of direct, indirect and property taxes levied by the Government.

The Income Tax Act (2000), and Income Tax (Amendment) Act 2004 (No. 6), and Finance Act 2006 and 2007 covers annual tax on net accrued income of domestic companies. Foreign companies who have assets or business within Sierra Leone are taxed on income from sources within Sierra Leone unless otherwise provided by treaty or statutes.

Individual income tax is also covered by the Income Tax Act 2000 as well as Statutory Instrument no. 4 of 2005 Income Tax (Amendment) Act, No.8, 2005 and later amendments. Tax is payable by residents on their world wide income i.e. income from S.L. or outside S.L. Non residents persons are exempted from tax on Sierra Leone source income. The tax is imposed on net income, defined as difference between gross income and deductions permitted by law. Benefits in kind are included in income.

Prepayment of Income Tax. The Income Tax Act 2000 instructs that every taxpayer who imports goods into Sierra Leone for resale shall pay to the commissioner of income tax an amount equal to the highest of 3% of the CIF value of goods imported, or 3% of the value of the goods imported.

The Payroll Tax (Amendment) Act, 2004. Tax is imposed on each non-citizen employed at any time during the calendar year.

Real Estate. Urban rates (e.g. Freetown Municipality Act 1973, (20/73) Local Government Act 2004. Urban rates levied and collected on developed property; e.g., in the main cities such as Freetown, Bo, Kenema, Kono and Makeni. The legal incidence of the tax falls on the occupier of the property. Land Tax. Tax levied on unit size, with amount of tax varying by location. An initial land registration fee is also charged.

Sales Tax Decree, 1995 and Finance Acts 2006 and 2007. A tax is levied on the ex factory price of domestic manufactures and C.I.F. price of imports plus duties (excise and import). Building materials and fabricated structures, which are not excisable, are included in the sales tax base. An embryonic value-added tax to provide rebates of payments of sales tax on inputs was introduced effective July 1993 and incorporated into the 1995 Decree.

The Excise Act, 1982. An ad valorem tax is imposed on certain locally manufactured products and imports of the same goods, with the value of the goods taken to be the normal

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price; i.e., the open market price between independent buyer and seller, exclusive of the excise duty. Ad valorem taxes on petroleum products were effectively eliminated in January 1994 and replaced with specific duties.

Customs Tariff Act, 1978 and ECOWAS Common External Tariff and Finance Act 2006. Specific and ad valorem customs duties are imposed on all goods imported into Sierra Leone for home consumption as specified in the tariff. Rates are ad valorem except specific duties imposed on tobacco, beer, and spirits. Excise duties and sales taxes are also applied to the imports.

All export taxes have been abolished effective June 1990 except the levy on diamond and gold export proceeds. The levy on gold exports was removed in January 1991, but re-imposed effective January 1994.

Telecommunications Tax Act 1995, amended 2004 and 2007 Finance Act. A tax on long-distance telephone calls as well as local calls.

Entertainment Tax Act, 1971 and 1972; and Entertainment Tax (Amend arrangements) Act, 1981. An *ad valorem* tax is levied on each person upon admission to chargeable entertainments and recovered from the proprietor of the entertainment. Casinos and gaming houses are taxed on a specific per machine basis.

Restaurant tax Restaurant Food Tax Act 1998 and Finance Act 2007. Payable on the amount of all restaurant bills.

Foreign Travel (Ticket) Tax Act, 1975. An ad valorem tax paid by every person departing by any means of transport from Sierra Leone, on or before the date of departure. .

Tourism development Act (No.11), 1990. An ad valorem levy imposed on the total cost of specified services to tourists travelling to, from, or within Sierra Leone whether or not they are residents of Sierra Leone. Revenue proceeds are earmarked for use by the National Tourism Board.

Control of Betting and Lotteries Act, 1969 amended 1981. A tax on all stakes and winnings from soccer pools.

Business Registration Act 1972 Act. A specific fee, at registration, imposed on all entities operating in Sierra Leone, which are required, under the Act, to register with the Commissioner of Income Tax. A specific rate fee is imposed annually on all businesses or professionals not expressly exempt. (ii) Licensing of a Business is also Registration Act 1972; Act 28/76. A specific rate fee is imposed annually on all businesses or professionals not expressly exempt under the Act.

Motor vehicle registration and licenses. Owners of vehicles are subject to registration fees, which are specific levies, based on cubic (engine) capacity (cc). Owners of vehicles are subject to specific yearly licensing fees, based on use of the road.

Stamp Duty Ordinance (Cap. 274, R.E. 1961). Stamp duties are levied on selected documents and instruments, mostly at specific rates, depending on the nature of the instrument. Instruments subject to the tax include legal agreements, bills of exchange, and promissory notes, bills of lading, bonds, leases, and powers of attorney.

Local Tax Act, 1975, Amended. A form of a poll tax payable by all males and all gainfully employed females over the age of 21 resident in Sierra Leone (i.e., resident for a period or periods equal to six months in any year.

The National Revenue Authority was created in 2002 (operational in 2003) by the amalgamation of the Income Tax and Customs Departments and is responsible for administering these tax laws. The Tax Laws are based on the original Acts, generally amended, often annually, which has meant that there is no consolidated single piece of legislation (such as for Income Tax), which is easy to follow. While this may not be a problem for existing companies, it is likely to be a problem for new ones.

A recent report on Custom Laws makes the following comments on its shortcomings:

- Scattered and difficult to gather and study;
- Antiquated language – not easy to understand;
- Fails to incorporate modern trends such as electronic declaration;
- Enforcement powers inadequate;
- Does not address issues of integrity; and
- Inconsistent with WTO system of valuation

A new Bill is to be introduced to rectify these shortcomings and modernise the Customs Law.

While the NRA itself has no discretionary powers, there has been a culture of exemption granting by various ministries as a tool to promote their sectors. Some of these exemptions (Bintumani Hotel and Conference Centre and National Workshop Centre Development) have granted virtual carte-blanche exemption status beyond the imports required for the project themselves. NGOs and donors have also duty free status with the former's protocol being agreed with the appropriate MDA. The administration of imports that have duty waiver status has been recently passed for processing to the NRA from the MoF. However, all this does is review imports against the protocols that allow waivers in terms of allowable duty free imports to ensure that excess leakage is minimised¹². It does not address the fundamental issue of waiver per se.

Discussion with the private sector indicates that except for some issues relating to customs operations (smuggling, under invoicing, and wrong declaration of quantities and items under the guise of personal effects were given as examples), NRA follows what is in the statutes with respect to tax administration. Indeed since NRA has been established there have been significant improvements in tax administration and that senior management have been open and listening. Private sectors concern was about tax policy in Sierra Leone rather than the administration of existing policy. It was stated there had been deterioration in the consultation process with the private sector with respect to policy and the budget process.

Score C: There is a proliferation of taxes and the exemptions regime is not transparent.
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(ii) Taxpayer access to information on tax liabilities and administrative procedures.

A NRA website has been established but it is still being developed and is yet far from being as useful as the internet could be. There is a Public Affairs and Taxpayer Education Department, which is being disbanded with taxpayer services being established in the operational units instead.

¹² NRA state that waivers have been reduced from 42% of revenue to 10% since this administrative change has taken place.

NRA issues up-to-date tax information leaflets (A4 page folded into four pages) which summarises procedures and tax on a variety of relevant topics. Current leaflets cover (i) Starting a New Business which summarised the steps to be undertaken and obligations of a business with respect to registration with NRA in terms of taxation; (ii) Employer's Guide designed to explain PAYE; (iii) PAYE explanation for employees; (iv) Income Tax Basic Procedures for all Businesses explaining profit tax; (v) Clearing at Custom explaining pre-clearance, clearance and post-clearance processes; (vi) Pre-shipment for inspection and price verification and (vi) Common Tariffs covering rates of duty, sales tax and other taxes for 77 frequently imported good along with examples of calculation of taxes on some imports.

The Customs Department hold regular meetings with importers. There is also a weekly radio phone-in programme for 90 minutes via UNAMSIL on tax issues.

Score B: The provision of information is up-to-date but does not use all the tools available to speedily address changes economically.

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

Section 138 of the Income Tax Act provides for an appeal mechanism and an Income Tax Board of Appellate Commissioners. It also allows a party who is dissatisfied with decision of the Board to appeal to the High Court, within sixty days of the decision. However, it was only in the 2007 budget that funds were allocated for this activity. In reality, the Income Tax Appeal function has never been operational and there have been no cases. There is no formal appeal mechanism for the Customs and Excise Department. Discussion with the private sector suggests that there is an ad hoc appeals mechanism. An example was given of the process where an appeal on a particular duty classification was only resolved when the importer went to the Press after a disagreement on the interpretation and an initial unsuccessful appeal had been made.

Score C: The appeals mechanism is not operational

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	Overall Score: C+ <ul style="list-style-type: none"> • Dimension (i) Score: C. Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved. • Dimension (ii) Score: B. Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. • Dimension (iii) Score: C. A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.

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

(i) Controls in the taxpayer registration system.

Registration for tax purposes for businesses is linked to the business registration process at the Office of the Registrar General. The completed Business Registration Form A and means of identification are taken to the appropriate Income Tax District Office. A Written Statement of Tax Clearance is then issued, which allows the completion of the business registration and

licensing process. At this stage, a tax official assesses chargeable business income and turnover for a period of 12 months by interviewing the filer to raise a provisional tax assessment. Following years' tax is then based on self-assessment. The Income Tax Office opens a File and assigns a Tax number to record the Business. If the business has employees it must submit a schedule of names, gross salary and tax deducted while operating the PAYE scheme.

The Customs and Excise Department also registers all importers and maintains a database of importers and companies that produce goods locally that are subject to sales tax and excise tax.

The two tax registration files are not linked and there is no TIN. There is no requirement for a tax certificate to open a bank account.

Public Procurement notices request a tax clearance certificate as part of the process and the IFMIS vendor data base uses the business registration number of the Administrator General.

Score C: There is no linking of databases on tax payers.
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(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.

There are provisions for penalties in the Tax Acts but NRA considers them not to be effective, particularly the ultimate sanction, distress action. Income tax penalties are set at 25% of outstanding liability plus an interest charge of 3% above the Treasury Bill rate. Customs penalties are 6 times the assessed duty. There is provision for custodial sentences in the Income Tax Act and the draft Customs Act has the introduction of custodial sentences and increased fines.

Score C: The procedures do not appear to accommodate penalties for non-compliance on registration both de jure and certainly de facto.
--

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

Tax audits are not planned according to a systematic "audit plan" as it is understood under modern audit concepts. Corporate taxes are paid in advance under a self-assessment system and audits only take place after audited accounts are submitted and initially this will be a desk review. Selection of companies to be audited is based on any deviation from the self-assessment, if a loss is declared or if the accounts are qualified. If tax assessment submissions are not made in the previous year or if there are no regular submissions, the authorities will be proactive and follow up.

There is only one auditor in Income Tax at present; however, with the redeployment of staff to a Large Taxpayer Unit (LTU)¹³, capacity to carry out the audit function will be improved. An Enforcement Unit is being established within LTU, the number of auditors is to be increased to four and staff are to be trained on assessment, and auditing skills and procedures. Reviewing and monitoring of assessments and accounts submissions as well as examination of accounts and desk audits will take higher priority. In 2006, 19 audits were carried out with 27 site inspections. Audits scheduled for 2007 is 30.

Imports of commercial goods into Sierra Leone whose value is \$2,000 and over must undergo pre-shipment inspection and price verification prior to shipment. Importers must fill in an

¹³ Covering taxpayers with Le 600 million turnover of which there are 280 at present. This represents more than 80 percent of total tax receipts.

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Import Declaration Form and submit it to the pre-shipment agent along with the pro-forma invoice and proof of payment of the pre-shipment fee. Once the pre-shipment inspect has been carried out the pre-shipment agent will issue an Import Duty Report which allows the importation process to proceed. If discrepancies are found and not corrected, a Non-Negotiable Report of Finding is issued which will prevent customs clearance.

Customs declarations are done manually. Sierra Leone has not installed ASYCUDA or similar customs computer system. Each import consignment must have (i) a bill of lading (contact of carriage); (ii) a commercial invoice; (iii) bill of entry; (iv) delivery order and (v) packing list. These documents are checked and validated by the custom's process and once deemed correct, the import agents pays the assessed duties and other taxes by banker's draft before taking possession of the consignments. The only audit as such is done by comparing the declaration with the ships manifest and physical inspection of imports, and these are of a control nature. Full physical inspectors are not done for importers who have a good track record, where random checks are made. The post-clearance process inputs the data into a computer for statistical purposes and a final review is carried out to verify the correct taxes have been collected before closing the ship's file.

Score C: Audits are not planned on clear risk assessment criteria using a computer based system.
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	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	<p>Overall Score: C</p> <ul style="list-style-type: none"> • Dimension (i) Score: C. Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers. • Dimension (ii) Score: C. Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance. • Dimension (iii) Score: C. There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).

There are no arrears on payments on imported items. As payment of assessed taxed has to be made before imported goods are released, the controls are in place to ensure no arrears. Importers of large items (such as rice) are able to pay in instalments according to an agreed plan, and there has to be a full payment before another import is made.

There are arrears on other taxes, which are detailed in the table. Parastatals are responsible for the bulk of arrears.

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Tax arrears (Le million)

	2,004			2,005			2,006			Closing Stock
	Opening stock	Recovery	Accruals	Opening stock	Recovery	Accruals	Opening stock	Recovery	Accruals	
Non tax revenue	6,755	0	1,320	8,075	6,965	1,540	2,650	1,667	681	1,664
Income Tax	27,557	0	7,539	35,096	3,518	10,789	42,367	5,437	4,054	40,984
Parastatals	20,038	0	6,282	26,320	2,219	8,680	32,781	3,386	3,024	32,419
Corporate Tax	20,038	0	3,150	23,188	354	4,445	27,279	1,578	1,857	27,558
withholding taxes	0	0	3,132	3,132	1,865	4,235	5,502	1,808	1,167	4,861
Others	7,519	0	1,257	8,776	1,299	2,109	9,586	2,051	1,030	8,565
Corporate Tax	7,519	0	1,257	8,776	1,299	2,109	9,586	2,051	1,030	8,565
Total	34,312	0	8,859	43,171	10,483	12,329	45,017	7,104	4,735	42,648

The average collection of arrears as a proportion of the stock of arrears at the start of the years 2005 and 2006 was 19.7%. However, the stock of arrears as a proportion of taxes collected, while significant, is falling: it stood at 12.5% in 2004; 10.7% in 2005 and 8.6% in 2006.

NRA has established a strategy to improve its arrears collection. When a liability is established, this liability and any penalty will be communicated to the taxpayer by letter and followed up by a reminder and telephone calls. If there is no response, visits are made and the case discussed with tax education being given if required. If there is no response, sanctions are imposed starting with a refusal to issue a tax clearance certificate and written statement for licence renewal, “naming and shaming” by notice in the press and gazette and finally distress proceedings being undertaken.

Score D: The average collection of arrears as a proportion of the stock of arrears at the start of the years 2005 and 2006 was 19.7%.

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

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

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

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

NRA stated that the account statements should be ready by the 20th of the following month but the returns from the regions are generally late, so that the timetable is not met. By the time NRA headquarter office gets the bank statement from the Bank of Sierra Leone and the transactions documents from all the tax offices, a two-month period is the average time for reconciliation. In order to speed up the process, NRA has recently instigated a fortnightly transfer of payment documents to the Freetown headquarters.

Reconciliation is made between the NRA pay-in data, the bank statement and the amounts transferred to the Treasury. The Accountant General’s review of the IFMIS for the first quarter of 2006 indicate that payments being made through the Commercial Banks are being rejected by AG staff even though they have the revenue vouchers attached and are not therefore captured by the IFMIS system.

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

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Reporting on arrears is not routinely carried out. The data on arrears in dimension (i) is the result of an exercise following data requirements required for an IMF mission and while NRA collects data on arrears, they are not the subject of a regular annual report. Given the manual processing of assessments, these are not reconciled with the other elements of the dimension.

Score D: Reconciliations are not made within three months.
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	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Overall Score: D+</p> <ul style="list-style-type: none"> • Dimension (i) Score: D. The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). • Dimension (ii) Score: B. Revenue collections are transferred to the Treasury at least weekly. • Dimension (iii) Score: D. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.

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

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

The Budget Bureau prepares quarterly cash flow forecasts, which are distributed, to all MDAs at the start of the fiscal year. Quarterly allotments are then made to all MDAs. The Net Domestic Financing Committee (NDF) meets on a weekly basis and monitors the cash position within the context of the PRGF program. The Committee has representatives from the Central Bank, MoF, NRA and the AGD. However, the MoF does not amend forecasts except in the process of negotiations between the Government and the IMF.

Score C: Cash flow projections are only updated twice a year.

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

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

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

In reality, MDAs reported considerable uncertainty with the timing and the overall availability of funds for discretionary non-interest, non-wage expenditure during the year. Quarterly allocations are often paid in tranches and fourth quarter budget cuts provide a disincentive to contract for goods and services even if these are included in procurement plans. The uncertainty over the availability of cash meant that non-interest, non-salary expenditure could not be undertaken even though it was included in procurement plans. Suppliers are also reluctant to enter into contracts with Government.

Score B: Considerable uncertainty with the timing and the overall availability of funds for discretionary non-interest, non-wage expenditure during the year.

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

The MoF impose reductions in quarterly cash limits, in the event of a significant revenue shortfall. The Budget Bureau has developed procedures to protect priority expenditures including poverty related expenditures, wages and salaries, debt service payments and other non-discretionary expenditure. These procedures, including commitment controls have been clearly and transparently communicated to MDAs through Financial Secretary's Circular.

There have been significant formal fourth quarter budget cuts imposed in each of the last three years. In 2006, these MDAs were informed of their revised allocations through a meeting of all MDAs chaired by the Financial Secretary. In prior years, cuts have been notified to the MDAs in writing. However, in all years there appears to be little consultation by the MoF as to how the cuts are allocated between MDAs.

Score B: Formal fourth quarter budget cuts have been imposed in each of the last three years and these have been communicated to the MDAs.
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	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	Overall Score: C+ <ul style="list-style-type: none"> • Dimension (i) Score: C. A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. • Dimension (ii) Score: B. MDAs are provided reliable information on commitment ceilings at least quarterly in advance. • Dimension (iii) Score: B. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.

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

(i) Quality of debt data recording and reporting

External debt monitoring and debt management are carried out in two departments: The Debt Unit of the International Finance Department in the Bank of Sierra Leone and the Public Debt Management Unit in the Ministry of Finance. External debt is captured on the BoSL Debt Reporting and Management System, while domestic debt is recorded and managed by the MoF Public Debt Management Unit. There is periodic aggregation and reconciliation of the systems. An interface is being developed to include debt data in the IFMIS. Quarterly reports are reasonably comprehensive.

Since 2005, the Public Debt Unit of the MoF produced its first comprehensive Annual Bulletin providing information on Sierra Leone's public debt profile and operations (covering both external and domestic debt). The 2006 Bulletin was published in April 2006 and the Unit is presently in the process of completing the 2007 Bulletin.

Score B: External debt monitoring and debt management are carried out in two departments and there is periodic aggregation and reconciliation of the systems.

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

The Single Treasury Account has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and therefore excludes a significant number of departmental bank accounts, mainly for externally assisted projects and sub-vented agencies.

