

Republic of Sierra Leone
Public Expenditure and Financial Accountability
(PEFA)

Performance Assessment Report – 2010

Sub-National Governments
(Local Councils)



(Exchange Rate Effective as of November 16, 2010)

**Currency Unit = Leone
US\$1.00 = Le 4,160**

**Fiscal Year
January 1 – December 31**

Preface

This Public Financial Management (PFM) Performance Assessment Report is based on the PEFA PFM Performance Measurement Framework – Sub National Level, which includes a performance rating on 32 indicators covering the entire PFM cycle in Local Government, as in Sierra Leone, and assesses impact on budget goals.

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

A team of consultants was contracted to carry out the detailed technical work for the study.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, both at national and local level 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.

The final draft of the report was based on discussion among the various interested parties including the Multi Donor Budget Support Partners and Government of Sierra Leone, which has assisted in quality assurance. 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
ASSL	Audit Service Sierra Leone
BB	Budget Bureau
BCC	Budget Call Circular or Bo City Council (depending on context)
CA	Chief Administrator
COA	Chart of Accounts
COFOG	Classification of the Functions of Government
CPI	Consumer Price Index
CWIQ	Core Welfare Indicators Questionnaire
DACO	Development Assistance Coordination Office, MoFED
DFID	Department for International Development
DO	District Officer
DSDP	Decentralised Service Delivery Programme
EPRU	Economic Policy and Research Unit
EU	European Union
FCC	Freetown City Council
FMR	Financial Management Regulations
FO	Finance Officer
FY	Financial Year
GBAA	Government Budgeting and Accountability Act
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoSL	Government of Sierra Leone
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HLG	Higher Level Government
IA	Internal Auditor
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPFMRP	Integrated Public Financial Management Reform Project
IPRSP	Interim Poverty Reduction Strategy Paper
IPRP	Independent Procurement Review Panel

IRCBP	Institutional Reform and Capacity Building Project
KCC	Kenema City Council
KDC	Kono District Council
LC	Local Council
LG	Local Government
LGA	Local Government Act
LGDG	Local Government Development Grant
LGFD	Local Government Finance Department
LM	Line Ministry
M&E	Monitoring and Evaluation
MCC	Makeni City Council
MDAs	Ministries, Departments and Agencies
MoFED	Ministry of Finance and Economic Development
MLGRD	Ministry of Local Government and Rural Development
MTEF	Medium Term Expenditure Framework
PCU	Project Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PFMRU	Public Financial Management Reform Unit
PRSP	Poverty Reduction Strategy Paper
SLIHS	Sierra Leone Integrated Household Survey
TA	Technical Assistance
TIN	Tax Identification Number
TOR	Terms of Reference
UNDP	United Nations Development Programme

1.0 Introduction

Sound Economic Policies and Financial Governance are essential for the achievement of the desired reduction in poverty levels and improvements in economic growth in Sierra Leone. Good Public Financial Management (PFM) is thus important for efficient, effective and equitable utilisation of scarce national resources. In addition, the extent to which policy makers are held accountable to their constituents is an excellent indicator of good governance. Accountability and transparency go hand in hand in developing open and participatory decision-making processes, leading towards strong economic growth and poverty reduction.

In 2007, a PEFA Assessment was conducted to review the financial management practices and processes at the central government level. This was repeated in 2010 and accompanied by this PEFA review of five local councils chosen by size and importance, geographical spread and performance, reflecting the increasing importance of local government as a provider of public services in the wake of the 2004 Local Government Act.

This assessment is intended to provide GoSL and Development Partners with a comprehensive, integrated and candid assessment of Sierra Leone's PFM at the local council level, and to make recommendations for improving the local council PFM framework, institutional performance and capacity building. It builds on the brief assessment carried out by the 2007 PEFA (annex on local government), but makes an external and independent assessment against a clear set of indicators, enabling some comparison across local authorities. No attempt has been made to make a comparison with the 2007 assessment given its brief nature.

Five of Sierra Leone's 19 councils were chosen to undergo PEFA analysis in August 2010: Freetown, Bo, Makeni and Kenema City Councils as well as Kono District Council. This was the first time that full PEFA analysis had been undertaken at Local Council level.

This Summary Report will cover the following areas:

- Purpose of the PEFA Analysis
- Description and Selection of Local Councils
- Country Background, including the development of Local Government
- Legal and Regulatory Framework
- Intergovernmental Financial Transfer System
- Economic and fiscal importance of local government
- The Institutional Framework pertaining to PFM
- The Relationship of Local Government to Central Government
- Summary of LC scores and average of LC scores

Individual PEFA assessments of LCs together with scoring are presented as separate documents.

1.1 Purpose of the PEFA Analysis

As for Central Government, the assessment uses the framework (PFM – PMF) developed by the PEFA Secretariat. The PFM - PMF assesses public financial management across six dimensions. It first examines the credibility of the Budget as a tool for implementing government policy, and then looks at two key crosscutting issues relating to PFM, the comprehensiveness and transparency of PFM systems. It then rates performance through the four key stages in the budget cycle: budget formulation, budget execution, accounting and reporting and finally external scrutiny and audit. Under each dimension, a set of performance indicators is identified, and scoring criteria is set out. Although all indicators in the PFM - PMF are basically relevant for local governments, not all the criteria being assessed are applicable, and, therefore, these were not applied. Whilst the PFM - PMF sets out indicators for assessing donor performance, it was also deemed appropriate that indicators should, in addition, be developed for central government performance with respect to their financing and oversight role of local governments.

1.2 Description and Selection of Local Councils

There are nineteen (19) Local Councils established according to the Local Government Act 2004 in Sierra Leone. They cover all the national territory of Sierra Leone. Two (2) of the Local Councils are in the Western Area and seventeen (17) are in other provinces. The two councils in the Western Area are:

- Freetown City Council and
- Western Area Rural District Council

Out of the seventeen (17) councils in the provinces, twelve (12) are district councils, which are located in the administrative districts of Sierra Leone. They are:

- Bo District Council
- Bonthe District Council
- Moyamba District Council
- Pujehun District Council
- Bombali District Council
- Port Loko District Council
- Kambia District Council
- Tonkolili District Council
- Koinadugu District Council
- Kenema District Council
- Kailahun District Council
- Kono District Council

Of the remaining five (5) councils, three (3) are located in the Provincial Head Quarters or Cities and are:

- Bo City Council (Southern Province), Makeni City Council (Northern Province), and the Kenema City Council (Eastern Province)

The remaining two are:

- Bonthe City Council (Southern Province) and Sembehun City Council (Eastern Province)

There is an interesting situation whereby for those districts with both city council and district council, the district council offices are generally located within the perimeter of the city council, presumably outside its own area of operations.

Each Local Council is made up of Wards. Currently, there are 509 Councillors representing 473 Wards. The ward committees are involved in the development of local council policies but receive no formal funding for the provision of services. However, part of the Local Government Development Grant is used for the convening of ward meetings (refreshments and travel allowances).

Chieftaincies in Sierra Leone also play an important role in local politics (with the exception of Freetown which does not have a chieftaincy). Before 2004, Chieftaincies were often influential locally together with the line ministries and District Officers (DOs). Since then, the relative roles of local councils and chieftaincies have been a source of tension in many areas, with the LGA unclear as to the defined roles of the two parties. In some cases, there is relatively good co-operation between the two entities (especially, where there is strong chieftaincy representation in the local council), but in others there are serious problems with co-operation. For instance, the collection of taxes is still a source of dispute in many areas, in particular market dues. This has undermined many local councils ability to raise own revenues.

The following five (5) Local Councils were targeted for this assignment and were selected by the Sierra Leone Government on the basis of their size, geographical spread across the country and performance based on the CLOGPAS (Comprehensive Local Government Performance System). The councils selected were: the Freetown City Council (FCC) – [Western Area], the Bo City Council (BCC) – [Southern Province], the Kenema City Council (KCC) – [Eastern Province], the Makeni City Council (MCC) – [Northern Province], and the Kono District Council (KDC) - [Eastern Province]. However, it is the view of the team, that these

selected councils may not be representative of all councils. In particular, only one district council was selected out of 19 in total. It would have been interesting to assess, as a minimum, a district council and a city council both from the same district.

1.3 Country Background (including the development of Local Government)

1.3.1. Description of the Country Economic Situation

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

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

Table 1: Sierra Leone: Social Indicators

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

Source:
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Poverty Profile

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

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

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

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

Sierra Leone falls in the Low Human Development category (less than 0.5) and is ranked 180 out of 182 countries in the UNDP report.² Despite this lowly position, life expectancy is up from 41 years in 2004 and GDP Per capita (\$PPP) from 561 in 2004.

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

² HDIs are taken from UNDP's Human Development Report for 2005, 2006 and 2009.

Employment Trends between 2003 and 2007

Employment trends suggest likely improvements in standards of living between 2003 and 2007 as labour force participation rates have increased much faster than unemployment rates. Limited comparable data are available between the 2003 SLIHS and the 2007 CWIQ, and a thorough analysis of trends in employment would need to be much more detailed than what is presented here. Nevertheless there are some clear and useful trends in basic employment variables worth highlighting. Labour force participation rates have increased very substantially between 2003 and 2007, by about 7 percentage points. The increase has been largest among the poorest quintiles (in the fifth quintile, the much lower labour force participation rate is due in part to the fact that the statistics are computed among all individuals aged 15 to 64, with many of the younger group still enrolled in school or at the university among better off households). There has also been an increase in unemployment between 2003 and 2007, but this increase is much lower than the increase in labour force participation. Therefore, presumably, households have been able to benefit from higher incomes as more household members were willing to and able to find work in 2007 than was the case in 2003.