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Consolidation of many of these balances into the Treasury system would be a major improvement in the present cash management arrangements in Sierra Leone.

Score C: Consolidation only applies to the Single Treasury Account maintained at the BoSL and excludes a significant number of departmental bank accounts

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

All central government loans and guarantees have to be endorsed by the MoF and approved by Parliament¹⁴, however the criteria and ceilings are not clear.

The present laws and regulations covering the management of debts, loans and guarantees are covered in a range of regulations¹⁵.

The preparation of a consolidated Public Debt Act – which addresses the lack of criteria and ceilings for loans and guarantees may be a useful development.

Score C: The criteria and ceilings for loans and guarantees are not clear.

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

PI-18 Effectiveness of payroll controls

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

The GoSL payroll consists of 17,000 Civil Servants, 10,000 Police, 32,000 Teachers and 10,000 armed forces. MDAs’ personnel records are maintained by the Establishment Secretariat (ESO); the Police and Ministry of Education, Science and Technology (MoEST) maintain separate personnel databases for the police and teachers. Payroll matters are handled centrally by the Accountants General Department (AGD). The payroll division at the AGD is headed by the Officer-in-Charge (Payroll) who is directly supervised by the Deputy Accountant General.

The payroll system prior to April 2006 was the Financial Management and Accounting System (FMAS), which, for a credible payroll system, lacked critical controls for proper accountability and reporting including an audit trail facility. A payroll module of IFMIS was introduced in April 2006. The system has improved controls, audit trails and reporting

¹⁴ Section 118 of the Constitution (1991).

¹⁵ The Constitution (1991), The Local Government Act (2004) and individual enabling acts of Public Enterprises.

facilities. For civil servants, the Freebalance system has also integrated the Establishment Secretary's Office, which handles personnel matters for MDA'S and the AGD's, which has responsibility only for payroll issues.

Payroll accounts for approximately 25 percent of all GoSL expenditure. Recent independent audits¹⁶ have shown major concerns regarding the completeness of personnel records and personnel databases e.g., about 63% of a sample of personnel files were not made available to the auditors and of those only 38% had all the documents¹⁷ which are necessary for a file to be considered as complete. An EC audit of teachers and health personnel files conducted in 2005 arrived at similar conclusions. In addition, audits have also revealed significant instances of personnel files having no indication of the approved grade and employees paid outside the approved grade. Audit work on physically verifying personnel (particularly teachers) has revealed many instances where staff could not be located at their place of work or who had been assigned to other posts; which were not reflected in the personnel records.

The findings of these audits indicate that the risk of large-scale undetected payroll fraud is extremely high in respect of the incidence of ghost workers and out-of scale payments.

The work on cleaning up civil servants personnel records is being led by the MPPA Governance Reform Secretariat, which has a DFID/IRMT Records Management Improvement Team (RMIT) with co-funding from EC. A Records Management Steering Committee was set up by the Establishment Secretary Office (ESO) in the Ministry of Presidential Affairs in April 2006. The initial work has focused on cleaning up the personnel records of civil servants in four pilot MDAs - Education, Health, Agriculture and Establishment Office. RMIT plans to ensure that everyone on the payroll has a complete master file for all 17,000 civil servants in ESO with all the documents scheduled to be completed by July 31, 2007; ensure that all working files in key MDAs are mirror copies of ES master files.

The Mission noted that a similar cleaning up exercise will need to be carried out for teachers. This will be a time consuming exercise. As well as verifying their existence and place of work, teachers' pay scales are calculated through a combination of their grade and qualifications. We understand that the police work force is more stable, regular roll calls are conducted and the pay and grading is more straight-forward than for teachers.

Score D: Lack of controls over personnel data and failures to link to payroll records.
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(ii) Timeliness of changes to personnel records and the payroll.

Changes to personnel and payroll records for all public servants (including new starts) are handled on a standard amendment form. The ESO and Police and MoEST HR Departments process changes to personnel records; all forms are then passed to the AGD where the OIC Payroll has responsibility for processing changes to payroll records.

Procedures have been put in place to ensure that amendments received at the start of the month are reflected in that month's payroll. In practice, delays in processing payroll amendments occur for a variety of reasons. The centralized system requires amendments to be

¹⁶ For example, the EC funded "Audit of Post Conflict Budget Support –Tranches 2 and 3" A2C Associates Audit et Conseil – December 2005.

¹⁷ Master personnel files should contain five basic documents; (a) an application for employment (b) a letter of appointment; (c) an acceptance form; (d) a medical certificate; and (e) a copy of diplomas and certifications.

entered in personnel departments prior to being batched and sent to the AGD. Appointments of public servants (e.g. teachers in rural schools) have to be authorised by the MoEST.

It has not been possible to verify delays in processing amendments but one estimate provided by the Payroll and Records Management Sub Committee is an average of two months for MDAs and Police, and four months for Teachers,

Score D: There is a weighted average in excess of three months in processing amendments.
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(iii) Internal controls of changes to personnel records and the payroll.

The AGD payrolls have been run on the IFMIS Human Capital Accountability module since April 2006. The functionality and controls of this module have been recently enhanced. For civil servants, the human resource details and payroll are integrated in one database with different security access rights by ESO and AGD. Human Resource related amendments are made by the ESO office and payroll related amendments by the AGD which ensures a basic segregation of duties. In addition the Freebalance system provides different levels of access to allow supervisors to verify and close amendments in the ESO and AGD.

The ESO, MoEST and Police maintain a logbook for amendment forms received and this is sent with the amendment form to control the process and ensure that forms are not misplaced. The system provides for amendment forms to be scanned and originals retained in the ESO; however this element has yet to be implemented. Beyond the logbooks there is no process batching system to control the movement of amendment forms between and within Departments.

Notwithstanding the basic rigor which the IFMIS provides to the management of human resource processes, the issue of ghosts and out-of-scale payments will not be solved until the RMIT programme is completed. There is a need to complement the RMIT programme with physical verification of all categories of Government payroll staff.

Score B: The system provides for amendment forms to be scanned, which has yet to be implemented. There is no process batching system to control the movement of amendment forms.
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(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.

As noted under PI-21 internal audit is in an embryonic stage and internal audit staff does not have the resources to conduct systematic payroll audits (which include the verification of the existence of public servants) even though this is an area of significant risk. Nevertheless, and as noted above, three significant independent payroll audits including all central government entities have been conducted since 2005 which have been used to score the dimension.

Score B: Three significant independent payroll audits including all central government entities have been conducted since 2005.

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	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>Overall Score: D+.</p> <ul style="list-style-type: none"> • Dimension (i) Score: D. Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation of the three lists. • Dimension (ii) Score: D. Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments. • Dimension (iii) Score: B. Authority and basis for changes to personnel records and the payroll are clear. • Dimension (iv) Score: B. A payroll audit covering all central government entities has been conducted at least once in the last three years.

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

Procurement reform is only just beginning. The National Public Procurement Act was enacted in December 2004 and the National Public Procurement Authority, along with the Independent Procurement Review Panel, was allocated core staff in the third quarter of 2006. MDAs formed procurement committees for the first time in 2006 and 9 key MDAs covering approximately 60 percent of total non salary, non-interest expenditures were required to produce their first procurement plans that same year.

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

The NPPA worked with the nine key MDAs that were required to complete procurement plans in 2006 in order to produce data on actual procurement plan outcomes for this indicator (see table below). These nine ministries account for 60 percent of total domestic spending in 2006 excluding personnel.¹⁸

Data on Use of Open Competition – Nine Key MDAs – Year ended 31 December 2006

	Total Contracts	Contracts below Threshold	Contracts at or above Threshold	Contracts Awarded through Open Competition	Share of Total above Threshold (%)	Share of Total (%)
By Count	93,564,801,272	14,157,774,939	79,407,026,333	30,770,032,545	39	33
By Value	1,360	1,167	193	65	34	5

Score C: From the data provided, 34% of contracts above the small purchase threshold were conducted on the basis of open competition.

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

Regulatory requirements establish the criteria for the use of open competition however a lack of comprehensive procurement plans has resulted in widespread use of non-competitive methods of procurement. For the 2006 Budget, approval of procurement plans was delayed;

¹⁸ Ministries of Defence; Agriculture and Food Security; Education, Science and Technology; Health and Sanitation; Mineral Resources; Transport and Communications; Works Housing & Technical and Maintenance; Sierra Leone Police and Sierra Leone Roads Authority.

however for 2007, the MoF has required procurement plans to be submitted as part of the budget formulation process and enforcement of procedures. These initiatives will require plans to be submitted early in the financial years and prior to payment requests being accepted at the MoF.

Initial figures submitted for Dim (i) showed significant under-reporting of procurement related expenditures. Only Le 39,295m or 45.9% of expenses had been reported by procurement staff and included in reports to NPPA. This under-reporting is attributed to (a) splitting of procurement contracts to fall under the minimum threshold and (b) significant levels of procurement being undertaken by officials who are not qualified procurement specialists and have therefore been operating outside the Procurement Committees required under the Act.

Score C: Less competitive methods have resulted from (a) splitting of procurement contracts to fall under the minimum threshold and (b) significant levels of procurement being undertaken by unqualified officials.

(iii) Existence and operation of procurement complaints mechanism

Part IV of the Public Procurement Act covers the procurement complaints mechanism in Sierra Leone. This is a two tier system providing (i) a review by the head of the procuring entity and (ii) a Review by an Independent Procurement Review Panel (IPRP). The IPRP was established in 2006 and has received three cases so far. In one the allegation was upheld, in one it was denied and a third case is still outstanding in that the Ministry involved is challenging (or disregarding the ruling). All the cases were heard and judgement given within the stipulated legal time frame.

Routine procurement monitoring and evaluation activities should provide the NPPA with data on first level complaints (i.e. those to the head of the procuring entity) but this is not yet operational due to the weaknesses in data collection.

Score C: First level complaints are not monitored.

While the complaints mechanism is well defined, implementation is extremely weak and significant levels of capacity building will be required in order to fulfill the requirements of the Act. This applies to the use of the complaints mechanism. Given these capacity constraints and the lack of data available on the use of the first level complaints mechanism the appropriate score under this dimension is C.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>Overall Score: C</p> <ul style="list-style-type: none"> • Dimension (i) Score: C. Insufficient data exists to assess the method used to award contracts OR the available data indicates that use of open competition is limited. • Dimension (ii) Score: C. Justification for use of less competitive methods is weak or missing. • Dimension (iii) Score: C. A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.

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

(i) Effectiveness of expenditure commitment controls.

The appropriations module of IFMIS became operational at the AGD in June 2005 and provides a hard budget control to ensure that spending by MDAs does not exceed overall quarterly budget allocations.

The implementation of the purchasing module commenced in late 2006 and has the capacity to record specific commitment obligations and Local Purchase Orders (LPOs). However, a recent independent evaluation of the implementation of IFMIS¹⁹ noted that this Module was not well utilised even within the AGD. New procedures implemented in January 2007 require MDAs to submit Commitment Forms to the AGD for approval and for LPOs only to be prepared by MDAs on receipt of the approved Commitment Forms. While these procedures are highly centralized, they will ensure that funds are committed prior to the receipt of goods and services, thereby eliminating the accumulation of payment arrears. Ultimately, once IFMIS is rolled out to MDAs; accountability for controlling commitments will be decentralized to MDAs as envisaged in the GBAA 2005.

The AGD is able to produce monthly statements comparing approved budget with the total of the executed budget and the outstanding contractual commitments. However, these reports are not routinely issued to MDAs. The AGD does not allow budget/cash limits to be exceeded. In practice, the focus at present is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments. The budgetary control system is tightly operated and in theory there is no possibility of a budget being exceeded. However, examination of the data shows there were a several ministry budget heads over-spent and between 2004 and 2006 and the contingency budget head was definitely over-spent in 2006. The hard budget control in IFMIS provides an overall control for non-interest/non-salary expenditure. This budgetary control applies only to items coming within the commitment control system and does not apply to personnel emoluments (part of PI-18), legally mandatory transfers, debt service, opening of imprests, and payments for fuel.

Score B: The appropriations module of IFMIS provides a hard budget control to ensure that spending by MDAs does not exceed overall quarterly budget allocations, but does not apply to personnel emoluments, legally mandatory transfers, debt service, opening of imprests, and payments for fuel.

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

The current Financial Administration Regulations (FAR 1998) outline -

- Responsibilities of officers
- The basis of accounting and the preparation of the annual accounts
- Accounting and bookkeeping procedures
- Internal controls safeguarding all revenue, expenditure and assets of budget entities.

While the present FAR are reasonably comprehensive and well understood by those who apply them they fail to reflect the recent changes in the PFM system. A revised version (now entitled Financial Management Regulations) has been prepared by the PFMRU. Comments have been received by international experts and at the time of the mission (March 2007) the document was receiving a legal review prior to being submitted to Parliament.

¹⁹ Draft IFMIS Quality Assurance Group Report dated December 30, 2006.

One specific area of concern addressed in PI-19 is the partial lack of compliance with all aspects of the revised procurement regulations. The recent introduction of centralized controls by the AGD over the procurement (discussed in dimension (i) above) have to be seen to be operating and, in the short-term will slow down the disbursement of funds to MDAs.

Score B: The present FAR are well understood by those who apply them, but fail to reflect the recent changes in the PFM system.

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

As noted under PI-19 the newly introduced procurement law and associated regulations are poorly understood by public sector managers and staff alike. Of particular concern is the amount of restricted procurement activities which are conducted by non-procurement staff outside the requirements of the Law. The effect of these weaknesses contributes to a large risk of wasteful and potentially corrupt public procurement practices.

The latest available Auditor General’s Report provides a summary of the major findings of transactions audits conducted for the period²⁰. The Team also received a range of internal audit reports from the MoF IAD. The Assessment Team has relied upon feedback from audit agencies to verify the extent of compliance in the field.

It is the role of audit reports to highlight weaknesses in the system of internal control. To that extent audit reports do indicate a number of instances where compliance with rules, procedures and management of records are poor. It should be added that the hard budget controls introduced by the IFMIS system should already be contributing to a greater level of control over transactions, particularly the use of the purchasing module from April 2006.

As highlighted under dimension (ii) lack of compliance with procurement rules is an important concern.

Score C. Audit reports do indicate a number of instances where compliance with rules, procedures and management of records are poor.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	Overall Score: C+ <ul style="list-style-type: none"> • Dimension (i) Score: 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. • Dimension (ii) Score: B. Other internal control rules and procedures incorporates a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. • Dimension (iii) Score: C. Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.

PI-21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

The concept of internal audit is new to Sierra Leone. Internal audit units already existed prior to the GBAA in the MoF, a few MDAs and the National Revenue Authority, but the bulk of

²⁰ The latest AG’s report available to the PEFA Team (see also PI-26).

their work was ex-ante controls, which should form part of the established framework of internal financial control.

The GBAA 2005 established the requirement for MDAs to establish and maintain internal audit units, which meet international standards as required by the Ministry of Finance²¹. In total there are now 14 separate IAD units, which are functioning in Government, including all the main spending MDAs. These IADs should function independently from the finance department and report directly to Vote Controllers. The MoF Internal Auditor has statutory authority to coordinate and manage the internal audit cadre, to set standards and monitor performance.

There have been a number of other significant activities, which have begun to raise the quality of internal auditing practice in Sierra Leone. Firstly, Internal Audit Handbooks and Manuals on internationally recognized standards have been prepared by KPMG through the European Union Institutional Strengthening Project in the Ministry of Finance (MoF). The development of these manuals has been supported by training programmes. Secondly, three qualified accountants funded by the same EU project have worked in the MoF IAD. As well as building capacity in the MoF IAD they have conducted workshops and conducted quality assurance visits to assist the development of MDA IADs. Finally, under the leadership of the MoF Head of IA, the entire cadre of public sector internal audit staff (in excess of 50 staff) meet quarterly which helps develop the role of internal audit in Sierra Leone.

Internal audit reports prepared by the MoF IAD indicate that these are well structured, comprehensive, have clear objectives and are focused on key risk areas. Overall, they demonstrate a practical understanding of modern risk based internal audit techniques. The MoF IAD also provided the Assessment team with recent quality assurance reports for the IA function in four key MDAs²². Amongst the issues raised in these assessments were:

- Lack of appropriately independent reporting lines
- Lack of proper audit plans
- Lack of appropriately qualified internal audit staff
- Internal audit staff involved in non-audit activities
- Staff involved in ex-ante controls and routine compliance work. Audit work often had little consideration of risk or systematic control weaknesses

The development of fully functioning decentralized internal audit departments will prove a considerable challenge given the low capacity and salary levels prevalent in the public sector in Sierra Leone. In addition, ensuring uniformity in maintenance of high standards by IA units in various MDAs similar to IAD in MOF will pose a major challenge.

Score C: The IA function is new and recent assessments have raised issues that require addressing.

(ii) Frequency and distribution of reports

²¹ Section 6 GBAA 2005.

²² Police, Ministry of Education, Science and Technology, Ministry of Agriculture and Food Security, and Ministry of Defence. The MoF reported that MDA IADs did not all routinely share reports with the Director of IA in MoF or the Audit General.

Fully functioning IADs have been set up in 14 MDAs; of these eight have been established for some time while the others have only recently been established. Currently there is no requirement to share internal audit reports with MoF or the Auditor General although this will be included in the revised Financial Management Regulations.

Score C: There is no requirement to share internal audit reports with MoF or the Auditor General.

(iii) Extent of management response to internal audit findings

According to the MoF IAD, the role of internal audit is still not well understood in Sierra Leone. A part of the role of the MoF is in training Vote Controllers in the importance of internal audit as tool to developing a strong financial management system.

Score D: The response to audit reports is poor and audited entities are often slow to respond to audit reports or fail to address issues raised in reports adequately.

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

3.5. Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Failure to conduct regular bank reconciliations between the Treasury bank accounts in the BoSL with the cash book has resulted in a weak control environment, and explains the reason for long delays in the production of the public accounts. To address concerns relating to the timeliness and procedures of bank reconciliations the Accountant General's Department assigned a qualified accountant (funded by an EC project) into the reconciliations unit in early 2006 who has been working on the completion of outstanding reconciliation differences.

In March 2007, the reconciliations unit had completed the treasury single account reconciliations for fiscal years 2002 - 2005. The 2006 bank reconciliations are still to be completed but the differences have been identified and this work is to be completed during 2007. In 2007, reconciliations are being done on a regular basis throughout the month and reports (reviewed and signed by the Deputy AG) are completed by the 15th of the month following the month end.

Apart from addressing capacity constraints, the AGD has been addressing some teething problems related to the introduction of the IFMIS system. The initial reconciliations module in Freebalance was not user friendly. This was redesigned in early 2007 and resulted in

automating a number of the reconciliation procedures in the system. The revamped module should provide a firmer foundation for future reconciliations procedures.

Score B: The reconciliation unit in the AGD is operating satisfactorily. However, there are significant number of departmental bank accounts, mainly for externally assisted projects and departmental revenues, which have not yet been brought into the IFMIS database, nor are they reconciled within the AGD.

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

The Government provides staff advances to civil servants and parliamentarians of up to an aggregate ceiling of Le 20m per month. Advances are typically provided for medical expenses or to pay children’s school fees. The policy and procedures for applying for an advance are well documented by the AGD, which include the maximum advance and repayment terms by grade.

While crosschecking of new applicants to a payroll printout takes place monthly, there is no reconciliation of a ledger listing the balance for each advance to the movement in the advance account in the month.

The AGD confirmed that there are no suspense accounts in the system.

Score D: There is no reconciliation of a ledger listing the balance for each advance to the movement in the advance account in the month.

	Score and PEFA Scoring Criteria met (Scoring Method M2).
PI-22. Timeliness and regularity of accounts reconciliation	<p>Overall Score: C.</p> <ul style="list-style-type: none"> • Dimension (i) Score: B. Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually with 4 weeks from the end of the month. • Dimension (ii) Score: D. Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months’ delay, OR less frequently.

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

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

Public Expenditure Tracking Surveys (PETS) are the subject of paragraph 161D of the proposed Financial Management Regulations 2007, which sets out the authority and procedures for implementing recommendations through a Steering Committee.

In 2001, the Economic Policy Research Unit (EPRU) of the MoF established the PETS Task Team, which is comprised of members of the MTEF and Strategic Planning Action Process (SPP) Technical Committees, and staff from the EPRU, Statistic Sierra Leone (SSL), MoF, MoDEP, BoSL, University of Sierra Leone (USL), Civil Society Organisations (CSOs), National Commission for Social Action (NaCSA) and the Governance Reform Secretariat (GRS). The Team has also been supported by DFID and the World Bank.

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EPRU conducted two pilot surveys covering semi-annual expenditures for 2001 in the security sector, education, health, water and sanitation, agriculture, social welfare, rural development and local government.

Following a review of PETS methodology, a generic “Resource Flow Model” was developed, outlining the different agencies and transactions involved in the flow of resources from central government to service delivery facilities. While the quantitative methods for PETS are recognised and analysed, the qualitative methods have been assessed as needing some attention. The PETS used “report cards” to provide information on community level perceptions of government service delivery. This process involves asking community members to answer specific questions on service delivery in their area. Four report cards have been developed to address the perceptions of those who access the services as well as those who deliver services. The information obtained has proved useful as part of the PETS and has been used to triangulate the information gained through the quantitative survey.

A second review of methodology and procedures is to be undertaken to further improve reliability, coverage and policy content. The community based service delivery component (some aspects of which will also be covered by the CWIQ household surveys) is also to be redesigned in collaboration with a range of government and CSO collaborators.

PETS continued annually and are regarded as a central component of the monitoring system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency under the Good Governance Pillar of the PRSP. The most recent report, drafted in January 2007, presents the findings and observations of the sixth survey conducted in April 2006. The survey covered the distribution of essential drugs in 2005 and the distribution of teaching and learning materials during the 2004/2005 academic year. The report also contains recommendation for improving the flow of resources and service delivery in the sectors. This is a feature of the preceding reports.

The persistent occurrence of transfer discrepancy indicates that poor record keeping remain a major challenge in public financial management. Poor records management and weak internal controls continue to be the major findings of the PETS. As emphasised in the previous PETS reports, hospitals, health centres and schools are still to post on the notice boards information on resources received and transferred. This has constrained proper accountability of public resources, as it creates room for leakages and misappropriation of public funds at all levels in service delivery.

Nevertheless, the 2006 survey found that there is a considerable improvement on the delivery of essential drugs to Medical Officers (MO) and District Medical Officers (DMO), following the adoption of the Direct Delivery System by MOHS. Considerable effort is however, needed to improve on the distribution of drugs and medical supplies between the DMO and Peripheral Health Unit (PHU) level. The report recommends that, Local Councils should establish Ward Health Committees comprising the chiefs, religious leaders and a member of Budget Oversight Committee, women and youth representatives, to monitor the supply and use of drugs and medical supplies in the PHUs. All requests for drugs and medical supplies from the Community Health Officer (CHO) should be approved by at least three members of the Health Committees, before forwarding it to the DMO. On receipt of the request, the DMO should deliver the drugs to the CHO in the presence of members of the Ward Health Committee.

However, the survey also observed that 40 percent of the cost of drugs recovered by CHOs and paid to the DMOs are not accounted for by the latter. Moreover, even though 60 percent of the drugs supplied to Hospitals are meant for vulnerable groups, including; pregnant women, school children, the elderly, and the disabled, the survey noted that there is no evidence that these group of people are benefiting from free drugs, medical supplies and

treatment. There is therefore an urgent need for a critical review of the policy of providing free drugs and medical supplies to vulnerable groups.

In addition to PETS, an assessment of public service was carried out through a complementary Service Delivery and Perception Survey (SDPS) to determine its effectiveness and efficiency, and its impact on target beneficiaries.²³ The 2006 SDPS was the first independent pilot attempt at assessing the state and condition of public service delivery and perceptions of users and frontline providers in three key public sectors – Education, Health and Agriculture. SDPS is lead by a non-governmental think tank, CESPA, with participation of EPRU and SSL.

Civil society is engaged in monitoring government expenditure through district level budget oversight committees. This initiative has been undertaken by the Budget Bureau in the Ministry of Finance as part of the MTEF process. Each committee at district level comprises 15 members selected through a participatory process, which involves widespread community sensitisation meetings on budgetary and public financial matters. The oversight committees report to the MoF through the MTEF Secretariat or the Budget Bureau. To date, this part of the process has functioned well, with reports being submitted in a timely manner. Procedures within the MoF are to be reviewed in order to ensure that a system is in place that (a) allows rapid acknowledgement and response to concerns raised; (b) provides for routine reporting of proceedings; and (c) the preparation and widespread dissemination of briefings on issues of general interest.

Score A: PETS are a feature of the monitoring system and are to be conducted bi-annually.

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

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

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

The IFMIS generated reports (including those generated by supplementary report writing software (Crystal Reports)) are prepared within the MOF and include, for each MDA:

- Expense Analysis (essentially a record of payments made/cheques issued)
- Weekly (or more frequently if required) Net Domestic Financing Reports (Cash Flow)
- Allocation monitoring (indicating allotments by FY and quarter, commitments, expenditure and unallocated balances)
- Commitment/Obligation Report

²³ Centre for Economic and Social Policy Analysis

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These reports provide timely and regular information on budget performance at both an aggregate and MDA level. They do not yet account for expenditures made from transfers to AGAs.

The above reports are printed according to “near” COFOG codes. Sub-functional classification is numbered slightly differently to COFOG and the functions include a “miscellaneous” item as noted in PI-5. However, using IFMIS it is simple to “translate” these codes into COFOG codes or indeed the GoSL functional classification as used in the printed estimates.

In addition, flash reports on release of funds to MDAs are produced manually by the Budget Bureau, as well as there being the opportunity for MDAs to access IFMIS to select parameters based on the Chart of Accounts periods, etc. to filter, sort and group information in reports. Analysis can be based on any segment in the Chart of Accounts, including all the mapped codes, allowing data to be compared to the original budget. Expenditure is covered at both commitment and payment stages.

Score A: Reports provide timely and regular information on budget performance both at an aggregate and MDA level.

(ii) Timeliness of the issue of reports

In-year budget reports can be generated at any time and MDAs can request reports at any time. At present, only expense analysis reports (detailed dates of cheques paid) and allocation-monitoring reports are routinely sent to MDAs on a quarterly basis within 4 weeks of quarter end. Other useful reports are not routinely sent to MDAs though some MDAs are aware of their existence. In the future, it is now intended that a full set of reports be sent to MDAs, including the allocation monitoring report and commitment/obligation analysis report.

Score A: In-year budget reports can be generated at any time and MDAs can request reports at any time.
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(iii) Quality of information.

The reports generated so far by IFMIS have included some items that have not been reconciled. As a result, there has been a little concern about the accuracy of information, though this has not been highlighted in the reports. As reconciliation is completed subsequent reports display revised figures addressing previous inaccuracies. The basic usefulness of reports has not been undermined. The report currently under preparation was 11 weeks late as of March 2007, as the backlog of accounts was prioritised in AGD. It is expected that once reconciliation is achieved future reports should be accurate and timely.

Score C: The reports have included some items that have not been reconciled and there has been concern about the accuracy of information.

Given the recent issuance of reports and the fact that IFMIS is not rolled out to most MDAs, the use of reports by MDAs is in its infancy. It is expected that as the MTEF matures and IFMIS is rolled out, then it may be easier for MoF to issue a full set of reports which are fully understood by MDAs. In the meantime, MDA staff visit the MoF to access fiscal information, and IFMIS is proving to be a powerful tool in this regard. Online enquiries provide quick look-up facilities with a reasonably detailed facility to trace balances back to individual transaction details.

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The establishment of IFMIS has regularized and improved the quality of the production of in-year budget execution reports by the MoF.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	<p>Overall Score: C+</p> <ul style="list-style-type: none"> • Dimension (i) Score: A. Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. • Dimension (ii) Score: A. Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. • Dimension (iii) Score: C. There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.

PI-25. Quality and timeliness of annual financial statements

(i) Completeness of the Financial Statements.

Financial Statements for 2003 and 2004 were finalised towards the end of the second PEFA mission. Despite the tardiness of these statements (and the Public Accounts), it now appears that AGD is not only clearing the backlog of accounting requirements, but also producing documents of good quality.

The financial statements include the results the financial operations of all its MDAs processed through the Treasury. Other public funds including some aspects of donor funds and government departments retained internally generated funds are not included in the financial statements as complete and accurate information could not be obtained for those items, or they are excluded from the treasury system.

Score C – The financial statements are purely a reflection of the Treasury Bank Account.
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(ii) Timeliness of submission of the financial statements

The production of financial statements had fallen seriously behind the schedule outlined in the GBAA. Following the appointment of a new Accountant General in 2006, financial statements for 2002, 2003 and 2004 have now been prepared. Outstanding financial accounts are now being addressed.

Score D: The production of financial statements had fallen seriously behind schedule.

(iii) Accounting Standards Used

The requirements of Section 57 of the GBAA provide for the inclusion of all key revenue, expenditure and balance sheet items in the public accounts. In addition, the draft public accounts outline the basic accounting principles under which they have been prepared. These appear to have been consistently applied in the 2002 and 2003 draft public accounts, which

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were reviewed during the main PEFA mission. The 2004 Accounts were submitted after the mission. However, Sierra Leone is yet to develop national accounting standards for the public sector.

The National Accounts do not state that they meet IPSAS. To obtain a higher rating the Government would have to explicitly apply IPSAS or develop equivalent national standards. Many of the disclosure requirements in the IPSAS are currently met in the public accounts. The contents of the Report and Accounts are as follows:

1. Report of the Accountant General
2. Statement of the Financial Assets and Liabilities of the Consolidated Fund
3. Statement of Financial Performance
4. Cash Flow Statement
5. Notes of Explanations and Elaboration to the Public Accounts
6. Appendices
 - (a) Detailed Analysis of Domestic Revenue Collection
 - (b) Summary Details of Programme Grants and Loans (Direct Budgetary Support)
 - (c) Summary Details of Personnel Expenditure by Heads
 - (d) Summary Details of Non-Salary, Non-Interest Recurrent Expenditure by Heads
 - (e) Summary Details of Domestic Development Expenditure by Project
 - (f) Statement of Payments by Program/Activities/Functions of Government-
Functional Classification of Expenditure by Category
 - (g) Summary Analysis of Bank Balances
 - (h) Schedule of Government's Investments in Public Enterprises
 - (i) Statement of Outstanding Debt due External Creditors (on a loan basis)
 - (j) Summary Analysis of Payments made to External Creditors (on a loan basis)
 - (k) Statement of Movements in Treasury Bills
 - (l) Statement of Movements in Treasury Bearer Bonds
 - (m) Statement of the Contingent Liabilities of the Consolidated Fund

Score C: Sierra Leone is yet to develop national accounting standards for the public sector. Government should explicitly apply IPSAS or develop equivalent national standards.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-25. Quality and timeliness of	Overall Score: D+ <ul style="list-style-type: none"> • Dimension (i) Score: C. A consolidated government statement is

annual financial statements.	<p>prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</p> <ul style="list-style-type: none"> • Dimension (ii) Score: D. If financial statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year. • Dimension (iii) Score: C. Statements are presented in a consistent format over time with some disclosure of accounting standards.
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3.6. External scrutiny and audit

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

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

The mandate and office of the Auditor General was established under the Constitution supplemented by the Audit Service Act (1998). The Auditor-General is appointed by the President after consultation with the Public Service Commission, and subject to the approval of Parliament. The Audit Service (AS) is responsible for auditing the annual accounts of (i) central government through the Consolidated Fund; (ii) local government; (iii) statutory funds and sub-vented agencies and (iv) SOEs. The Auditor-General, within twelve months of the end of the immediately preceding financial year, submits a report to Parliament and in that report draws attention to any irregularities in the accounts audited and to any other matter which in his opinion ought to be brought to the notice of Parliament.

The AS has developed an audit manual and a Code of Ethics; audits are based on INTOSAI and IFAC International Standards of Auditing. Audits predominantly comprise transactions audits i.e. whether accounts have been properly kept, rules and procedures followed, resources expended for the purpose appropriated and proper accounting records have been maintained, although the AS does some financial audits and systems reviews. Six joint thematic audits by AS staff and private sector auditors (funded through a DFID TA programme) have been completed and they appear to have raised the overall capacity in the Audit Service. The AS also contracts some of its SOE financial audits to private sector auditors. It has undertaken some thematic audits jointly with private sector auditors under technical assistance programmes.

Score: C: The Audit Service audit coverage of central government expenditures represents 63 percent of public funds in 2006 which it will draw a sample for examination in accordance with international standards.

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

Under the Constitution,²⁴ the Auditor General is required to submit her report to Parliament within 12 months of the end of the financial year. The report covers a summary of irregularities arising through her audit work and other matters, which in her opinion should be brought to the notice of Parliament.

²⁴ Section 19(4).

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At the time of the Assessment, the Auditor General has completed her Annual Reports up to December 31 2003, which were submitted to Parliament in March 2006²⁵ and these are under review by the Public Accounts Committee (PAC) of Parliament. Her Annual Reports for 2004 and 2005 are almost completed and will be submitted to Parliament shortly.

Delays in publishing the Annual Reports compound the impact of the Audit Service's work. The reason is the Audit Service's interpretation of Parliamentary Standing Order (SO) 75, which disallows publication of any evidence tendered to PAC meetings until they issue their report. This view is supported by the PAC. This practice is different from most countries, where the Auditor General's report is not conditional on Parliamentary scrutiny prior to publication and dissemination to the public. Given the lack of resources available to Parliamentary Committees, the current practice means that audit reports are subject to significant additional delays in publication.

Score D: The Auditor General is required to report to Parliament within 12 months of the end of the financial year. The Annual Reports up to December 31 2003 were submitted to Parliament in March 2006 and these are under review by the PAC.

(iii) Evidence of follow up on audit recommendations

The Audit Service issues a management letter to the Vote Controller highlighting systems weaknesses and other recommendations arising from the audit. The audited entity should respond within 30 days. Responses are rarely received on time and many of the responses received have been less than satisfactory. If no response is received, the Audit Service issue two further reminders. Key recommendations are followed up in the next audit. In cases where responses have not responded to the management letter the ultimate sanction is for the Auditor General to ask for appropriations to be suspended under provisions of the GBAA. In practice, the Auditor General has used the power of surcharge as a threat to get responses, but not to actually recover unaccounted funds from the defaulters.

Score C: The Audit Service issues a management letter, but responses are rarely received on time and many have been less than satisfactory

Score and PEFA Scoring Criteria met (Scoring Method M1).	
PI-26. Scope, nature and follow-up of external audit.	Overall Score: D+ <ul style="list-style-type: none"> • Dimension (i) Score: C. Central government entities representing at least 50 percent of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. • Dimension (ii) Score: D. Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). • Dimension (iii) Score: C. A formal response is made, though delayed or not very thorough, but there is little evidence of any follow-up.

PI-27: Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

²⁵ Her report Volume 1 covers the transactions for a year in selected MDAs and local councils. No accounts are prepared for individual MDAs. Volume 2 covers the consolidated Public Accounts. Reports of joint audits with PKF have also been submitted as supplementary reports to the 2003 report (Volume 1).

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Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members.

The Parliamentary Finance Committee is tasked with supervising the Ministry of Finance and its subordinated institution such as the Accountant General's Departments, the Bank of Sierra Leone and other financial institutions, and the NRA, among others. It provides advice on Bills and amendments as required.

The Committee examines the recurrent budget in the context of the legal statutes (Constitution, and other relevant legislation). It scrutinises the recurrent budget proposed by the Minister of Finance by examining the estimates for each MDA and the previous year's actual expenditure. In carrying out this function, the Committee has the power to summons relevant officials and ministers to explain past performance. The focus of the review is to ensure that money is spent as intended and allocations do not exceed budget. There is some involvement in the budget preparation process in the public meetings, which involves civil society on the Call Circular, through the Budget Oversight Committee.

While Parliament approves the Development Budget, it does not subject it to the same scrutiny as it does for the recurrent budget.

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

For debating the Budget, Parliament splits itself into four Appropriation subcommittees, each chaired by a member of the Finance Committee. Each Committee prepares a statement, which is presented to Parliament and these are debated by the whole House in the Committee of Supply. If there is any dissatisfaction with evidence or any issue regarding an MDA, the matter can be passed to the Anti Corruption Commission.

Until satisfactory evidence is given by a Vote Controller, the overall vote for the forthcoming year is not released and the Vote is suspended until satisfactory information is submitted. In this circumstance, Parliament appoints a committee to investigate the MDA, which eventually issues a Certificate of Rectification when it is fully satisfied.

The Finance Committee also goes up country to scrutinise how money and associated services have been delivered in the context of the PETS.

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

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

With the resumption of democracy in Sierra Leone, the Parliamentary process has been re-established. Parliament is constitutionally responsible for approving the fiscal situation including the original budget and any supplementary budgets. An area where Parliament has been by-passed in recent times has been in the area of duty waiver on imports. Only Parliament has the right to waive duty although it may delegate this power to the President as it has done recently but even in this situation, waivers should be approved by Parliament. This has not been the case. Individual Ministries have been granting waivers in their areas of responsibility without ratification by Parliament. The continued by-passing of Parliament with respect to tax exemptions has been damaging to the fiscal position, which negates the established expenditure approval process

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

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

The 2007 budget speech was delivered to Parliament in October 2006 and allowed Parliament the statutory two months to debate and pass the budget, which was done before the end of December. Both the 2005 and 2006 budgets were not able to meet the timetable and a Presidential Warrant was needed to ensure that expenditure could be made in those years.

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

Score A: The 2007 budget speech was delivered to Parliament in October 2006 and allowed Parliament the statutory two months to debate and pass the budget, which was done before the end of December.

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

Supplementary budgets must be presented to Parliament and approved by it. Virement is the responsibility of the Minister of Finance, but there is no control on the limit of virement within the rules established in the Finance and Accountability statute.

Score B: There is no control on the limit of virement.

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

PI-28: Legislative scrutiny of external audit report

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

The Deputy Speaker, who is a member of the ruling party, chairs the Public Accounts Committee (PAC). Because of delays in the submission of audits to Parliament, the work of the PAC is seriously behind schedule. The PAC completed its Report on the 1996-99 AG’s Annual Report in May 2003.²⁶ The PAC has considered the AG’s Annual Report for 2000-02

²⁶ There is no statutory deadline for issue of PAC reports.

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and issued a Report in two volumes (Volume 1 in 2006; and Volume 2 in March 2007).²⁷ It has not yet started consideration of the 2003 AG's Report.