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

	2003	2004	2005	2006	2007	2008	2009
GDP Le billion	2327.0	2898.6	3510.2	4217	4966.5	5826	6407
of which Agriculture, Forestry & Fishing %	43.7	45.9	48.4	47.3	46.2	46.3	46.1
of which Industry %	10.28	10.46	9.87	9.49	9.96	7.87	6.5
of which Construction %	1.90	1.96	2.22	2.11	2.06	2.03	1.9
of which Trade and Tourism %	13.70	10.93	10.29	10.92	11.90	11.92	11.8
of which Transport, Storage and Communication %	8.40	6.79	7.57	7.54	8.40	10.14	10.8
of which Services (incl. Govt)	43.71	39.05	38.46	39.09	39.13	41.40	42.8
GDP L per capita (000)						1,068	1,148
GDP \$ per capita (parallel)						201	233
Real GDP Growth	9.3	7.4	7.3	7.4	6.4	5.5	4.0
CPI Freetown (Year on Year %)	11.3	14.4	13.1	8.3	13.8	12.2	10.8
Export of Goods & Services (\$m)	177	215	262	307	335	334	323
Import of Goods & Services (\$m)	406	367	453	437	494	597	606
Current Account Balance excluding official transfers(\$m)	-95	-139	-169	-137	-201	-297	-264
Foreign Exchange Reserves(\$m)	59.4	124.9	168.3	184.2	215.5	209.5	336.5
Foreign Exchange Reserves months of imports	1.9	3.3	4.4	4.7	4.5	4.4	6.4
Total external debt (\$m)	1,637.8	1,712.1	1,754.4	1,743.8	552.9	620.2	692.6
Exchange rate L/\$							
Official	2,338.5	2,696.7	2,889.6	2,961.8	2,984.5	2,980.7	3,385.6
Parallel		2,860.4	2,965.1	3,020.6	3,000.0	2,983.8	3,525.9
Government Revenue (Le bl.)	268.0	319.3	416.0	495.6	536.2	662.7	750.2
Government Expenditure (Le bl.)	598.0	668.1	828.3	915.5	835.5	1,223.2	1,452.2
Revenue to Expenditure ratio	0.45	0.48	0.50	0.54	0.64	0.54	0.52

Source: Statistics Sierra Leone, IMF, EPRU

In 2001 and 2002, the donor community assisted the Government of Sierra Leone in developing an Interim Poverty Reduction Strategy Paper (IPRSP) and a National Recovery Strategy (NRS) to improve the economy, restore and consolidate peace and ensure civil authority all over the country among other things. The government wrapped up its disarmament, demobilization and reintegration program in 2004 with 72,000 former combatants disarmed and demobilized, over 56,000 ex-combatants benefiting from social and economic reinsertion programs, and virtually all 200,000 internally displaced persons and 100,000 former refugees resettled. The full Poverty Reduction Strategy (PRS) was finalized in 2005. In December 2006, Sierra Leone reached the Completion Point under the Enhanced Heavily Indebted Poor Countries (HIPC) initiative and, in so doing, also gained additional relief under the Multilateral Debt Relief Initiative (MDRI). Parliamentary and Presidential elections were completed in August 2007, with a Presidential run-off election in September 2007. The elections, judged to be free and fair, resulted in a transfer of power to the opposition party. The new leadership has placed strong emphasis on a campaign against corruption and more investment in physical infrastructure to buttress ongoing investments in health and education outlined in the PRSP II or Agenda for Change. These developments have contributed to strong economic growth in recent years. The donor community have strongly supported expenditures as domestic revenue has ranged between 45 to 64 per cent of total expenditure.

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

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

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

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

1.3.2 The Development of Local Government

Sierra Leone's post-independence system of local government was dismantled in 1972 and the resulting primacy of chieftaincy power and those of the much talked about District Officers (DOs) were often wielded arbitrarily. Sierra Leone's economic performance from the 1970s to the end of the civil war in 2002 left it bottom of the UN Human Development Index, and according to Transparency International's perception indicators, corruption was endemic. Patronage politics, corruption, misguided fiscal policies, weak public financial management for much of the period, a series of military coups and a civil war that claimed more than 200,000 lives and displaced more than 2 million people significantly hindered Sierra Leone's economic and social development. The vacuum at local government level was identified as a key cause of the civil war. Strengthened local government was therefore identified as important in legitimizing government and also providing a channel for service delivery.