The process of hearings and the issuance of the PAC's reports on the Auditor General's Annual Report can take over 12 months. Once the hearings have been completed, the Annual Report, together with the PAC Report on the AG's report is adopted by Parliament.

The length of time taken to review the reports is partly because of lack of resources in Parliament noted above. Parliamentarians lack research assistants and there are only four clerks to service the 35 Committees within Parliament. Parliament's limited capacity contributes to PAC less than optimal efficiency.

Score D: The process of hearings and the issuance of the PAC's reports on the Auditor General's Annual Report can take over 12 months

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

The Auditor General's (AG) Annual Report is a detailed summary of the main findings of all audits conducted during the fiscal year. The PAC discusses all these findings in considerable detail; seeking to verify and corroborate all the findings of the AG's Report. The latest report lists several agencies, which could not be covered, and are to be addressed with the 2003 report. Sessions of the PAC are held on the findings of each audit and representatives from the Ministry of Finance, AGD, and the Audit Service are called to the Committee Meetings. Minutes are prepared for these hearings, which are held as open sessions.

Score A: The PAC discusses all the AG's findings in considerable detail; seeking to verify and corroborate them.

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

There has been very little follow up of the recommendations in the PAC report for 1996-99; presumably in part due to the length of time taken for audits to be discussed in Parliament.

Score C: There has been very little follow up.

	Score and PEFA Scoring Criteria met (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	<p>Overall Score: D+</p> <ul style="list-style-type: none"> • Dimension (i) Score: D. Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. • Dimension (ii) Score: A. In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse opinion. • Dimension (iii) Score: C. Actions are recommended, but are rarely acted on by the executive.

²⁷ Report of the Public Accounts Committee of the Sierra Leone Parliament on the Report of the Auditor General on the Accounts of Sierra Leone (2000, 2001 and 2002) Volumes 1 and 2.

3.7. Donor practices

D-1 Predictability of Direct Budget Support

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

Budget support reached Leones 180.8 million in 2006, Leones 219.8 million in 2005 and Leones 199.2 million in 2004

Not all donors formally provide forecasts to the GoSL. The forecasts used for budgeting purposes are those suggested as most likely as a result of non-minuted discussions between government and donors.

Budget support in Sierra Leone exceeded forecast in 2004 and 2005 by 19.4% and 32.5%. In 2006, it fell short by 4.6%. The exceeding of forecast is not treated negatively in this indicator, as surpluses can be used to pay of debts, as indeed was the case in Sierra Leone. A major reason for the exceeding of forecasts is that “performance” tranches, in the past, have not been included in estimates of revenues in the budget, but have been disbursed. In 2004, the EC also disbursed GBS as performance benchmarks agreed a few years previously were triggered by GoSL, despite no forecast of GBS being made by the EC.

It is now claimed by the Budget Bureau that under IMF advice, “performance” tranches (such as those provided by DFID) are to be included in budget estimates, which could well result in greater volatility in actual disbursements against forecasts, which is already prone to volatility given the existence of 32 benchmarks set down by GBS donors.

Budget support would be more effective for planning if GoSL requested (and subsequently received) formal GBS forecasts from all Donors by at least mid-July, or similar to the EC’s 3 year arrangement, which includes a fully transparent “forecast” of payments for the whole period.

Score A: Budget support has never fallen short of the forecast by more than 5%.

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

Forecasts used were not formally issued by the donors but those agreed with IMF as a result of informal discussions were transmitted to Government.

Actual disbursement delays have dramatically improved over the past three years. The cumulative delay in 2004 was 109.4%, falling to 30% in 2005 and attaining a 10.5% cumulative payment before the disbursement forecast period in 2006.

Although quarterly disbursements have not tracked forecasts particularly well, it should be noted that in 2004 and 2005 the variation resulted in under-disbursement towards the beginning of the year and over-disbursement towards the end. However, in 2006 over-disbursement occurred in the 1st, 2nd and 4th quarters with under-disbursement in the 3rd quarter.

Score C: Quarterly disbursements have not tracked forecasts particularly well. The cumulative delay in 2004 was 109.4%, falling to 30% in 2005 and attaining a 10.5% cumulative payment before the disbursement forecast period in 2006.
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	Score and PEFA Scoring Criteria met (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	<p>Overall Score: C+</p> <ul style="list-style-type: none"> • Dimension (i) Score: A. In no more than one out of the last three years has direct budget support outturn fallen short of forecast by more than 5% • Dimension (ii) Score: C. Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursement delays (weighted) have not exceed 50% in two of the last three years

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

Whilst this indicator reflects donor behaviour, it should also be noted that the fragmented nature of aid management within the Sierra Leone government does not provide a clear conduit for donor engagement and information. The PEFA team interfaced with the Office of the Vice President (DACO), MoDEP and MoF to try to collect information. DACO is supposed to represent the central collection point for the capture of all aid flows reflecting its status in the OVP. However, it has only recently requested aid flows and disbursement schedules from donors with varying degrees of success. Apparently, the most comprehensive information about non-traditional (including significant Chinese) aid flows resides in the Ministry of Foreign Affairs. Given the large amount of aid flowing through INGOs (including all USAID support) it is unlikely that the figures collected by DACO are comprehensive, but they do present a best estimate of the present situation. At present, DACO only has partial historic data for 2006 when the donors supplying information indicated that they disbursed Leones 242.6 million]

Although it is quite possible that Chinese project aid is significant, even likely to be one of the five largest, this assessment has had to ignore Chinese Aid because of the lack of data. It should also be noted that a significant number of reported donor flows are not captured in the budget, apparently to reflect low disbursements rates for project aid (see PI-7). For the 2007 budget, MoF and MODEP requested forecasts to be included to the Development Budget.

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

There is no evidence that donors formally submitted complete budget estimates for disbursement of project aid at least three months before the start of the 2007 fiscal year. DACO indicates that donors are willing to provide this information on a “request” basis and that requests from DACO did not materialise until one or two months before the start of the 2007 fiscal year. It should also be noted that the estimates provided by donors are not generally classified according to the government’s budget classification, but according to the OECD’s DAC classification.

However, there are signs of improvement in that DACO is now requesting project information from Donors, and in general, the *information is* provided on request. DACO is now amalgamating this information to provide a more comprehensive picture of project aid flows than has been the case in the recent past. It is therefore expected that over half of traditional donors will provide budget estimates at least 3 months before the start of the 2008 fiscal year.

It is also expected that the reform programme will address the fragmentation of government supervision of aid flows and consolidate the offices into one at a central ministry.

Score D: No evidence that donors formally submitted complete budget estimates for disbursement of project aid at least three months before the start of the 2007 fiscal year.

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

The major traditional donors (EC, IDA, DFID, AfDB, Ireland Aid) all provide quarterly reports on actual donor flows within two months of end-of-quarter with the exception of the UN. This information is collated by DACO and accessed from the donors by e-mail. This represents significantly more than 50% of the externally financed project estimates in the budget. Again, this information is presented according to DAC rather than government (GFS/COFOG) classification.

Score C: Major traditional donors provide quarterly reports on actual donor flows within two months of end-of-quarter, which represents significantly more than 50% of the externally financed project estimates in the budget.

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

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

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

No evidence was found of aid using national procedures in Sierra Leone, with the exception of some accounting and reporting using IFMIS, such as the IRCBP. Only Budget Support then qualifies as using national procedures.

The budget bureau fiscal tables indicate that donor financed project grants and loans amount to Leones 170.5 million in 2006. As budget support amounted to Leones 180.8 million, these figures would indicate that budget support was about 51.5% of total aid flows. However, despite the partial nature of the aid flows collected by DACO, it is felt that their figure (not including Chinese and other aid flows) is nearer to the actual degree of project support. As such, budget support when compared to project support of Leones 246.2 million represents about 42.3% of aid flows for 2006.

Score D: Budget support uses national procedures and represents about 42.3% of aid flows in 2006.

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

4: GOVERNMENT REFORM PROCESS

4.1. Recent and on-going reform measures

This section expands on the standard PEFA report by detailing, where relevant, the reform measures that has been developed for each of the indicators. Some of the reforms cover more than one indicator. The reforms are classified by reform agenda, progress to date and issues identified in the course of the PEFA assessment. The issues identified are mainly addressed under the reform agenda but additional issues have also been identified by the PEFA consultants as meriting mention. The “work-in-progress” nature of the reform programme is clear from this classification. Many of the “low” scores are being addressed through the existing reforms and the new systems and procedures that are being developed. These changes take time to be effective and the key to improving the PEFA scores is to ensure that they are fully implemented and not abandoned.

The two main “reform” documents are the 2002 CFAA and the National Action Plan. These are summarized below. Appendix 4-1 presents a detailed time line of reforms since 2002. Appendix 4-2 presents a summary of NAP reforms indexed by PEFA indicators and includes suggestions for further actions.

Country Financial Accountability Assessment

The CFAA was completed in March 2002 and concluded that “Going forward the Government and its external partners should concretize a reform agenda that encompasses four overall areas:

- (a) creation of a sustainable core of staff in order the strengthen the present system
- (b) introducing sustainability and transparency as core components of the computerized financial management system – i.e., documenting all aspects of the system
- (c) strengthening the capacity of the OAG and giving it the legal authority through which to exercise external oversight and modernizing the internal audit function across all MDAs
- (d) over the longer term, redrafting parts of the current legislation for financial management so that they support more transparent operations and greater separation of authority.”

In terms of an Action Plan, the recommendations and current status are as in the following table. The development of a computerized financial management information system has now been finalized and is being operationally within key MDAs and is being rolled out, the legal basis for financial accountability has been modernized and strengthened and the backlog of accounts (and therefore audits) is being addressed and brought up to date.

CFAA Recommendations and Status

Recommendations	Present Status
<p><u>A. Developing an overall strategy for a more accountable environment</u></p> <ul style="list-style-type: none"> i. Organizing a stakeholders meeting to develop the strategy ii. Drafting legislation for replacing the 1996 Decree iii. Drafting implementing regulations for the recent legislation (and/or detailed guidelines) 	<ul style="list-style-type: none"> i. Oversight Committee established ii. Budgeting and Accountability Act 2005 iii. Financial Regulation drafted for Local Councils

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<p>B. <u>Strengthening public sector financial management system</u></p> <p>i. Developing a comprehensive strategy for the management information system</p> <p>ii. Developing an information technology strategy</p> <p>iii. Minimal required response to provision of access to the current bespoke system to strengthen the following functions:</p> <p style="padding-left: 20px;">ii.a.1. Budget allocation-and-allotment entries in the bespoke system</p> <p style="padding-left: 20px;">ii.a.2 The internal audit function</p> <p style="padding-left: 20px;">ii.a.3. The external audit function</p> <p style="padding-left: 20px;">ii.a.4 Bank reconciliation functions, plus other related treasury functions</p> <p style="padding-left: 20px;">ii.a.5 Documentation of the system at all levels</p> <p>iii. Prioritizing application of a full cycle approach to the budget process</p> <p style="padding-left: 20px;">iii.a. Minimal required response to closure and submission of annual public accounts:</p> <p style="padding-left: 40px;">iii.a.1 Preparation of up-to-date bank reconciliation statements for all the bank accounts under the control of the GSL</p> <p style="padding-left: 40px;">iii.a.2 Publication of the annual public accounts for the years 1999, and 2000, and in due course</p> <p style="padding-left: 40px;">iii.a.3 Submission of the accounts to the office of the Auditor General</p> <p>iv. Developing a comprehensive human resources management strategy</p> <p style="padding-left: 20px;">iv.a Minimal required response within the framework of the current arrangements by donors in providing personnel support:</p> <p style="padding-left: 40px;">iv.a.1 Supporting more intensive and well-developed training programs to enhance the related middle management capability and capacity</p> <p style="padding-left: 40px;">iv.a.2 Supporting capacity building to improve rates of revenue collection.</p> <p>C. <u>Strengthening the financial control system</u> (in addition to the aspects that are covered under B. above)</p> <p>i. Strengthening the organizational structure as well as the functions of the Internal Audit Department</p> <p>ii. Strengthening the office of the Auditor General Oversight Function</p> <p>iii. Strengthening the committees of the Parliament</p>	<p>Financial Regulations for MDAs in final draft</p> <p>B. <u>Strengthening public sector financial management system</u></p> <p>i. Done (IFMIS)</p> <p>ii. Done (IFMIS)</p> <p>iii. Now out-dated by IFMIS development</p> <p>ii.a.5 Provided under IFMIS project</p> <p>iii. Budget cycle now part of MTEF process</p> <p>iii.a Public accounts now required within 3 months (but backlog not yet cleared)</p> <p>iii.a.1 For Treasury accounts, reconciliations up to date For departmental bank accounts, data collection started</p> <p>iii.a.2 Accounts for 2001, 2002, 2003 and 2004 published</p> <p>iii.a.3 Ongoing in conjunction with completion of accounts</p> <p>iv. Planned, with application for IRCBP funding</p> <p>iv.a.1 Extensive training ongoing in MTEF/Budgets, new chart of accounts, IFMIS, procurement, internal audit, external audit</p> <p>iv.a.2 DFID support to NRA</p> <p>i. Internal audit legally mandated and strengthened</p> <p>ii. DFID and ADB support</p> <p>iii. DFID support</p>
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National Action Plan

The NAP was originally formulated in late 2004 and was referred to as the Common Action Plan (CAP). It's agenda is much more extensive than the CFAA and is as a result of the sum of all PFM initiatives supported by the donor community. These included efforts such as:

- an EC audit which came up with a matrix of corrective measures for the Government to undertake.
- HIPC-AAP which was conducted in February 2004 in which sixteen key indicators were reviewed with each ranked according to pre-determined criteria.

The CFAA, HIPC-AAP and EU matrix of corrective measures had various actions that the government is required to undertake to improve on weak PFM areas over time; all of these were consolidated into the CAP, and an oversight committee was formed to monitor its implementation. The CAP was subsequently transformed into the National Action Plan as various other initiatives were developed. The Poverty Reduction Strategy Paper (PRSP) set PFM targets and indicators needed to monitor its implementation. The Multi-Donor Budget Support (MDBS) use the Progress Assessment Framework (PAF) to assess performance of the budget and other conditionalities. The Improved Governance and Accountability Pact (IGAP) highlighted Government and the Development Partners commitment to PFM reforms around the same agenda.

The secretariat for the oversight committee is now with the Public Financial Management Reform Unit (PFMRU) that was formed in June 2004 and uses the PFM-NAP to provide oversight for the PFM reforms.

4.2. Institutional factors supporting reform planning and implementation

The reform programme is an essential part of the GoSL's democracy and stabilisation plan as set out in the PRSP and Vision 2025. It is supported by the political process and implemented through the Vice President and the Minister of Finance.

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

Institutional factors, which appear to be critical in supporting the reform programme, include the following:

- The full, including geographical, integration of the PFMRU into the MOF, with clear lines of responsibility for the implementation of PFM reform
- Strengthening of parliamentary capacity in the analysis of public finance, such as increased numbers of parliamentary clerks, researchers and exposure to best practice in other countries
- The strengthening of aid management. Although DACO (OVP) appears to have primary responsibility for aid management, elements are still the responsibility of other institutions such as MODEP, MOFA as well the MOF. The current development of an Aid Policy will, no doubt, look to resolve the current fragmented nature of aid management
- Autonomy of the Auditor General. Although autonomy has been secured *de jure*, logistical independence has not been secured (e.g. the Auditor General's offices are

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owned by a client). A review to promote full independence should therefore be considered

- The implementation of the Budget Speech aim of integrating the recurrent and capital/development budgets should be furthered, which would imply the integration of the MOF and MODEP, or at least many of the MODEP functions with MOF

Appendix 4-1: Time Line Of Reforms Since 2002

<p>2002 January: restoration of peace in Sierra Leone March: GoSL reaches decision point under the enhanced HIPC initiative March: World Bank agrees a Transitional Support Strategy on basis of an interim Poverty Reduction Strategy Paper September: introduction of direct payment of teachers' salaries through a private firm Second PET study Inclusion of strategic plans of MDAs in the Annual Budget March: CFAA final draft September: National Revenue Authority Act passed November: National Commission for Privatisation Act passed</p>
<p>2003 National Policy Advisory Committee reviews policy proposals made to the Cabinet and advises the President Establishment and training of District Budget Oversight Committees March: dissolution of Central Tender Board and establishment of a Procurement Reform Steering Committee in the Office of the Vice-President, approval of a procurement reform plan, and training given during the year March: first meeting of the Development Partnership Committee (DEPAC) March: PFM Committee established to follow up on recommendations of CFAA and an EU Matrix of Corrective Measures May: PAC issues its report on the Public Accounts for 1996-99 Half-yearly gazetting of all MDA resource allocations and expenditures introduced Establishment of Commission on Restructuring of the Senior Civil Service August: Design of a new chart of accounts August: Medium-term planning improved by the issue of MTEF Guidelines October: Introduction of policy hearings as the first step in the MTEF cycle October: Third PET study undertaken using a Generic Resource Flow Model on selected expenditures in 2002 (published May 2004) December Annual Statement of Public Accounts for 2001 published</p>
<p>2004 February: Preliminary work done on an IFMIS to replace the present FMAS February: Local Government Act passed, re-establishing or setting up 19 local councils February: Joint WB/IMF HIPC assessment WB and DFID fund a Legal and Judicial Sector Assessment May: Local council elections (the first since 1972) June: Launch of WB Institutional Reform and Capacity Building project and establishment of the PFM Reform Unit and Local Government Finance Division as divisions of the MOF, and the Decentralisation Secretariat within the Ministry of Local Government and Community Development September: PET study undertaken on selected expenditures in 2003 (published June 2005) August: publication of World Bank Public Expenditure Review (based on mission in January) October: IFMIS contract awarded to FreeBalance (Canada) December: Public Procurement Act passed, mandating a central regulatory agency (the National Public Procurement Authority, established May 2005), and an appellate body (the Independent Procurement Review Panel)</p>
<p>2005 February: GoSL issues its first full Poverty Reduction Strategy Paper (PRSP); World Bank prepares a Country Assistance Strategy based on the PRSP April: Government Budgeting and Accountability Act passed. April: MoF and BoSL conduct a debt sustainability analysis; MOF Public Debt Unit launches an annual Public Debt Bulletin, complementing the Economic Bulletin published by the MOF Economic Policy and Research Unit May: IFMIS goes live (issuing cheques for all budgetary agencies) Terms and conditions of service of external auditors gazetted under Audit Service Act Start of AfDB Institutional Support Project to Strengthen Public Financial Management and Energy Sectors</p>

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<p>June: Anti-Money Laundering Act passed Other Government Accounts Unit set up in Accountant-General's Department to capture data on extrabudgetary bodies and externally funded projects September: PET study on selected expenditures in 2004 (published October 2006) October: MoF requires 9 key MDAs to begin providing procurement plans as part of their budget request. November: Consultative Group Meeting in London supports PRSP; Memorandum of Understanding for joint budget support signed by GoSL, WB (IDA), UK-DFID and EC, together with a Performance Assessment Framework (PAF) containing 16 PFM benchmarks</p>
<p>2006 January: Qualified Accountant-General and Deputy appointed January: IFMIS extended to SL Police March: MoF organises the first GoSL self-assessment of PFM using PEFA methodology; MoF prepares a PFM National Action Plan and re-establishes the PFM Oversight Committee with five sub-committees GoSL reaches the enhanced HIPC completion point May: IMF approves Poverty Reduction and Growth Facility (PRGF) June: first review of PAF by GoSL and the joint budget support partners, followed by second MoU signed by GoSL, WB (IDA), UK-DFID, EC and AfDB, together with a revised PAF (expanded to 39 benchmarks, of which PFM accounted for 24); establishment of a PAF Monitoring Unit in MOF-EPRU July: Budget support partners and GoSL agree an Improved Governance and Accountability Pact September: First quarterly budget execution statements gazetted (revenue, expenditure, deficit and financing by month for six months to June 2006, by economic type and by function) September: Procurement regulations gazetted, and put on NPPA website September: PET survey on expenditures in 2005 October: Internal Audit Charter, Handbooks and Manual issued October: GoSL adopts the Extractive Industries Transparency Initiative October: Several MDAs produce acceptable strategic budget plans. October: MoF produces first written procedures for budget execution with special emphasis on protection of poverty reducing expenditures October: MoF requires 18 key MDAs to begin providing procurement plans as part of their budget request. October: Payroll audit completed (for IMF) November: Second Draft Report and Annual Statement of Public Accounts for 2002 and 2003 Published</p>
<p>2007 January Report and Annual Statement of Public Accounts for 2003 March: fieldwork for first external assessment of GoSL PFM using PEFA methodology March: Report and Annual Statement of Public Accounts for 2004 May: IFMIS rolled out to MDAs May: Preliminary procurement audit of 7 MDAs completed. May: Audit of all 19 local councils completed by Audit Service June: Financial Management Regulations under the Government Budgeting and Accountability Act are adopted and published in the Sierra Leone Gazette.</p>

Appendix 4-2: NAP Reforms and Issues for Future Action

Reform Programme relevant to Indicator PI-1-3

Reform Agenda	Progress to Date	Issues identified
MTEF macro stabilisation	Macro economic forecasts for three-year period underpinning the budget and MTEF.	<ol style="list-style-type: none"> 1. Tax waivers undermining tax policy and compromising tax administration. 2. Uncertain donor budget support. 3. Increasing variances in MDA spending against budget. 4. Salaries not under fiscal control

Reform Programme relevant to Indicator PI-4

Reform Agenda	Progress to Date	Issues identified
Stock and monitoring of expenditure payment arrears	<i>Domestic Suppliers Arrears:</i> continued to be recorded centrally until 2004 but no further data has been recorded since that date. Given the present fiscal position of the Government, it is likely that MDAs will continue to accumulate expenditure arrears. However, this information has not been recorded or monitored.	<p>NAP</p> <ol style="list-style-type: none"> 1. Public Debt Unit to maintain database of arrears; verify and clear arrears that are more than 12 months old. 2. Commitment control system strengthened by issuing LPO for big MDAs from IFMS w.e.f. January 2007. 3. System put in place to obtain statistics on salary arrears (outstanding). <p>Additional Issues (PEFA Team):</p> <ol style="list-style-type: none"> 1. Revised commitment control system should enable AGD to monitor arrears through IFMIS. 2. No system in place to detail stock of expenditure arrears accumulated by sub-vented agencies and local government 3. Arrears to parastatals – Stocks of utility arrears are still subject to audit verification and which stood at Le31.4 billion at the end of 2006. GoSL to institute a verification of these arrears to ascertain GoSL's net liability based on (i) Government claims on each parastatal for outstanding taxes; and (ii) any Government debt service payments in respect of external on-lent loans contracted on behalf of each parastatal.

Reform Programme relevant to Indicator PI-5

Reform Agenda	Progress to Date	Issues identified
Chart of Accounts in IFMIS	COFOG/GFS compliant Budget classification introduced, but limited in terms of usage, particularly in MDAs, who have been sensitised to programme budgeting but as yet have not undergone training, apart from MOF and SLP. Comprehensive coverage has not been achieved with difficulties in capturing	<p>NAP</p> <p>MDAs require training in programme budgeting including budget classification. Other Government Accounts Unit requires strengthening to enable all central government funds to be captured in the budget.</p> <p>Additional Issues (PEFA Team)</p> <p>COFOG/GFS classification not fully used. Although it exists, few people can use this</p>

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	revenues and expenditures from PIUs and institutions receiving transfers from MOF (see PI 7).	classification. It would be expected that the classification used in the printed budget and most in year execution reports is aligned exactly with COFOG/GFS.
Reform Programme relevant to Indicator PI-6		
Reform Agenda	Progress to Date	Issues identified
MTEF documentation	Limited amount of information provided. Information on flows better than stocks (debt and financial assets)	NAP Information on Debt Stock and Financial Assets is available but not included in Budget documentation. Additional Issues (PEFA Team) This indicator could be improved reasonably easily by including exchange rate information (already used to estimate donor flows). Previous year's budget outturn is available but not included in the same format as the budget proposal. Budgetary implications of new policy initiatives is more problematic. To satisfy this requirement, the budget bureau will require notice of new policy initiatives and sufficient capacity to analyse their budgetary impact, both on the revenue and expenditure sides.
Reform Programme relevant to Indicator PI-7		
Reform Agenda	Progress to Date	Issues identified
MTEF inclusive budget	Other Government Accounts Unit established	Additional Issues (PEFA Team) 1. The management capacity of the OGAU needs to be addressed, so that data is regularly collected, analysed and introduced into the accounts of AGD and fiscal reporting of the Budget Bureau. 2. Compliance with reporting requirements should be enforced by MoF, with the sanction of the withholding of the budget transfer considered. 3. An action plan for the future financial management of these agencies should be considered so that the government's budget management and accounting system is respected 4. The collation of donor flows is still fragmented despite the remit of DACO and their position in the OVP. This hampers the collation of donor flows, particularly those involving PIUs 5. There appears to be a tendency not to include all estimated donor flows in the budget on the presumption that disbursement rates are low. This problem should be addressed by improving disbursement rather than altering donor commitments.
Reform Programme relevant to Indicator PI-8		
Reform Agenda	Progress to Date	Issues identified
Decentralisation	System in place for transfers to fund local councils for devolved services with legal structure and	Financial control and reporting systems still underdeveloped.

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	transparent and timely transfer mechanism.	
Reform Programme relevant to Indicator PI-9		
Reform Agenda	Progress to Date	Issues identified
Control of fiscal risk from other entities	<ol style="list-style-type: none"> 1. System in place for local councils. 2. Commission for Privatisation has mandate for supervision of parastatals 	<ol style="list-style-type: none"> 1. Financial control and reporting systems still underdeveloped. 2. Lack of audits for parastatals has meant ineffective control. 3. Lack of reporting to MoF by NCP means that fiscal risk from SOE operations is not effectively monitored
Reform Programme relevant to Indicator PI-10		
Reform Agenda	Progress to Date	Issues identified
MTEF Public access to information	<p>Public policy hearings are held in August each year to review MDAs' strategy and ensure that the budget and procurement plans are prioritized based on the resource envelope.</p> <p>Civil society is engaged in monitoring government expenditure through district level budget oversight committees.</p>	<p>Additional Issues (PEFA Team)</p> <p>This indicator can be improved by means of some simple management changes. The publication of contract awards over \$100,000 on the internet should present no difficulty. However, the publication of year-end financial statements will require auditing of financial statements since 2001. It appears that the backlog could be largely addressed during 2007. External audits require a change of procedure. Parliament currently takes months to scrutinise audit reports</p>
Reform Programme relevant to Indicator PI-11		
Reform Agenda	Progress to Date	Issues identified
MTEF Budget Calendar	<p>The budget calendar is established and was implemented accordingly in 2006 for the first time in recent history. This is a significant improvement, given that previous years had seen GoSL operate under a Presidential Warrant for expenditures whilst the budget was ratified more than 3 months into the financial year.</p>	<p>NAP</p> <p>MDA ceilings should be approved by cabinet before the BCC is issued, providing an opportunity for cabinet to engage in overall ceiling and MDA ceiling refinement for 6 months rather than 6 weeks.</p> <p>Additional Issues (PEFA Team)</p> <p>The budget calendar could be improved through the incorporation of a detailed macroeconomic scenario as a precursor to the Budget Call Circular, and its attendant ceilings.</p> <p>The greater involvement of cabinet in the determination and refinement of ceilings may also require extra resources to be provided to cabinet in terms of training, extra clerks etc</p>
Reform Programme relevant to Indicator PI-12		
Reform Agenda	Progress to Date	Issues identified
MTEF multi year focus	<ol style="list-style-type: none"> 1. The Budget document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, and the deficit and its financing. 2. There was a commitment in recent budget speech 	<p>NAP</p> <ol style="list-style-type: none"> 1. MTEF/Technical Committee to deepen the MTEF process and link PRSP to the strategic plans of MDAs/LCs 2. Recurrent cost implications of investments included in multi-year costing 3. Quarterly analysis of debt sustainability (<i>fiscal discipline review</i>)

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	<p>for a unified budget and the recurrent cost implications of investments to be included in multi-year costing.</p> <p>3. Sector strategies are in the process of development, particularly advanced in SLP, MOH, and MOE</p>	<p>Additional Issues (PEFA Team)</p> <ol style="list-style-type: none"> 1. The current Budget document is independent of the previous two budgets in that there is no reference to previous forecasts. Links between multi-year estimates and subsequent setting of annual budget ceilings are unclear and differences are not explained. The MTEF estimates are updated each year, without any detailed explanation of the reasons for the changes and the implications for budget ceilings. There are no tables that describe the differences in budget ceilings from one MTEF to the next, with specification of which changes are due to technical and policy changes. The 2006 budget speech recognises that this should be addressed but no formal mechanisms have been introduced to date 4. There are no costed sector strategies available 5. The Development and Recurrent budgets are currently produced separately. At present, there is little formal linkage between the two budgets. No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates, merely a request that MDAs make such linkages.
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Reform Programme relevant to Indicators PI 13 -15

Reform Agenda	Progress to Date	Issues identified
<p>The National Revenue Authority Act, 2002 merged all the tax collecting agencies under the NRA which is currently made up of four main revenue collection agencies namely: - Income Tax Department, Customs and Excise Department, the Non Tax Revenue Department and the Gold and Diamond Department. These revenue agencies are all answerable to a centralized system of tax administration under the leadership of the Commissioner General who is assisted by a Deputy</p>	<p>Major restructuring of the operations of Income Tax and Customs and Excise Departments. Income Tax activities have been decentralized with the establishment of Tax Districts which are located closer to tax payers and the establishment of a Large Payers Unit which handles all tax cases of companies and business enterprises with turnover above Le600 million. Operations at Customs and Excise Department have been streamlined to make them simpler and faster through the introduction of the 'One-Stop-Shop' system of clearing goods. A more responsive accounting and administrative support system, which ensures transparency in receipt of funds, procurement, disbursement and recording of transactions is now operational. Gradual implementing of the ECOWAS Common External Tariffs. The Authority also brought into full operation in 2005 the adjusted top marginal rates</p>	<p>NRA has made considerable progress in improving the national taxation system and the taxpaying culture by bringing together the revenue mobilisation functions of the Income Tax and Customs Departments into a single unified Authority. This process of merging different cultures and reforming structures has now established a firm foundation on which to build.</p> <p>NRA is planning to move forward and make progress at a greater pace. Modern revenue mobilization is achieved through a combination of a modern revenue service, which acts professionally, equitably and fairly towards all taxpayers. In addition, there is a taxpaying culture where taxpayers understand and have confidence in the revenue administration system and can see tangible evidence that their taxes are improving social and economic well being.</p> <p>NRA recognises that the scale of what has to be achieved cannot be undertaken all at once and therefore it has to adopt a phased, managed and controlled approach to modernising and improving the different revenue areas.</p>

Commissioner General.	<p>announced in 2004 budget speech, from 35 per cent to 30 per cent for both personal and corporate income taxes.</p> <p>Institutional capacity building: An interdepartmental fifteen (15) week training programme conducted for senior members of staff at the Income Tax Department was organized to improve the capacity of staff to be better equipped and au fait with the revised Income Tax Act. Provision of basic computer training for both Customs and Income tax officers in Freetown Head Offices and Outstations has been undertaken; other personnel of the Authority have benefited from both local and international seminars, received similar opportunities for international training, on the valuation of diamond, manufacturing and marketing techniques, to name but a few.</p>	
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Reform Programme relevant to Indicator PI-16-17 and 24

Reform Agenda	Progress to Date	Issues Identified
<p>1. Initially, AGD to provide VCs with quarterly budget performance reports for review and reconciliation with their Vote Service Registers.</p> <p>2. Later, IFMIS to provide remote access for VCs to monitor and produce customized reports; commitment reports to show expenditure arrears</p> <p>3. Establish liquidity and cash flow forecasting framework</p> <p>4. Reliable and timely information should be given on quarterly allocations based on work plan.</p>	<p>1. IFMIS has enabled the production of comprehensive in-year budget execution reports, though not all are issued as a matter of course to MDAs.</p> <p>2. A quarterly liquidity forecast framework has been set up by the Bank of Sierra Leone and is updated on a weekly basis. The forecasts give an indicator of cash flow positions over the quarter.</p> <p>3. Efforts are underway to improve the forecasts by incorporating more information from the Ministry of Finance into the forecasts before the start of the quarter and during the weekly NDF review. Forecasts depend on information from Programme Managers; only cash limits can be forecast by MoF.</p> <p>4. Ministry of Finance has developed procedures to protect priority spending.</p>	<p>Additional Issues (PEFA Team)</p> <p>1. Gradual decentralization of IFMIS to MDAs and improvements in issuance and availability of in-year budget reports will improve information to MDAs. In particular, MDAs should be issued with all in-year budget execution reports that are currently produced rather than only the report on expense analysis.</p> <p>2. Aggregate level cash flow deficits need to be fed down to MDAs earlier in the budget year.</p> <p>3. Lack of any bottom-up cash forecasting system to enable vote controllers to report to MOF on their projected cash flows, per GBAA 53(1).</p>

5. Adjustments should be transparent and occur only at a limited number of times each year, according to framework for protection of poverty related expenditure.		
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Reform Programme relevant to Indicator PI-18

Reform Agenda	Progress to Date	Issues identified
<p>1. A Records Management Steering Committee was set up by the Establishment Secretary in April 2006. The RMIP plans</p> <p>(a) to ensure that everyone on the payroll has a master file in ESO with all the documents complete (Phase I, January-April 2007),</p> <p>(b) ensure that all working files in key MDAs are mirror copies of ES master files (Phase II, May-August 2007), and</p> <p>(c) Ensure the same in all other MDAs (Phase III, September-December 2007). The work is fully funded and a team of local staff and international consultants has been set up.</p> <p>2. Similar RMIP needed for teachers.</p> <p>3. Plan to pay all public sector wages and salaries direct into bank accounts (2007).</p>	<p>1. Ongoing – progress on RMIP, which will be crucial to overall improvements of credibility of payroll data.</p> <p>2. Some resistance to payment of wages and salaries into bank accounts due to low salaries and impact of bank charges.</p>	<p>Additional Issues (PEFA Team)</p> <p>1. RMIP extended to teachers critical next step.</p> <p>2. Follow up payroll audits to monitor progress against reform agenda.</p>

Reform Programme relevant to Indicator PI-19

Reform Agenda	Progress to Date	Issues identified
<p>1. Procurement now has a new legislative basis (Public Procurement Act 2004).</p> <p>2. National Public Procurement Authority (NPPA) created Its first Board members were appointed in May 2005.</p> <p>3. Regulations and Manual have been finalized, gazetted and put on the NPPA website.</p> <p>4. Standard bidding documents are in their final draft.</p> <p>5. Independent Procurement Review Panel created</p>	<p>1. A training programme, extending also to the Vote Controllers, Parliamentarians, the private sector and civil society, is planned by the Procurement Secretariat. WB-IRCBP/Crown Agents and UNDP are providing TA.</p> <p>2. Twenty-five trainers will be selected for a training-of-trainers course in 2007.</p> <p>3. Preparation of Procurement Plans as an integral part of budgetary process being required by AGD for all MDAs before budget allocations remitted at the start of the financial year.</p>	<p><u>NAP</u></p> <ol style="list-style-type: none"> 1. Undertake procurement audits to ensure compliance with the law and regulations <ul style="list-style-type: none"> - procurement plans prepared in line with approved budget - % of funds budgeted and utilised 2. Majority of contracts awarded on the basis of competitive procedures through regular advertisement of opportunities on public contracts. 3. x Procurement Specialists trained or recruited 4. x days taken to handle procurement complaints fairly 5. Strengthen NPPA – human resource capacity of NPPA to be strengthened (core staff in place by August 2006 with full staffing plan implemented thereafter). Ensure NPPA practices conform to international standards. 6. Tender opportunities and information on contracts awarded made public on quarterly basis through NPPA website, notice boards and published bulletin. 7. 2007 procurement plans prepared prior to start of fiscal year (by end Dec 2006). <p>Additional Issues (PEFA Team)</p> <ol style="list-style-type: none"> 1. Compliance with the new Law remains a serious problem, which needs to be addressed by M&E, procurement audits and capacity building. 2. Information on contracts awarded is still not made public on quarterly basis through NPPA website, notice boards and published bulletin. 3. Monitoring and evaluation by NPPA is extremely difficult because of poor compliance.

Reform Programme relevant to Indicator PI-20

Reform Agenda	Progress to Date	Issues identified
<p>1. AGD has introduced the purchasing module of IFMIS. This requires MDAs to control their commitments within their budget allocations from Budget Bureau.</p> <p>2. Gradual introduction of IFMIS to MDAs will enable them to better control commitment.</p>	<p>1. Centralized commitment control by AGD will ensure MDAs do not enter into obligations in excess of budget allocations and avoid build up of expenditure arrears.</p> <p>2. Revised Financial Management Regulations are being finalized.</p> <p>3. Progress being made on providing on-line access to IFMIS for key MDAs.</p>	<p>Additional Issues (PEFA Team)</p> <ol style="list-style-type: none"> 1. Some concerns that the centralization of commitment controls will slow down disbursements to MDAs.