Since 2002, there has been enormous progress in rehabilitation and reconstruction, with good governance and effective public sector management leading the government's transition strategy. Decentralization and public financial management (PFM) reform were prioritized, resulting in a Local Government Act (LGA) (Part II – The Establishment of Localities and Local Council) in 2004 which provided local council autonomy in financial and human resource management. A Statutory Instrument made under the Act set out a time schedule of functions to be devolved from Central Government MDAs to Local Councils year by year. The Act prescribed the basis for financial transfers to the councils (vertical and horizontal allocation). Since 2004, the challenge has been to implement the LGA and the related Statutory Instrument. Two local council elections were undertaken in the wake of the LGA, in 2004 and 2008.

Effective public financial management (PFM) systems were identified as key to LGA implementation. Given that significant transfers to local governments were expected to take place in a new decentralized system, it was urgent to develop a legal and regulatory framework, supported by robust PFM processes as well as the development of appropriate human resource capacity.

Since 2004, there has been a steady devolution of functions from central government to local councils. Many functions have now been devolved (47 of 85 identified) financially though implementation arrangements at local level are still to be strengthened, as there is still noticeable control by central ministries of service delivery for devolved functions. Of the functions devolved, the major sectors of health, education and agriculture are included. However, there are development planners, internal auditors and M&E officers and councils now have improved skills in budgeting, financial management and procurement, though many areas of PFM still require strengthening.

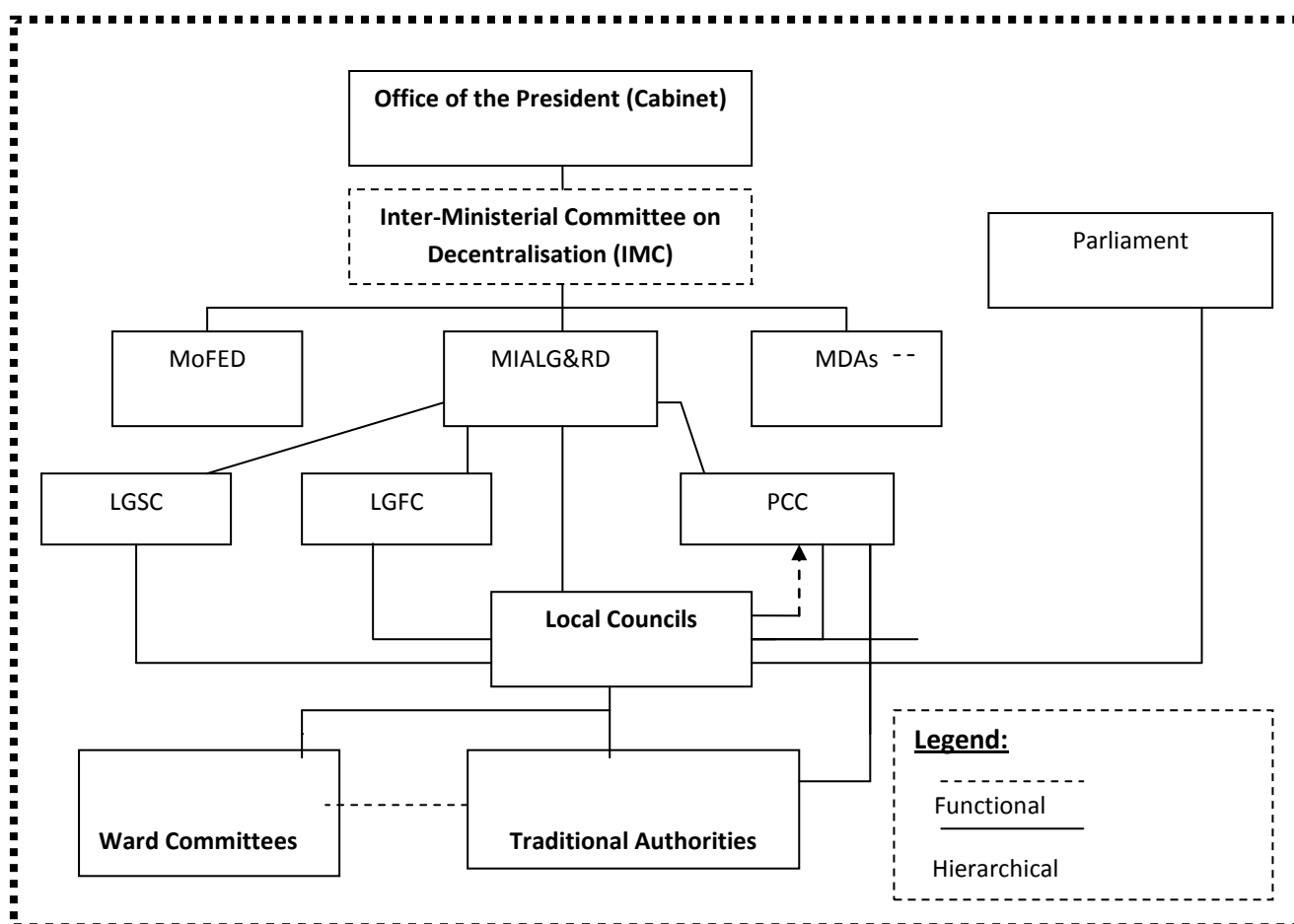
1.3.3 The Intergovernmental Relationship between Central and Local Government