<p>3. Update of the Financial Administration Regulations. 4. Records management is being introduced as a distinct discipline by the Governance Reform Secretariat through the DFID/IRMT Records Management and Improvement Programme.</p>		
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Reform Programme relevant to Indicator PI-21

Reform Agenda	Progress to Date	Issues identified
<p>1. Create legal mandate for internal audit. 2. Create posts, and recruit and train suitable staff to fill them. 3. Prepare Internal Audit Manuals.</p>	<p>1. Legal mandate and manuals are in place. 2. Establishment of functional internal audit units in 13 MDAs and 1 local government. 3. Qualified accountants appointed in the MoF IAD and conducting quality assurance and site visits to functional IADs. 4. Quarterly meeting of IA cadre held across public sector; chaired by Director of IAD at MoF.</p>	<p>NAP 1. Training of internal audit staff in the use of handbooks and manuals.</p> <p>Additional Issues (PEFA Team) 1. Significant progress still to be made in educating VCs and public servants of the role and value of internal audit within Government. 2. Continued support and monitoring and quality assurance of functional IADs required to monitor effectiveness and improve capacity of IA in Sierra Leone. 3. Functional IADs need to start providing reports to Director of IA at MoF and Auditor General. 4. Director of IA in MoF should produce Annual Report of IA activities across public sector to Minister of Finance. 5. Local Technical Assistants (presently funded by EC) to be taken onto GOSL payroll</p>

Reform Programme relevant to Indicator PI-22

Reform Agenda	Progress to Date	Issues identified
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<p>1. Address backlog of bank reconciliations, which created risk of fraud and delays in production of public accounts. 2. Address weaknesses in IFMIS system reconciliations module.</p>	<p>1. Qualified accountant assigned to the reconciliations unit. 2. Regular reconciliations during the month and procedures for monthly management reviews of reconciliations. 2. Backlog of bank reconciliations addressed. 3. Improvements to the reconciliations module of IFMIS.</p>	<p>Additional Issues (PEFA Team) 1. Significant numbers of bank accounts outside the Treasury bank accounts which are not monitored or reconciled within IFMIS. Review of bank balances and identification of those which should be brought into the Treasury Single Account would significantly improve control. 2. No reconciliation of staff advances ledger with the balance in the General Ledger.</p>
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Reform Programme relevant to Indicator PI-25

Reform Agenda	Progress to Date	Issues identified
<p>1. Backlog of Annual Public Accounts to be brought up to date by May 2007</p>	<p>1. Financial Statements for 2003 and 2004 completed in May 2007. Although international accounting standards were not used, they display good quality with reporting on contingent liabilities being the only significant shortcoming</p>	<p>NAP 1. Annual public accounts to be completed: <ul style="list-style-type: none"> • 2002, 2003 and 2004 – by March 2007 • 2005 – by end of April 2007 • 2006 – by mid May 2007 2. To include carrying values of GoSL investments in Public Enterprises and Multilateral (subvented?) agencies in the Annual Public Accounts. 3. Annual Public Accounts completed within 3 months; audit reports issued within a further 3 months in accordance with GBAA. Additional Issues (PEFA Team) 1. Adoption of realistic and sequenced programme to develop accounting standards and improve the quality of the annual public accounts, and thereby annual financial statements.</p>

Reform Programme relevant to Indicator PI-26

Reform Agenda	Progress to Date	Issues identified
<p>1. Ongoing technical assistance to build capacity of Audit Service including funding of joint audits. Training, equipment and the development of Manual and Code of Ethics. 2. To reduce the time lag for</p>	<p>1. Audit Service Strengthened (DFID & ADB are providing support through Training Programs). Joint audit with private firms in compliance with international standards have been conducted. 2. Audit reports to Parliament are made on transactions each year for about 60% of central government entities. Transactions (published up to 2002, with 2003 with PAC) and on the Public</p>	<p>NAP 1. Reports on Public Accounts to be completed: <ul style="list-style-type: none"> • 2002 to 2004 – by April 2007 • 2005 – by June 2007 • 2006 – by August 2007 2. Few positive responses to work of Audit Service are received (there is little evidence of response or follow up)</p>

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reports of the Auditor General to be made public	<p>Accounts (only up to 2001, the latest issued).</p> <p>3. Reports for 2003 were only submitted to Parliament in late 2006.</p> <p>Audit Manual developed and training is on-going before the manuals will be launched in October 2006.</p>	<p>Additional Issues (PEFA Team)</p> <p>1. No commitment to issues audit reports on completion; in accordance with best international practice.</p>
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Reform Programme relevant to Indicator PI-27 -28

Reform Agenda	Progress to Date	Issues identified
<p>1. Effective external audit: recovery by Government of major losses cited by the Public Accounts Committee (PAC)</p> <p>2. Technical strengthening of PAC and of committee administration to reduce time lag for issuance of PAC reports.</p>	<p>1. No evidence of progress to date.</p>	<p>Additional Issues (PEFA Team)</p> <p>1. Consideration of prioritizing audit reports to focus on high risk/more recent audit reports to address backlog.</p> <p>2. Support for Parliamentary Committees to assist them function effectively and efficiently</p>

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Annex 1: Summary and Explanation of Indicator Scores

	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	The position relating to aggregate expenditure shows an improving picture with the provisional data for 2006 showing a deviation of 1.1% down from 5.5% the previous year and 7.6% in 2003. This has been achieved while revenues have fallen, but outgoings on interest payments have also been declining, and not all donor budget support is included in the budget.
PI-2. Composition of expenditure out-turn compared to original approved budget	C	The variances in excess of the total deviation have exceeded 10% in one of the 3 years. While there has been an improvement in the control of aggregate expenditure, there has been a worsening of the distribution of expenditure when 2006 is considered.
PI-3. Aggregate revenue out-turn compared to original approved budget.	B	In 2003 and 2004, actual revenue was higher than that forecast in the budget, but fell below in 2005 and 2006. Economic conditions in 2006 for businesses have been difficult which will have contributed to the downturn. This deterioration in revenue may also stem from the willingness of Government Ministries to grant duty free importation to commercial operations as part of an incentive package.
PI-4. Stock and monitoring of expenditure payment arrears.	No Score	Known arrears have been over 10% albeit falling in two of the three years but there is a lack of complete arrears data to score this dimension. Effective commitment control to avoid build-up of arrears is available through the IFMIS purchasing module but this is not currently fully utilised.
PI-5. Classification of the budget	A	The classification system/chart of accounts used by IFMIS for formulation, execution and reporting of the central government's budget uses GFS/COFOG compliant economic classification.
PI-6. Comprehensiveness of information included in budget documentation.	C	Recent budget documentation fulfills 3 of the 9 information benchmarks.
PI-7. Extent of unreported government operations	No Score	The Other Government Accounts Unit (OGAU) does not produce comprehensive documentation on a regular and timely basis of the operations of the 46 extra-budgetary and sub-vented agencies. Reporting on donor-funded projects is seriously deficient.
PI-8. Transparency of Inter-Governmental Fiscal Relations	B	The Local Governments Equitable Grants Distribution Formulae provides clear and timely information on allocations to each of the 19 local councils for each of the devolved services. However, follow up on the monitoring of budget execution is still being developed.
PI-9. Oversight of aggregate fiscal risk from other public sector entities	C	The present system for overseeing fiscal risk from other public bodies is in place, but there is no consolidated reporting.
PI-10. Public Access to key fiscal information	B	Government makes available to the public 3 of the 6 listed types of information.
PI-11. Orderliness and participation in the annual budget process	C+	There is a calendar for the preparation of the MTEF and Budget as a combined process. Cabinet is not formally involved in budget preparation until it is sent the Budget Framework Paper in mid-September. The approval of

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		the 2007-09 MTEF budget was the first time that a budget calendar had been followed. Previous years had seen the budget approved in the second quarter, requiring a presidential warrant during the first four months to enable expenditures. Expenditure was still halted for 10 days in 2005 and 5 days in 2006.
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	The budget document presents a three year rolling (on an annual basis) forecast of revenue and expenditures, the deficit and its financing. The MTEF estimates are updated each year, without any detailed explanation of changes and the implications for budget ceilings. Expenditures are broken down by economic categories and by sector, which usually corresponds to a ministry. A Debt Sustainability Analysis includes an analysis of both external and domestic debt and is now conducted annually. There are no costed sector strategies available with some either close to completion, or in an advanced stage under PRSP and MDG. The Development and Recurrent budgets are currently produced separately. At present, there is little formal linkage between the two budgets. No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.
PI-13 Transparency of Taxpayer Obligations and Liabilities	C+	Tax administration has been unified under the NRA. The inherited system did not incorporate modern tax administration systems and was not service orientated.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C	The separate systems inherited by the NRA are now beginning to be amalgamated and computerised, but at present are underdeveloped, particularly in terms of risk assessment.
PI-15 Effectiveness in collection of tax payments	D+	There is a significant stock of declining arrears. Administrative systems are being put in place to improve transfers and reconciliation.
PI-16. Predictability in the availability of funds for commitment of expenditures	C+	The Budget Bureau prepares quarterly cash flow forecasts at the start of the fiscal year and notifies MDAs of the quarterly ceilings based on procurement plans for non-salary/non interest expenditures. Wages and salaries are calculated centrally. Quarterly allotments are made to all MDAs. The Net Domestic Financing Committee meets on a weekly basis and monitors the cash position. Quarterly allocations are often paid in tranches and fourth quarter budget cuts provide a disincentive to contract for goods and services even if these are included in procurement plans.
PI-17 Recording and management of cash balances, debt and guarantees.	C+	A Single Treasury Account has been operating for some time. The sub-accounts within the Treasury Account are treated as a consolidated of cash balance within the BoSL which is reconciled on a regular basis. However, the consolidation process only applies to the Single Treasury Account maintained at the BoSL and excludes a significant number of departmental bank accounts. All central government loans and guarantees have to be endorsed by the MoF and approved by Parliament,

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		however the criteria and ceilings are not clear.
PI-18. Effectiveness of payroll controls	D+	<p>MDAs' personnel records are maintained by the Establishment Secretariat. The Sierra Leone Police and Ministry of Education, Science and Technology maintain separate personnel databases. Payroll matters are handled centrally by the Accountants General Department. A payroll module of IFMIS was introduced in April 2006. Recent independent audits have shown major concerns regarding the completeness of personnel records and databases. These audits indicate that the risk of large-scale undetected payroll fraud is extremely high in respect of the incidence of ghost workers and out-of scale payments.</p> <p>For civil servants, personnel details and payroll are integrated in one database with different access and supervisory rights for ESO and AGD staff, which ensures a basic segregation of duties in the system. Logbooks control the movement of amendment forms between ESO, MoEST, SLP and the AGD. However, beyond the logbooks, there is no process batching system to control the movement of amendment forms between and within Departments.</p>
PI-19 Competition, value of money and controls in procurement.	C	<p>All entities should provide the National Public Procurement Agency regular reports within 14 days of the end of the quarter. This has yet to be fully implemented. The Procurement Act regulatory requirements have established criteria for the use of open competition. Contract splitting results in widespread use of non-competitive methods of procurement. The Act also provides for complaints. While the complaints mechanism is well defined, implementation is extremely weak and significant levels of capacity building will be required.</p>
PI-20. Effectiveness of internal controls for non-salary expenditure	C+	<p>The appropriations module of IFMIS provides a hard budget control. The purchasing module has the capacity to record specific commitment obligations and Local Purchase Orders. A recent independent evaluation of the implementation of IFMIS noted that this module was not well understood even within the AGD. The AGD is able to produce monthly statements comparing approved budget with the total of the executed budget and the outstanding contractual commitments. The AGD does not allow the budget/cash limits to be exceeded. In practice, the main focus at present is on keeping payments within approved limits, rather than closely supervising outstanding expenditure commitments. The budgetary control system is tightly operated and in theory there is no possibility of a budget being exceeded. Financial Administration Regulations are reasonably comprehensive and well understood by those who apply them. A revised version compatible with current PFM is being reviewed by the legal service prior to being submitted to Parliament.</p>
PI-21. Effectiveness of	D+	Although the concept of internal audit is new, there are

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Internal Audit		now 14 separate Internal Audit Department units functioning independently from the finance department and report directly to Vote Controllers. The MoF Internal Auditor has statutory authority to coordinate and manage the internal audit cadre, to set standards and monitor performance. Internal audit reports prepared by the MoF IAD are well structured, comprehensive, have clear objectives and are focused on key risk areas. Overall, they demonstrate a practical understanding of modern internal audit techniques. However, quality assurance reports for the IA function in four key MDAs raised issues that indicate that the development of fully functioning internal audit departments will prove a considerable challenge. The response to internal audit reports is poor and audited entities are often slow to respond to internal audit reports or fail to address issues raised in reports adequately.
PI-22 Timeliness and regularity of accounts reconciliation	C	Failure to conduct regular bank reconciliations between the Treasury bank accounts in the BoSL with the cash book has been a major weakness in the overall control environment. This has been a contributing factor to the delay in the production of the public accounts. With regard to the timeliness and procedures relating to bank reconciliations, in 2007, reconciliations are being done on a regular basis throughout the month and reports are completed by the 15th of the month following the month end.
PI-23. Availability of information on resources received by service delivery units	A	Public Expenditure Tracking Surveys are undertaken annually and are regarded as a central component of the monitoring system, especially in terms of their ability to address a range of issues relating to accountability, transparency and efficiency under the Good Governance Pillar of the PRSP.
PI-24. Quality and Timeliness of in-year budget execution reports	C+	In-year budget reports can be generated at any time. At present, only expense analysis reports (detailed dates of cheques paid) and allocation monitoring reports are routinely sent to MDAs, on a quarterly basis within 4 weeks of quarter end. It is now intended that a full set of reports are sent to MDAs, including the commitment/obligation analysis report.
PI-25. Quality and timeliness of annual financial statements.	D+	Following the appointment of a new Accountant General in 2006, draft 2002, 2003 and 2004 public accounts have been prepared and submitted to the Auditor General. The completed financial statements are an improvement on previous years, and include extensive disclosure of accounting policies. However, they do not include contingent liabilities, in particular of SOEs.
PI-26. Scope, nature and follow-up of external audit.	D+	The Auditor General is required to submit report to Parliament within 12 months of the end of the financial year covering a summary of irregularities arising and other matters. However, the Auditor General has only completed Annual Reports up to end 2003. These were submitted to Parliament in March 2006 and are under review by the Public Accounts Committee. Annual

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		<p>Reports for 2004 and 2005 are almost completed and are soon to be submitted. Delays in publishing the Annual Reports further diminish the impact of the Auditor General's work. Reports are published only after they have been discussed by the PAC and approved in Parliament.</p> <p>The Audit Service issues a management letter to the Vote Controller highlighting systems weaknesses and other recommendations arising from the audit. The audited entity should respond within 30 days. Responses are rarely received on time and many of the responses received have been less than satisfactory.</p>
PI-27. Legislative scrutiny of the annual budget law.	C+	Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members. The Finance Committee carries out the scrutiny function on the budget.
PI-28. Legislative scrutiny of external audit report	D+	Scrutiny by the legislature has to be seen in the context of 35 Parliamentary Committees with only four clerks to service the Committees, no Parliamentary draftsman, few research assistants and no offices for members. The Public Accounts Committee carries out the scrutiny function on audited accounts.
D-1 Predictability of Direct Budget Support	C+	Not all donors formally provide forecasts to the GoSL. The forecasts used for budgeting purposes are those suggested by the IMF as a result of discussions between government and donors. The deviation of actual budget support from forecast was above forecast in 2 years resulting in an A score for dimension (i). However, there were numerous in-year disbursement delays resulting in a score of C for dimension (ii). A PEFA calculation sheet was used inserting figures agreed by both GoSL and donors.
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D+	There is no evidence that donors provided complete budget estimates for disbursement of project aid at least three months before the start of the 2007 fiscal year. Estimates provided by donors are not generally classified according to the government's budget. The major traditional donors all provide quarterly reports on actual donor flows within two months of end-of-quarter with the exception of the UN.
D-3 Proportion of aid that is managed by use of national procedures	D	No evidence was found of aid using national procedures in Sierra Leone. Only Budget Support qualifies as using national procedures.

Annex 2: Officials Met

Ministry of Finance (MoF)

Hon. John O. Benjamin, Minister of Finance

Parliament

Hon. Elizabeth Alpha-Lavalie, Deputy Speaker and Chairperson of Public Accounts Committee

Hon. Ibrahim. S. Sesay, Chairman, Finance Committee

Hon. Charles Caulker, Chairman, Transparency Committee

Accountant General's Department, MoF

Cyprian Kamaray, Accountant General

Kebbe Korouma, Deputy Accountant General

Richard Williams, Principal Accountant (Main Account)

Brima Kamara, Head of Payroll

Alex Pratt, Head of Bank Reconciliation

Emmanuel T. Senessie, Project Accountant (Expenditure)

Cynthia Will Fornah, In-charge of staff advances

V.F. Bawoh, Head, Other Government Accounts Unit

Budget Bureau, MoF

Matthew Dingie, Budget Director

Mathew Sandy, Senior Budget Analyst

Seth Komla-Anipa, Head MTEF Implementation/Budget Adviser

Mariam Anthony-Williams, MTEF Specialist

Abdulrama Conteh, Budget Analyst

Mathew Smith, Budget Analyst (ODI Fellow)

EPRU, MoF

Koroma, EAD (Multilateral donor assistance)

Alimamy Bangura– Director

M Warritay – Deputy Director

Internal Audit, MoF

R.S. Fynn, Director, Internal Audit

Olayinka Phillips, Senior Auditor

Kandeh Sissay, Senior Auditor

Public Debt Management Unit, MoF

Sahr L. Jusu, Head of Unit

Local Government Finance Department, MoF

Sheku Bangura, Director

Alpha Umaru Jalloh, Economist

Mike Dauda, Senior Local Government Finance Officer

Ibrahim Bangara, Economist

Public Financial Management Reform Unit, MoF

Winston Cole, Head of Public Financial Management Reform Unit

Vidal Paul-Coker, Financial Management Specialist (Payroll/Records Management)

Princess Johnson, Financial Management Specialist (Budget)

Brinsley Kwame Johnson, Financial Management Specialist (Donors)

Augustus Cole, Financial Management Specialist (Capacity Building)

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MTEF Department, MoF
Seth Appiah

Auditor General's Department

Anna Caesar, Auditor General
Leslie Sylvester Johnson, Deputy Auditor General
Joseph Syl-Bauns, Deputy Auditor General

Ministry of Development and Economic Planning

Konah Koroma, Development Secretary
J A M Jalloh, Head of Planning
James Koroma, Principle Planning Officer, Sino Desk
Mohamed Kargbo

Development Aid Coordination Office, Office of Vice President

Kwasu Kebbay, National Director
Naomi Jefferies, Economist (ODI Fellow)

Establishment Secretary's Office

Avril Cummings, Deputy Establishment Secretary

Ministry of Health and Sanitation

Clifford Kamara, Director of Planning

Ministry of Agriculture and Food Security

Amara Idara Sheriff, Director of Planning (PEMSD)

Sierra Leone Police

More Lengor, Assistant Director General Police, Head of Support Services
Movie Lengar, Assistant Inspection General Support Services
P Sama, Director of Finance

Cabinet Secretariat

Mrs Roy-Macoly, Information Officer

National Public Procurement Authority

Alfred H. Kandeh, Chief Executive Officer
Franklyn Williams, Economist and Researcher
Samuel Akani, Procurement Advisor, Head of Capacity Building
Farid Alghali, Legal Affairs Specialist
Mohamed Musa, Monitoring and Evaluation Officer

National Revenue Authority (NRA)

Lansana Kallon, Commissioner Finance
Santo Kamara, Commissioner Research and Monitoring
O J Ansumana, Commissioner Income Tax
M S Bamba, Commissioner Customs
A Demby, Modernisation Unit
D Mclean, Consultant

National Social Security and Insurance Trust (NASSIT)

Edmund Koroma, Director-General

Institute of Chartered Accountants of Sierra Leone (ICASL)

Melvin Tucker, President

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Cyprian Kamaray, Vice President (also Accountant General, MoF)
Herbert Nelson-Okrafo, Director

National Commission for Privatisation

A. D. Benjamin
A. R. Tejan-Jalloh
Mohamed A Sesay

Private Sector

Members of Sierra Leone Association of Manufacturers
Ed Jibo Managing Director of Coca Cola,
John Mbonu Managing Director SL Brewery,
Arne Johansen Managing Director Leocem,
Nasri Halloway Managing Director CMC Trading and Rainbow Paints

Consultants

Anthony Bennett, Public Financial Management Adviser (DFID)

Development Partners

Staff of DFID, World Bank, EU, Ireland Aid.