The Government of Sierra Leone's National Decentralization Policy Document (Sept 2010) sets out the key inter-relationships between Central Government and Local Government, with the former committing to a policy of decentralization through devolution. The key stakeholders in the decentralization process, both at Central and Local level, their roles, responsibilities and functional relationships are identified in the institutional framework. The coordination of the decentralisation process reflects the following:

- a) The Inter-Ministerial Committee on Decentralisation (IMC);
- b) The ministry responsible for local government is charged with the responsibility for the co-ordination of local government functions, and links the centre, regional, district and chiefdom levels. It monitors the decentralisation process and the effectiveness of local councils, and advises the Government on decentralisation and local governance issues;
- c) The Provincial Coordinating Committees (PCCs) coordinate the local councils in the regions of Sierra Leone;

- d) Local councils are designated as city councils, municipal councils and district councils;
- e) The local councils have legislative, financial and administrative powers. The administrative units largely have administrative roles;
- f) The total number of councillors in each local council is not less than 12 members and their term of office is four (4) years. The electoral areas in the localities are wards;
- g) Every ward has a ward committee of at least ten elected members whose main functions are to champion developmental activities within the ward;
- h) Every local council is obliged to appoint committees of Council. It is the responsibility of the committees to initiate and formulate policy on the various sectors for approval by the Council;
- i) In addition, chiefdom administrations in the provinces and tribal headmen in the Western Area, constitute the traditional component of local government administration in Sierra Leone;

The inter-relationships among key stakeholders involved in the overall decentralisation process are depicted in the structure below.



Source: The Decentralisation Policy 2010

1.4 Legal and Regulatory Framework

The legislative framework and to a large extent, the financial and regulatory framework for local governance and local government finance is provided by a series of legislation enacted by Parliament, regulations and manuals, which provide the framework within which the local council PFM operates, and they include:

- i. The Constitution of Sierra Leone, 1991
- ii. The Public Procurement Act, 2004
- iii. The Local Government Act, 2004
- iv. The Audit Service Act, 2000
- v. The Anti-corruption Act, 2000
- vi. The Financial Administration Regulations for Local Councils (draft)
- vii. The Procurement Regulations 2006 and manuals
- viii. The Revised Human Resource Management Guidelines for Local Councils, 2010

The roles, responsibilities and reporting channels for public officials in the management of public funds are now clear. Sanctions for financial misconduct are now included in the FMR and all 19 councils currently have Internal Audit Units established as specified in the LGA. The Internal Audit Units have the role to monitor adherence to internal controls and compliance with the Act, regulations and other financial instructions.

The changes in the FMR include recognition of the computerised accounting system (as in IFMIS), MTEF and District Budget Oversight Committees, PETS, budget classifications to capture transactions at the central and local government levels and internal audit.

Since last year (2009), PETRA Financials accounting software has been introduced in eight (8) of the nineteen (19) councils, with the remaining eleven (11) due to be introduced by the end of this year, 2010³. PETRA Financials is a user friendly and robust Financial Management System with inherent controls and was designed specifically for the use of Governmental Agencies. With the capability of Budgetary Control, Expenditures & Revenue recording and capturing Multidimensional Chart of Accounts, PETRA Financials is considered a powerful tool for Local Government's Financial Accountability and Control.

The LGA is the single most important law covering local government. It is comprehensive in that it focuses on the political, administrative, functional and fiscal aspects of decentralisation. The legislation covers:

- Elections and composition of councils and term (four years)
- Qualifications needed to become a councillor (resident of community)
- Procedures for electing a mayor and chair, as well as removal
- Procedures and process for first Business of Councils, after first elections
- Conducting meetings (relevance and Standing Orders)
- Operation of councils through council committees
- Power of local councils to make and execute byelaws
- Roles and responsibilities of Ministry of Local Government and Rural Development and Ministry of Finance (to be consulted on decentralisation)
- Citizen participation (notices for meetings to be announced seven days in advance)
- Declaration of assets by councillors
- Accounting processes (including asset inventories, printing of receipts etc.)
- Notice board maintenance (to display financial information, procurement and development plans)

The Period 2004-2008 was identified as the transition period for this change in governmental relations and functions, with resources and responsibilities for core services transferred to local councils.