Annex 3: Documents Consulted

Government of Sierra Leone 1991 Constitution
Government of Sierra Leone Country Financial Accountability Assessment 2002
Government of Sierra Leone Customs Tariff Act, 1978 and ECOWAS Common External Tariff and Finance Act 2006.
Government of Sierra Leone Financial Administration Regulations
Government of Sierra Leone Improved Governance and Accountability Pact (IGAP)
Government of Sierra Leone Local Government Act, 2004
Government of Sierra Leone Memorandum of Understanding Partnership framework between the government of Sierra Leone and its Development Partners for Joint Budget Support for the Poverty Reduction Strategy
Government of Sierra Leone National Commission for Privatisation Act 2002.
Government of Sierra Leone National Revenue Authority Act, 2003
Government of Sierra Leone Poverty Reduction Strategy Paper
Government of Sierra Leone Public Procurement Act, 2004
Government of Sierra Leone Sales Tax Decree, 1995 and Finance Acts 2006 and 2007.
Government of Sierra Leone Social Security Act of 2001
Government of Sierra Leone The Excise Act, 1982.
Government of Sierra Leone The Government Budgeting and Accountability Act, 2005
Government of Sierra Leone The Income Tax Act (2000) and amendments through the annual Finance Bill
Government of Sierra Leone Vision 2025
Ministry of Finance Annual Budget Speech
Ministry of Finance Budget Call Circular
Ministry of Finance EPRU Economic Bulletin
Ministry of Finance Estimates of Revenues and Expenditures
Ministry of Finance Financial Statements 2003 and 2004
Ministry of Finance Local Governments Equitable Grants Distribution Formulae and Allocations paper
Ministry of Finance Brief update notes on progress in PFM reforms
Ministry of Finance MTEF guidelines
Ministry of Finance Public Expenditure Tracking Surveys various annual
Ministry of Finance Public Financial Management National Action Plan
Bo City Council Budget Speech
Kenema City Council MTEF Budget for 2007 – 2009
National Commission for Privatisation Annual Reports
National Social Security Insurance Trust Annual Reports
NRA Modernisation Plan
NRA Information Sheets
 Starting a New Business
 Employer's Guide to PAYE
 PAYE explanation for employees
 Income Tax Basic Procedures for all Businesses
 Clearing at Custom
 Pre-shipment for inspection and price verification
 Common Tariffs
OPM Provision of Budget Support to Sierra Leone Study of the effectiveness of performance tranches in the provision of Budget Support to Sierra Leone (2004 – 2006)
OPM Sierra Leone Public Financial Management Support Inception Report
Tonkolili District Council MTEF Budget for 2007 – 2009.
UN Human Development Report
World Bank Public Expenditure Review: From Post-Conflict Recovery to Sustained Growth 2004

Annex 4: Local Government Study

FINANCIAL MANAGEMENT IN THE LOCAL COUNCILS

Since 2004, the Government has been actively engaged in a comprehensive decentralization of delivery of services to local communities. The centrepiece of this programme is the devolution of selected functions and services and the corresponding personnel and budget resources to local councils, which are accountable to electorates in their areas. The Government manages the decentralization process with financial and technical support from the World Bank/IDA, the UK Department for International Development and the European Union through the Institutional Reform and Capacity Building Project (IRCBP).

An overview study of financial management in the local government sector was undertaken in order to supplement the PEFA assessment done by international consultants (which covers mainly central government), and thus provide a broader view of public financial management and fiduciary risk. This annex to the PEFA assessment is a summary of the overview report.²⁸

1. Legal and institutional framework

Local government in Sierra Leone comprises 19 local councils (LCs) and 149 chiefdoms. There are also Northern, Southern and Eastern Provincial Coordinating Committees, headed by Provincial Secretaries that coordinate the activities of the LCs in their Provinces. These are deconcentrated units of the Ministry of Local Government and Community Development (MLGCD).

The chiefdoms are the traditional structures from colonial times, and have functions relating to prevention of crime, holding land in trust for the people of the Chiefdom, etc. as provided in the Chiefdom Councils Ordinance, 1938, as amended, and Local Government Act (LGA) 2004, section 28. This overview does not cover chiefdom operations or their financial management, but it should be noted that they interact with local councils in a number of ways and in some respects they are not harmonized (see section 3 on revenue below).

The 19 local councils were mandated by the LGA 2004 and established or re-established through elections held in that year. The effective start of operations was July 2004. A Statutory Instrument made under the LGA sets out a list of functions to be devolved from central government MDAs to local councils each year from 2005 to 2008. The LGA prescribes the basis for financial transfers to the councils (both vertical allocation of the total amount of each grant and horizontal allocation among the councils). The local councils are also subject to the Public Procurement Act 2004 with regard to all their procurements. Local council staff, and the councillors also, are subject to the National Social Security Act 2001 with regard to deductions from salaries and allowances. They are not subject to the Government Budgeting and Accountability Act or the Financial Management Regulations made under that Act, as the local councils have their own Financial Administration Regulations (FAR) since 2005. These have been issued to all the local councils and are applied in practice, though not yet officially passed and gazetted under the LGA, so there is not yet an adequate legal basis for prosecution for any financial misconduct. This is a source of fiduciary risk.

²⁸ B&C Services (2007) Overview Assessment of the PFM in Local Councils in Sierra Leone, April. Funded by European Commission, Freetown. Principal consultant was Buffy B. Bailor, FCCA-FCA (SL).

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Two councils are in the Western Area: Freetown City Council and Western Area Rural District Council. In the provinces, there are 12 district councils and five city councils. The district councils represent the 12 administrative districts of Sierra Leone - Bo, Bonthe, Moyamba, Pujehun, Bombali, Port Loko, Kambia, Tonkolili, Koinadugu, Kenema, Kailahun and Kono. The five city councils (other than Freetown) are: Bo City Council, Makeni City Council, Kenema City Council, Bonthe City Council and Sembahun City Council.

Each council area is divided into wards, which are the basis for local elections.. At present, there are 509 councillors against 473 wards (see table). Councillors are elected on a political party ticket. In 2004, the councillors elected chairpersons (in district councils) and mayors (in city councils)²⁹. Each LC is required by the LGA to set up a Budgeting and Finance Committee and a Development Planning Committee. Further committees may be set up, such as a Health Committee and an Education Committee.

After consultation with the Local Government Service Commission, the LC appoints a Chief Administrator (the CA). The CA is the chief executive officer of the council administration and, like a vote controller in a central MDA, is responsible for the financial management and day-to-day administration, and for advising and assisting the Chairperson. In accordance with the FAR, s/he should ensure the appointment of a competent Treasurer, Head of Internal Audit and such other staff as are necessary to carry out the financial, accounting and control activities of the Council.

Through the Treasurer, the CA is responsible for: (a) adequate and efficient systems of budgeting and budgetary control to enable annual estimates of revenue and expenditure to be prepared in the prescribed time, and the activities of the Council to proceed within the control framework thereby established; (b) sound systems of revenue collection, expenditure/payments and accounting in accordance with regulations and the Accounting Manual; and (c) adequate systems of accounting and financial control, and proper storage facilities, to ensure the efficient receipt, issue and safe custody of stores, vehicles, plant and other assets.

LCs are subject also to the Public Procurement Act (see 5.5 below).

Local councils (LCs) are autonomous legal entities governed by elected councils with their own expenditure budgets and revenue resources. The primary accountability of each LC administration is to its elected council. However LCs are subject to monitoring by central Government in accordance with the LGA (see section 6 below). At the central level there is (1) the Ministry of Local Government and Community Development (MLGCD), which includes a Decentralisation Secretariat (DecSec) responsible for policy and regulatory framework and implementation of the decentralization programme; (2) The LGA section 55 established a Local Government Finance Committee (LGFC) with a mandate to receive LC budgets and recommend the amount of each central government grant to each LC. (3) In the Ministry of Finance there is a Local Government Finance Division (LGFDD) that acts as the secretariat to the LGFC and monitors the finances of LCs. (4) LCs are also subject to audit by the Auditor General. As most LCs are at an early stage of development and lack resources and administrative and technical capacity, central government monitoring is still largely mentoring and remedial. The MOF PFM Reform Unit employs two qualified accountants full time to visit the LCs and provide advice and instruction as necessary.

²⁹ The LGA section 11 provides that chairpersons shall be elected by universal adult suffrage. This will be done in the next election (2008).

2. Functions of the Local Councils

The LGA makes the LC responsible “generally for promoting the development of the locality and the welfare of the people in the locality with the resources at its disposal and with such resources and capacity as it can mobilise from the central government and its agencies, national and international organisations, and the private sector”. Amongst their functions, they oversee Chiefdom Councils in the performance of functions delegated to them by the local council; they determine the rates of local tax; approve the annual budgets of Chiefdom Councils and oversee the implementation of such budgets.

In particular, the LGA Third Schedule lists 73 functions devolved (or to be devolved) to LCs, including major responsibilities such as primary education, primary health care and maintenance of feeder roads. A statutory instrument passed in November 2004 sets out a timetable for the transfer of these functions from central Government MDAs to LCs each year over the period 2005-2008.³⁰ Many activities listed for devolution in 2005, 2006 and 2007 are not in the 2007 grants budget, implying that they are not yet devolved.

The table below provides an indication of the size of each LC on various criteria: total grants from central government; population; the number of councillors and number of wards. This shows the wide variation in size on any of these criteria, with FCC the largest in population and grants and Kenema DC the largest in the number of wards and councillors, and Bonthe CC the smallest on all criteria.

Table 1: Size of Local Councils

COUNCIL	Total Grants in 2006 Budget (Le. Millions) (a)	%age	No. of Councillors (b)	%age	No. of Wards (c)	%age	Population (d)	%age
Bo District	3,118	5.26%	44	8.64%	39	8.25%	313,711	6.3%
Bo City	2,284	3.86%	13	2.55%	12	2.54%	149,957	3.0%
Bombali District	4,070	6.87%	28	5.50%	26	5.50%	325,550	6.5%
Makeni City	1,251	2.11%	13	2.55%	13	2.75%	82,840	1.6%
Bonthe District	1,534	2.59%	20	3.93%	18	3.81%	129,947	2.6%
Bonthe City	506	0.85%	12	2.36%	12	2.54%	9,740	0.2%
Freetown City	7,581	12.80%	32	6.29%	32	6.77%	772,873	15.5%
Kailahun District	3,890	6.57%	36	7.07%	32	6.77%	358,190	7.2%
Kambia District	3,138	5.30%	22	4.32%	20	4.23%	270,462	5.4%
Kenema District	4,232	7.15%	51	10.02%	49	10.36%	369,564	7.4%
Kenema City	2,201	3.72%	13	2.55%	12	2.54%	128,402	2.5%
Koinadugu District	2,962	5.00%	23	4.52%	21	4.44%	265,758	5.3%
Kono District	2,662	4.49%	32	6.29%	29	6.13%	255,376	5.1%
Sembehun	1,019	1.72%	14	2.75%	12	2.54%	80,025	1.6%
Moyamba District	4,164	7.03%	43	8.45%	40	8.46%	260,910	5.2%
Port Loko District	5,886	9.94%	49	9.63%	48	10.15%	453,746	9.1%
Pujehun District	2,631	4.44%	24	4.72%	20	4.23%	228,392	4.5%
Tonkolili District	4,067	6.87%	24	4.72%	22	4.65%	347,197	6.9%
Western Area Rural District	2,031	3.43%	16	3.14%	16	3.38%	174,249	3.5%
TOTALS	59,227	100.00%	509	100.00%	473	100.00%	4,976,889	100.00%

Sources: (a) Local Government Budget Circular No.2 – 2006. Note that this is Le. 10 bn more than the final budget, see footnote 4 below; (b) and (c) Government Gazette; (d) Statistics Sierra Leone, 2004 Final Census Data.

³⁰ The Local Government (Assumption of Functions) Regulations, 2004.

3. Revenue

Local councils are financed from their own revenue collections and from central government grants for development, administration and for the devolved functions. The grants for devolved functions are currently for health services, education services, agricultural services, solid waste management, rural water and ‘other services’.³¹ The LGA allows that LCs may also receive transfers for services delegated from government ministries, but so far there has been no delegation. However, the central government still pays for key administrative personnel in the LC offices, and for drugs, school books, etc which are procured centrally. The ministries that have devolved functions continue to pay ‘their’ personnel in the districts.³² Grants are intended to cover all other expenditures. This has to be kept in mind when assessing the overall financial needs of LCs – an unknown part of the financing is still within the central government budget and accounts.

Own source revenue is less than 4% of total revenue. This low share reflects the low level of mobilisation of local sources at this stage of development. The share would be even lower if the full amount of grant transfers were made on time. The low share makes LCs highly dependent on central government. The uncertainty of timing invalidates plans and budgets and reduces efficiency in the delivery of services.

The LGA specifies sources of local revenue:

Taxation Revenues

- Precepts from local tax (see below)
- Property rates

Non-Tax Revenues

- Market dues
- Business registration fees
- Licence fees
- Other fees and charges
- Share of mining revenues
- Interests and dividends; and
- Any other revenue due to the Government but assigned to local councils by the MOF.

The local tax is a poll tax, set by each LC each year and notified to the Chiefdom Councils in its area, together with the percentage of collections (called precept) that has to be remitted to the LC (LGA, section 59). At present Le 5,000 per person is levied in most districts. Chiefdom Finance Clerks collect the tax, but there is widespread evasion. Moreover, some Chiefdoms do not pay the 40% precept to their LC, or delay doing so. This is said to reflect inconsistencies between the Chiefdom Councils Act, the Local Tax Act 1975 and the LGA

³¹ Budgeted provision for LCs in 2006 was Le.49.2 billion, which is 4.9 % of total expenditure. Grants rose to Le 60.2 bn , again 4.9 % of total expenditure, in the 2007 budget (Sources: LGFD (2007) Intergovernmental Fiscal Transfer System, p.10 and Government Budgets for 2006 and 2007, Annex 1). All grants to LCs in the GOSL budget are funded from the Consolidated Fund, except for the LG Development Grants, which have been funded mainly by the multi-donor Institutional Reform and Capacity Building Project. All LC grants are priority ‘poverty-reducing’ expenditures and protected from budget cuts as far as possible.

³² “Transfer of personnel should be preceded by a comprehensive revalidation of all the personnel”. See Local Government Finance Department (2007) Intergovernmental Fiscal Transfer System: Local Government Equitable Grants Distribution Formulae and Annual Allocations 2007, p.2. A revalidation exercise is being carried out in the Establishment Secretary’s Office.

2004. There is no legal requirement that precepts should be handed over immediately. In the Kenema and Bo District Councils the Chiefdoms are retaining the precepts and demanding a letter from the MLGCD before handing over. Some Paramount Chiefs believe that their reporting lines are to the Provincial Secretaries (decentralised branches of MLGCD) and not to the LC Chief Administrators. There is a longstanding failure to clarify these relationships.³³

In November 2005 a “Review of the First Year of Fiscal Decentralisation in Sierra Leone 2004-2005” was completed. We endorse its recommendations, as follows:

- LGA provisions on revenue, especially local tax, should be revised and clarified when the LGA is revised.
- LGFD should establish a database on local revenue in an appropriate database programme (Access) and the database officer should receive appropriate training.
- LGFD and LCs should calculate revenue potential and understand the formulae for the administrative grant and the LGDG so as to improve their revenue budgets
- LGFD should support LCs by designing procedures for assessment and collection
- LCs should sensitise taxpayers and themselves on the importance of paying taxes
- LCs should develop a Local Revenue Policy Paper to present a clear policy on this with the support of the LGFD.

4. Allocation of grants

In accordance with the LGA, tied grants are given for each devolved function in an amount that is necessary to continue its operation and maintenance at the pre-devolution level. This is negotiated each year between the devolving ministries, LGFD and the Budget Bureau.

The sharing out of each grant for a devolved service among the LCs (its horizontal allocation) is in accordance with LGA section 48 (at least till 2008). The MDA responsible for that service recommends each year’s allocations “on principles of equity”. In practice, the detailed formulae and allocations are made by LGFD, approved by the Local Government Finance Committee, released in quarterly instalments by LGFD against expenditure returns for preceding periods, and paid by AGD.

In the **health** sector, primary care is devolved since 2005. In 2007, the grant covers primary care (district peripheral health units), health information, education and communication, environmental health care, facilities maintenance, and registration of births and deaths (total Le 10.7 bn). Secondary health care (district hospitals) is expected to be devolved in 2008. 40% of the total is retained at the centre for the centralized procurement of drugs and medical supplies, and sub-allocated to districts. Both the 40% for drugs and the balance 60% for other expenditures are distributed on the basis of population and number of health units in each LC area. For lack of data, there is no ‘offset’ or adjustment for donor support, which varies from one district to another.³⁴ Nor is there any adjustment for varying levels of recovery of health care costs from non-exempt patients. There is a Conditional Grants Policy Framework for Local Government Grant Distribution.³⁵

³³ On this, see IRCBP Mid-Term Review, draft February 2007, Annex 12.

³⁴ Three districts receive considerable external assistance (EU Health Sector Support Project). Other districts are supported to different degrees by UNICEF, NGOs, etc. There is an argument that external support should be offset against central allocations. This would make the overall distribution more equitable. On the other hand, it would reduce the incentive of LCs to mobilize additional external assistance.

³⁵ Government Notice No.83 – Local Government Grants Distribution Formula and Allocation.

The **education** grant covers ‘school fees subsidy’ (for recurrent costs of schools other than teachers’ salaries and books and teaching materials), examination fees to the examining authority, and (since 2007) school supervision and libraries (Le 29.2 bn in 2007). Districts are allocated shares based on their primary and junior secondary school enrolment. Text books and teaching materials are procured centrally, and distributed on the same basis as other school costs.

The agriculture grant covers crops (extension services, seed production, etc), livestock (mainly veterinary services) and (from 2007) land and water (mainly small-scale inland valley swamps) (Le 2.6bn in 2007). These are allocated (i) on the area under cultivation and number of farmers); (ii) livestock population and number of wards); and (iii) area of swamps and farming population.

The grant for **solid waste management** (Le 1.6 bn in 2007) is allocated according to the urban population of each LC.

There is a grant for **rural water** (Le 0.8 bn) allocated on rural population and the proportion without access to safe water. This grant is treated as a development grant, ie. it will be disbursed against approved water projects.

There are also smaller grants for fire prevention (Le 0.2 bn), social welfare (Le 0.2 bn) and youth and sports (Le 0.3 bn).

The Local Government **Development Grant** (LGDG) is intended to provide for development projects selected and approved by LCs in accordance with an Operations Manual prepared by the IRCBP. It has three parts: (1) Discretionary LGDG is not specific to any sector and is allocated to LCs on criteria of population and the extent of infrastructure damage; (2) Non-discretionary LGDG is tied to road maintenance and is allocated on criteria of population and the extent of road damage (in the absence of data on kilometers of roads); (3) Performance grant (formerly called ‘revenue matching grant’) is untied and is based on an annual assessment of institutional performance, covering management and organization, transparency, project management, human resources management, financial management, revenue generation and procurement.³⁶ In an assessment made in late 2006, no LCs met the seven minimum conditions for award of the performance grant in 2007. The conditions have been temporarily waived. For 2008, LCs must meet all the minimum conditions.

Administrative grants are provided by central government to help defray the LC’s administrative expenses. Many LCs are newly established and are still building capacity to mobilize local revenue. This grant is tied to administrative and supervision activities. It includes projected sitting allowances and travelling expenses of councillors, and a lump sum towards other administrative expenses. This is allocated on the basis of revenue capacity (higher revenue receivers such as FCC get relatively less) and recurrent expenditure needs. Data from Bo City, Bo District and Bombali District in the following table show that their administrative grant covered only 25% of their administrative expenditure in 2006. Even after applying all their own revenues in that year to administration, there was still a 32% shortfall. It is not clear how they financed the deficit, perhaps from a surplus in 2005.

³⁶ Decentralization Secretariat, MLGCD (2006) Comprehensive Local Government Performance Assessment (CLogPAS).

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ITEM	Bo City	Bo District	Bombali District	**Kenema District	TOTAL
2006	Le	Le	Le	Le	Le
Own Source Revenue (Actuals)	581,562,797.00	59,629,780.00	10,780,800.00	104,520,000.00	1,732,437.00
Admin Expenses (Actuals)	877,633,786.00	436,227,213.00	232,618,219.00	N/A	1,546,479.00
Surplus/(Deficit)	(296,070,989.00)	(376,597,433.00)	(221,837,419.00)	104,520,000.00	185,957.00
Admin Grant Transferred	177,519,684.00	181,455,668.00	195,002,652.00	190,495,725.00	744,473.00
Exposure	(118,551,305.00)	(195,141,765.00)	(26,834,767.00)	295,015,725.00	(45,512.00)

**No returns or reports were provided on Admin Cost for the Kenema District Council, and the Own Source Revenue for the District represents 9 months period to September 2006

5. Financial management in the local councils

This overview selected five local councils to represent all 19. Selection was made to achieve broad geographical spread and to facilitate access within the limited time and resources for the study. The sample councils are the Freetown City Council [Western Area], the Bo City Council and Bo District Council [Southern Province], the Kenema District Council [Eastern Province] and the Bombali District Council [Northern Province].

5.1 Budgets.

All five of the sample councils had prepared their budgets according to the Medium Term Expenditure Framework 2006 – 2008 format and as required by the Budget Call Circular No.1 of 2006, issued by LGFD.

The planning process starts with Councillors' consultations at ward level. This ensures that the local communities' priorities and needs are known. A technical committee including the Ward Development Committee members, the Development Officer and members of the Budget and Finance Committee reviews the proposed projects together with representatives of other groups like NGOs and other government departmental heads. This is intended to ensure the widest possible participation of stakeholders and also that projects comply with national sectoral plans and project criteria. The result of this process is a development plan. This is then used as the basis for the preparation of the budgets.

The Budget Call Circular No.2, issued 13 October 2006, informed councils of the revised estimates for grants for devolved functions and development grants and the revision of time schedules for key deadlines for the complete submission of the 2007 budget.³⁷ The information was delivered to the councils in time for it to be included in the budgets. Budgets were approved by the Council before being sent to the LGFD for approval by the Local Government Finance Committee. A forwarding letter and a copy of the minutes of the meeting of approval by council have to be attached to the final budget forwarded to the LGFD. This was done in all five of the sample councils, in compliance with the budgeting procedures. The table below shows the time schedule of key deadlines for 2007 local council budget tabling and adoption.

³⁷ LGFD expects that final allocations for 2008 will be provided to LCs by August 2008.

Table 3: Budget Timetable in Typical Local Council in 2006		
MONTH	LGFD	LOCAL COUNCIL
3 rd Week October 2006	Issue Budget estimates & time schedules to councils	
27 October – 5 November 2006	Mission to support councils to finalise budget documents	Council finalises budget document
6 – 11 November 2006	Liaise with councils to determine progress	Completion of draft budget document
13 – 18 November 2006	Liaise with councils to determine progress	Submission of draft budget to the Budget & Finance Committee
20 – 24 November 2006	Witness budget tabling	Presentation of budget to council
27 – 30 November 2006	IRCBP & devolving MDAs witness budget day	Budget speech to the public Accounting Officer publishes strategic plans & budget tables.
1 – 15 December 2006	Compile budget submissions and performance agreements	Submit to LGFD the budget & annual performance agreements signed by the Chairman, Programs Manager & Treasurers.

Source: Local Government Budget Circular No. 2, 2006

The LGA requires that annual budgets should be in balance (no deficit), and approved three months before the end of the financial year, ie. by 30 September. A public hearing of the approved budget was done by all the sample councils except Freetown City Council.³⁸ The summaries of final budgets were posted on the notice boards as required by the LGA. (The entire documents were too bulky to be displayed on notice boards). It is stated that each ward received a copy and copies of the final document are available for purchase by the public at minimal cost (usually at the cost of photocopying).

Budgets for the 2007 were not economically classified as prescribed in the new IFMIS chart of accounts for any of the five councils. It was said that since the codes were introduced to them, no formal training in their use had been given. The PFMRU accountants during their periodic visits to the LCs provide hands-on training in the use of the Chart of Accounts. Furthermore the LGFD has given the Treasurers Excel templates that had all the codes. PFMRU plans to upgrade the templates to a simple accounting package.

The use of the IFMIS chart of accounts is very important to enable the LGFD to collect consistent data on local council finances, especially the poverty related expenditure. Also it is very important for the consolidation of local government accounts with central government accounts as planned. The introduction of a low end accounting package that is secure and can accommodate the chart of accounts and assist in bank reconciliations and produce required management reports with variances is recommended.

Planning and budgeting for personnel is splintered. As mentioned above, central government still pays the salaries of assigned staff under section 34 of the LGA, ie. Chief Administrators, Deputy Chief Administrators, Treasurers and Procurement Officers. The FCC is an exception:

³⁸ The FCC has had no 2007 Budget Speech or other Public Hearing, and the budget had not been published at end May 2007.

its staff are employed and paid by the Council. For comprehensive fiscal reporting, the assigned staff salaries should be brought into the budgets of LCs even though they are paid by central government. It is recommended that LGFD and AGD provide monthly reports to the LCs on the pay of assigned staff, so that they can be brought into the budget and accounts.

5.2 Budget Monitoring and Expenditure Control

Vote Service Ledgers (VSL) are used to control expenditure in four of the sample councils but not in FCC. This is an improvement from 2005 when only a few of the Councils used VSLs and not correctly. Each of the four councils maintains a manual VSL and is up to date, with the exception of Bo District Council which maintains both an electronic spreadsheet version and the manual version which is not up to date. The loss of audit trail and the possibility of changes to the records on the electronic version stress the necessity and importance of the VSLs being kept manually.

Each LC operates a separate bank account for each of its devolved functions. This is a control mechanism which minimises the risk of misuse of tied grants, particularly if the signatories for cheque payments from these accounts include the heads of the respective functions. Easy bank reconciliation is also possible with separate accounts. There is the possibility that unapproved borrowings from one bank account to another may occur and sometimes for unapproved overdrafts for councillors' allowances. It is thus advisable that administrative grants and councillors' allowances are remitted on time to minimise pressures for cross-account borrowing, and that bank accounts are closely monitored.

LGA section 65 allows a LC to borrow or raise an overdraft but only after approval of the MLGCD after consultation with MOF. No prior approvals have been given. Makeni CC overdrew from its bank and is seeking retrospective approval. The survey found that LCs were able to obtain credit from local suppliers for items such as fuel and stationeries. This happened particularly when the remittances from central government were delayed; the amounts being reimbursed when funds were eventually received. As accounts are recorded on cash basis, these transactions are not reflected in the accounts until they are eventually paid. While LC accounts remain on a manual basis, it is recommended that an Unpaid Bills Register should be kept, showing the total of outstanding bills at any time.

There is no regular analysis of differences between budget and actual revenues and expenditures. Bo DC produced a variance report for the period January to August 2006 but no analysis was done and in any case the Treasurer says that no one was interested in it. The Freetown City Council, though it has the most accounting staff, did not prepare any variance analysis in 2006. The use of a variance report is a very effective and necessary management tool. Its importance cannot be over-emphasised. Urgent training as a means of strengthening the capacity of Treasurers to produce meaningful variance analysis reports is recommended.

All of the sample councils had a Budget and Finance Committee (B&FC) in place. However their role in financial monitoring is minimal. In Kenema DC the B&FC was not active and only meets on an ad hoc basis. The monthly financial statements are checked by the B&FCs in Bombali DC and FCC. The importance of the role of B&FC Committees in all of the LCs especially in area of financial monitoring needs to be emphasised. The MOF Director of Internal Audit and the EC MTEF Adviser provide periodic training to these Committees.

District Budget & Oversight Committees (DBOCs) have been set up in the Kenema, Bo and Bombali DCs, though both the Kenema and Bombali DBOCs were not active and hardly ever met. The Bo DBOC last met in October 2006 but no evidence of minutes was available. It is recommended that the capacity of the DBOCs be strengthened by providing the necessary training. The MOF Director of Internal Audit and the EC MTEF Adviser provide periodic training also to these Committees.

5.3 Funds Flow

For the sample councils, the answer to the question about the reliability of funds from central government was “NO”, especially in 2005 and 2006. The key reason was that only around half of the funds were forthcoming in the year they were due with the rest given in the following year. Most of the transfers were done on a piecemeal basis.

The process is as follows. The LCs report quarterly to the LGFD on the spending of individual grants. LGFD checks the reports and requests the Ministry of Finance to release funds for the next quarter. This is done through the Accountant General Department (AGD). The AGD in turn requests the Bank of Sierra Leone to deposit funds in the relevant LC bank accounts.

Any of the steps in the process may cause delay. For example, the transfer of funds from LGFD depends on prior submission of financial reports. In 2006, some LCs did not send any reports at all.³⁹ Of the 11 councils that submitted at least some returns, the average delay was 2.3 months from the end of the related month. In addition, the quality of some of the reports was very poor, e.g. omission of tied grants and expenditures, or of own revenues and expenditures.

Secondly, central government cash flow problems and cumbersome procedures would certainly cause delays in the process.

The table below shows the percentage of each quarter’s budgeted grant that was actually disbursed by AGD each quarter in 2006. The analysis highlights that the education, rural water and ‘other’ services had received less than half of the amounts allocated in 2006.

Table 4: Transfer of Budgeted Grants to Local Councils by Quarter. 2006

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Average
1 Admin	100.0%	79.0%	102.0%	100.0%	95.2%
2 Education	21.0%	45.0%	53.0%	54.0%	43.2%
3 Other Grants	0.0%	22.0%	23.0%	89.0%	33.5%
4 Solid Waste Mgt	89.0%	69.0%	100.0%	99.0%	89.2%
5 Health Care Services	0.0%	45.0%	57.0%	100.0%	50.5%
6 Agriculture & Food Security	0.0%	42.0%	99.0%	99.0%	60.0%
7 Rural Water Services	0.0%	26.0%	49.0%	98.0%	43.2%

Source: LGFD

³⁹ No reports for 2006 had been received by LGFD from Bo DC, Bo CC, Makeni CC, Freetown CC, Kailahun DC, Kenema DC, Pujehun DC and Western Area RDC up to March 2007.

It is imperative for good financial management and efficient and timely delivery of services that the LCs receive their allocations on time. This requires that the LCs submit their financial reports on time, and that the approval and disbursement procedure be streamlined.

There was general consensus that there had been an improvement in the first quarter transfers for 2007. However they were still late as most were received mid-March 2007. This time though, a single transfer was made for all the devolved functions, and the notice of the transfer was sent by a forwarding letter that listed the amounts for each devolved function. On receipt of the letter, the Treasurers instructed their banks to transfer the monies into the various devolved function accounts. This was verified by examining the files and transfer notices.

5.4 Accounting and Internal Control

In general, there seem to be adequate internal procedural controls in the five councils with weaknesses in certain areas. All the sample councils keep manual cash books (Receipts and Payments). Bo CC, Bo DC and Freetown CC also keep electronic versions. Cash books have analysis columns, so the double entry is performed in the cash book itself without the need for posting to a general ledger in accordance with the system recommended by the PFM Reform Unit. Except in Bo DC, the concept of two-sided ledger accounts is not properly comprehended by the Treasurers.

Numbered payment vouchers are used for all expenditures and are correctly completed and authorized by the Chief Administrator and the Treasurer. Controls over the bank accounts are adequate with each cheque requiring three signatures - the Chairman, CA and the Treasurer. Four signatures are required for devolved function bank accounts, the fourth being the head of the appropriate department.

Monthly bank reconciliations are made but are not entirely satisfactory, while in Kenema DC there were no bank reconciliations done for 2006 nor for January to March 2007 and the cash book was not updated. Bo DC and Bombali DC experienced difficulties in doing bank reconciliations in December 2006 as a result of problems with the Sierra Leone Commercial Bank systems. In Bombali DC and Freetown CC, reconciliation statements are posted on public notice boards.

In the sample councils, except in Freetown CC and Bo CC, there was no segregation of duties in the finance department. The Treasurer is the only person involved in most of the transaction processes from start to finish, i.e. the raising of payment vouchers, the payment of cheques, the entering of the transactions in the cash books, and the issue of receipts. The Bo CC Treasurer has employed two trainees from the Eastern Polytechnic to perform some of these roles. The lack of segregation of duties reflects the lack of finance staff. The only control is the separate signatures on cheques.

There is some evidence of intact banking of cash collected by council revenue collectors, though there were instances where the cash was retained for a few days after it was received. Intact banking is a good practice, and the practice of borrowing from cash collections and/or delaying the deposit of cash in the bank should be discouraged.

5.5 Procurement

The Procurement Act 2004 requires a Procurement Committee in each LC chaired by the CA. Its members should include the Treasurer, Procurement Officer (as Secretary), one other senior officer (such as Deputy CA or Coach), and a representative of the beneficiaries of the relevant project, but no councillor or other politician. LC Procurement Committees are bound by the Procurement Regulations, and are supervised by the NPPA Secretariat. The survey found that each of the sample LCs has a Procurement Officer who had received some training

in 2005 during a workshop in Bo, organised by the PFM Reform Unit. They all had properly constituted procurement committees.⁴⁰ Some used outside technical officers for particular procurements, for example an engineer from the Roads Authority.

The procurement process and procedures in place for all the sample councils appeared to be conforming to regulations, though the survey did not include any in-depth investigations. All the sample LCs had approved procurement plans. Invitations to the bidding process were advertised on the radio, notice boards and newspapers. Awards were publicly posted on the notice boards.

5.6 Financial Reporting

Financial statements are produced monthly for recurrent expenditure and development expenditure, tabled in the Council for scrutiny, then submitted to LGFD. They are due within 15 days of the end of the month. The LGFD checks the returns made by the councils before any further disbursements are made. As noted in 5.3 above, there are serious delays in reporting and some councils have failed to render any returns for 2006. Bo CC and Bo DC prepared trial balances, but not Bombali DC, Kenema DC or Freetown CC.

With regard to the annual financial statements, the LGA requires that “every Local Council shall keep proper books of account and proper records in relation to the accounts and shall within the first quarter of the next financial year, prepare statements if its final accounts in conformity with existing regulations”. All the Councils are said to have submitted their 2005 financial statements to the Auditor General. The 2006 financial statements for Freetown CC, Bombali DC and Kenema DC are yet to be finalized.

5.7 Audit

Internal audit Of the five sample councils, only Freetown CC had any Internal Audit Departments in place, contrary to LGA section 84. Internal audit is weak for lack of internal auditors and training. The Freetown CC Internal Auditor, for instance, retires shortly, and though a recruitment exercise is now on, sourcing the right candidate continues to be a problem.

The PFM Reform Unit provides periodic visits by two chartered accountants to the local councils to inspect their books and records and conduct spot checks. Seven coaches from the Decentralisation Secretariat who were initially recruited under the IRCBP Rapid Results Initiative when the local councils were first set up are still available but their roles are more of monitoring, mentoring and coaching than financial audit.

External audit Local councils should be audited by the Auditor General (or an auditor appointed by her) within six months of the end of the year, i.e. by 30 June. Audited statements should be posted publicly. The LC Chairperson lays them before the Council within 30 days of receipt of the report, and submits a report to the Local Government Minister within 60 days of receipt of the report on actions taken by the LCs. The Minister lays the audited statements and the report on actions taken before Parliament.

The last audit carried out in the sample councils was for July-December 2004. The Audit Report and Management Letters for those audits were seen but no evidence that the Audit Reports had been adopted. Of the five sample councils, Bo CC, Kenema CC and Bombali DC received adverse opinions, the Auditor General stating that the financial statements did not reflect the operations of the Council. Freetown CC received a disclaimer, the Auditor General

⁴⁰ The Bombali DC Procurement Committee formerly included councillors. On advice from the NPPA, the Committee was dissolved and properly re-constituted from December 2006.

stating that she was unable to express an opinion (usually given where the documentary evidence for transactions is inadequate). Western Area District Council audit was subject to a limitation in scope. Ten councils received qualified opinions. Just four councils (Makeni CC, Moyamba DC, Kailahun DC and Koinadugu DC) received an unqualified opinion (a clean audit report). The 2005 audit reports are awaited.

Some of the recommendations in the management letters are said to have been acted upon, but the survey team could not verify follow up and responses to the audit findings. The Treasurer at the Freetown CC said he had not yet received a copy of the Audit Report for 2004.

Some LCs are not including audit fees in their administrative budgets, and administrative grants also omit provision for audit. LCs and LGFD should ensure this essential function is properly funded.

5.8 Local Level Accountability and Transparency

The foregoing sections have mentioned the steps taken by LCs to ensure wide participation and awareness in the budget cycle. In the planning and budget phase, there are consultations at ward level. Development plans and budgets are posted onto public notice boards. Councils had approved procurement plans which were seen.

In the procurement process, invitations to bid are advertised by radio, notice boards and newspapers, and the final awards are publicly posted on the notice boards. Summaries of council budgets, bank reconciliation statements and monthly revenue and expenditure are posted on the notice boards for public consumption. Despite exceptions, the general level of local level accountability and transparency is high.

5.9 Staffing

The Local Government Service Commission has not been able to attract suitable candidates for Treasurer posts in any of the five sample councils. The present incumbents, some of whom are expected to leave, have at most a degree in economics or financial services. There are no professional accountants. There is therefore an urgent need to recruit Treasurers with minimum competencies to handle FM transactions, particularly in view of the increasing sums being handled. It is likely that in the next few years the majority of public funds will be handled by the Treasurers. Consideration should be given to provide attractive salaries and packages for people with the right qualifications, skills and experience to handle such important positions.⁴¹

Treasurer and Internal Auditor positions have been advertised and recruitment is in progress by the Local Government Service Commission. It appears that Treasurer posts will continue to be paid by the central government, as the LCs have very little revenue of their own. It is recommended that key positions like the CA, Deputy CA and Internal Auditor posts should be treated the same way.

6 Central government monitoring

The LGA section 97 requires MLGCD to inspect and monitor the activities of every LC to ensure that it acts within the scope of the Act or any other relevant enactment. Section 1 of this report outlines the institutional framework for central government monitoring.

The monitoring of the functioning of PFM in local government is divided among (1) the PFM Reform Unit which carries out spot checks on the books of LCs as a follow-up to its training

⁴¹ On this, see LG Service Commission (Sept. 2006) Retention Policy, and IRCBP Mid-Term Review, op. cit, Annex 11.

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function; (2) the LGFD which receives in-year and annual budgets and financial statements; (3) DecSec coaches located in the districts, who provide various support services; (4) District Budget & Oversight Committees appointed by the MOF Budget Bureau, which undertake irregular monitoring; and (5) the Auditor General audits the LC annual financial statements and reports its findings to the Public Accounts Committee (PAC) of Parliament.