Administratively, local councils have both a political head (Mayor or Chairman) and administrative head (chief administrator - CA). The Chief Administrator is responsible for the management of councils, and all administrative and technical matters. The CA is supported by a Financial Officer, Procurement Officer and

³ At present only Freetown City Council is using PETRA though manual records are also still maintained

Internal Auditor. These principal administrative officers are paid directly by CG, though are frequently supplemented by other officers paid for by LC own revenues. However, the remuneration of the Mayors and Chairmen is noted to be only in the form of allowance, even though they perform an executive role. All councils are also required to set up sector committees to ensure direct oversight over the different services such as education and health.

1.5 Intergovernmental Financial Transfer System

The development of local government required a concomitant increase in funding to local councils. As functions were increasingly devolved, funding mechanisms from central to local level were required, to provide adequate resources (both human and financial) so as to sustain the increased level of service delivery at local level. Such mechanisms were developed to accommodate the required administrative and capacity building at local level. As such, the Local Government Development Grant (untied transfer) slowly increased between 2004 and 2006, as did tied budgeted grants for devolved services, which increased both in overall size and as a share of government expenditure. However, the 2007 election year saw a reduction in revenue budgeted and disbursed, as a result of CG financial constraints.

From 2004 onwards, the Government transferred central government staff to local councils to help ensure administrative and technical ability in line with services that were also being transferred. A capacity building strategy was also developed both at local and central level to effect the required changes. Also, a Local Government Service Commission was introduced to deal with recruitment of competent staff for local councils.

A reliable and transparent intergovernmental fiscal transfer system has been established, though implementation has faced challenges, the most noteworthy of which is the regularity of transfers from CG. Once the overall resource envelope is determined by central government, the distribution of grants to each council is determined through a transparent formula⁴ system. These transfers are essentially divided into tied and untied grants. The Local Government Development Grant (LGDG) is untied within the development budget, and used to finance development projects as well as other LC operations not covered by tied grants. The size of the grant is determined in the formula by indicators such as, population, existing infrastructure and damage sustained during the civil war (though the latter was discontinued in 2009 to reflect current realities). At present the LGDG is funded through the IRCBP project, raising questions over long term sustainability.

Since 2004, local councils have developed their financial records management, through the recruitment of Finance Officers and Accountants, and now generally prepare simple and reasonably acceptable financial statements and accounts. However, there is an urgent need to look into the format of the financial statements with a view to making them more transparent for control and decision making purposes. All Finance Officers are trained and local councils now have skills in budgeting, financial management and procurement.

1.6 Economic and fiscal importance of local government

The LCs have been re-established in Sierra Leone to bring about effective systems of service delivery that will assist the country in achieving its poverty reduction goals and ensuring strong economic growth. They deliver key government devolved functions such as Health Education, Agriculture, Solid Waste Management Services, Rural Water Services and Local Roads. In effect, their establishment will endeavour to bring decision making over services closer to the people. However, in order to be effective in bringing about effective service delivery, quality institutions with adequate human resources would be required. Also, there should be clear cut distinction between the roles of central and local governments, especially with regard to devolved functions (see section 4.0 for suggestions of improvement).

⁴ The formula is set out in the annual document: *Local Governments Equitable Grants Distribution Formulae and Annual Allocations*

1.7 Institutional Framework Pertaining to PFM/ The relationship of Local government to Central Government

1.7.1 Institutional Framework

The role and mandate to supervise, oversee and coordinate the Local Government Authorities is under the direct responsibility of the Ministry of Local Government and Rural Development, and is heavily supported by the Institutional Reform and Capacity Building Project (IRCBP).

The Local Government Authorities are autonomous legal entities governed by elected councils with their own expenditure budgets and revenue resources. The local councils are important vehicles in the provision of public services; they deliver key government devolved functions such as Health Education, Agriculture, Solid Waste Management Services, Rural Water Services and Local Roads.

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 manner, 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.

The primary responsibility of each LC administration is to its elected council. However LCs are also subject to monitoring by Central Government in accordance with the LGA 2004. At the central level there is:

(1) The Ministry of Local Government and Community Development (MLGRD), which includes a Decentralisation Secretariat (DecSec) responsible for policy and regulatory framework and implementation of the decentralization programme;

(2) The LGA2004 section 52 established a Local Government Finance Committee (LGFC) with a mandate according to section 55, 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) The LGA2004 section 35 established a Local Government Service Commission with a mandate for providing regulatory, performance management and management functions to the system of decentralised government established under the Act.

To support and coordinate the decentralization process, the Government with support from the World Bank, the UK Department for International Development (DfID) and the European Union (EU) created the Institutional Reform and Capacity Building Project (IRCBP). The IRCBP has four units with different mandates for the implementation of the decentralization and local governance reform system and they are:

1. The Project Coordinating Unit (PCU) responsible for coordinating the affairs of all the units.

2. The Decentralization Secretariat, which is a Directorate of the Ministry of Local Government and Community Development (MLGCD), responsible for policy and regulatory framework, and implementation of the decentralization programme.
3. The Local Government Finance Department (LGFD), which is a Directorate of the Ministry of Finance also responsible for inter governmental fiscal transfer of funds/resources (administrative and development grants) from the central government to the local councils.
4. The Public Financial Management Reform Unit (PFMRU), also a Directorate of the Ministry of Finance responsible for prudent, transparent, accountable financial management of resources. It ensures that Local Councils comply with the Procurement Act and Guidelines.

1.7.2 LC Revenue

Part VII – Financial Matters of the Local Government Act 2004 Section 45, states that “Local councils shall be financed from (1) their own revenue collections, (2) from central government grants for devolved functions which include (Administration, Health Services, Education Services, Agricultural Services, Solid Waste Management Services, Rural Water Services and Other Services) and the Local Government Development LGDG and (3) from transfers for services delegated from Government Ministries”. (The LGA allows that LCs may also receive transfers for services delegated from government ministries, but so far there has been no delegation.)

1.7.2.1 Local council own source revenue according to the Local Government Act 2004, comprises of:

Taxation Revenue

- Precepts from local taxes
- Property rates

Non Tax Revenue

- Market Dues
- Business Registration
- Licences/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 Minister responsible for finance by statutory instrument.

1.7.3 Local Council Grants and Transfer:

These include three (3) broad types of transfers: Administrative Grants, Grants for Devolved Functions and the Local Government Development Grant (LGDG). The first two are provided for in the LGA2004 and are financed solely from central government. The LGDG is financed by the development partners.

Administrative Grants are provided by central government to help defray LCs’ administrative expenses recognising that many of them are recently established councils and are only now building capacity to mobilise local revenue. This grant must only be used for administrative and supervision activities related to performing local council functions and must not be used solely for the allowances of councillors.

Grants for Devolved Functions are key to LC service delivery. In section 46(2) of the LGA2004, provision is made for transfers in the form of tied grants for each devolved function, in an amount that is necessary to continue the operation and maintenance of the devolved function at its pre-devolution level. In accordance with the Statutory Instruments of November 2004, more functions are being devolved to Local Councils year on year. According to the Government Notice No.83 – Local Government Grants Distribution Formula and Allocation, there is a Conditional Grants Policy Framework for Local Government Grant Distribution.

Local Government Development Grant (LGDG) is an IRCBP Project based fund intended to help councils undertake development projects in their localities. This grant is not specific to any sector and allows discretionary decisions of councils to undertake development projects that meet priority needs of their localities. The LGDG Operations Manual specifies a range of projects for which this grant is applicable or not. This grant program also has a Revenue Effort Component, access to which is conditional on a council contributing fifty (50%) percent of the cost of any additional proposed project, from its own revenue generation. For example, if a certain council is entitled to Le40 million of the Revenue Effort Grant, then it can propose a project whose total cost does not exceed Le80million provided that it can provide convincing evidence that it can finance 50% of the costs of the project in question from its own funds. However, funds allocated per councils will be reverted to a common pool where any council can access it, if councils cannot match their allocations of that year.

2.0 PFM Activities

All Local Councils are engaged in all aspects of PFM activities, though, as the individual reports outline, different aspects display a variety of strengths and weaknesses, with some aspects not applicable to LCs in Sierra Leone at present. PFM activities are broken down into the following:

- Planning and Budgeting
- Funds flow (from CG to LC).
- Accounting and Financial Reporting (including PETRA)
- Internal Audit
- Revenue
- Rates
- Audits (including follow-up)
- Procurement

2.1 Planning and Budgeting

Councils prepare their budgets according to the Medium Term Expenditure Framework 2010 – 2012 (MTEF) format. Six (6) distinct steps were followed as required by Local Government Budget Call Circular No.1 2010, (Circular for submission of budget proposals from local councils) and they are: Planning; Strategising; Preparing; Tabling; Approving and Finalising.

The planning process itself starts with the Councillors' consultation at ward level. According to some of the interviews, these consultative discussions ensured that the local communities' priorities and needs were reflected. A technical committee which includes the Ward Development Committee the development officer and members of the Budget & Finance Committee validates the information together with some other government departmental heads, ensuring the widest participation of stakeholders. This helps ensure that projects comply with national sectoral plans and project criteria. The result of this is a development plan for all the target councils. The development plan was then used as the basis for the preparation of the budgets.

The Local Council Budget Call Circular No.1 2011, issued 19th August 2010, (Circular for the tabling and adoption of local council budget), informed councils of the revised estimates for devolved functions and development grants and the revision of time schedules for key deadlines for the complete submission of the FY2011 budget. The finalised budget is then given to the B&F Committee who then considers it and presents it at a full council meeting for approval.

It should be noted that the chart of account codes are not used in the preparation of the LC budgets. The use of the PETRA Accounts package presupposes the use of the 27 digit chart of account codes, but the package has not been fully adopted as yet, and where it has, the chart of accounts codes are not used as yet.

Although individual units are consulted in the budget preparation process by using their annual work plans in the development of the budget, there remains tension between local officers of line ministries and the LCs which can undermine planning and budgeting for the devolved functions. The transfer of those LM Officers to the LCs to enhance LC capacity for devolved functions is yet to be effected. The general complaint is that those officers are only answerable to their respective line ministries and would come to the LCs only to request the signing of PETS Forms to process tied grants.

Donors/Development Partners make direct transfers to Line Ministries, and as such these are not systematically captured in the budget of the councils, again undermining planning and budgeting.

2.2 Funds Flow

Sierra Leone’s fiscal decentralisation programme is implemented through the intergovernmental fiscal transfer system. A grants distribution framework was developed in 2005, and a formula-based grants distribution is being used according to the provisions of the LGA2004. The formula is updated on an annual basis. Local councils often do not receive the full amount of budgeted transfers and the timing of these transfers is often delayed, again undermining the ability of councils to implement their budget.

The Vertical Pool of funding – the resource envelope - is sector specific and aligned to the GoSL “Agenda for Change” policy. There are two components of the GoSL vertical resource pool – the recurrent and development components. The recurrent component covers the non-salary transfers for devolved functions as well as the operational and administrative running costs of councils. The development component is funded both by the multi-donor trust fund and the GoSL. The funds from the GoSL’s Decentralised Service Delivery Programme (DSDP) are meant to supplement Central Government’s transfer in four (4) sectors: Health & Sanitation, Education, Solid Waste management and Water. The main objective is to improve the timeliness and predictability of transfers to the LCs, as well as reflect government priorities.

These four sectors were determined based on GoSL priority. The table below shows the vertical allocation for the DSDP for FY2010:

Table 4: Vertical Allocation for DSDP

SECTOR	AMOUNT (Le)	TOTAL SHARE (%)
HEALTH & SANITATION	7,300,000,000	25%
EDUCATION	5,840,000,000	20%
SOLID WASTE MANAGEMENT	4,380,000,000	15%
WATER SERVICES	11,680,000,000	40%
TOTAL	29,200,000,000	100%

Source: Local Council Equitable Grants Distribution Formulae & Annual Allocations 2010

In 2004, an attempt was made to indicate an appropriate level of funding for the vertical pool. 10% of government spending was suggested. However, given the changing pace of decentralisation, in particular the increase of devolved functions over the years, it was recognised that stipulating a percentage of government spending would be potentially counterproductive, either for capital or recurrent funding. As a result, the Government attempts to provide an appropriate level of funding (certainly abiding by the requirement that service delivery should not be impaired), though the actual calculation of the vertical pool is not formula based nor transparent.

The Horizontal allocations are based on the provisions of the LGA2004 and are formula based to allocate resources across the nineteen (19) LCs. This is meant to ensure that the resources are distributed in an equitable manner, based on needs and the principle of equity, reflecting cross-council differentials in socio-demographics and capacities. Table 4.2.2 illustrates the distribution among all 19 LCs.

Table 4.2.2

COUNCIL	EDUCATION (Le)	HEALTH & SANITATION (Le)	SOLID WASTE (Le)	WATER SERVICES (Le)	TOTAL DSDP GRANT (Le)
Bo CC	199,940,549	192,927,540	450,899,009	-	843,767,098
Bo DC	425,807,519	344,652,616	97,873,786	779,344,636	1,647,678,557
Bombali DC	420,884,005	352,959,907	77,182,539	1,309,462,757	2,160,489,208
Bonthe DC	187,482,770	157,809,373	28,337,773	554,428,638	928,058,553
Bonthe Municipal	30,719,281	91,308,900	21,109,840	21,648,027	164,786,048
Freetown CC	515,200,748	807,158,240	1,841,460,521	-	3,163,819,509
Kailahun DC	392,649,282	552,107,092	177,037,051	911,112,912	2,032,906,337
Kambia DC	363,790,577	468,724,008	97,678,564	1,144,848,797	2,075,041,946
Kenema CC	193,153,731	140,214,503	380,781,541	-	714,149,775
Kenema DC	463,164,163	412,489,946	160,618,735	854,060,548	1,890,333,392
Koinadugu DC	323,563,883	579,739,365	50,937,361	955,451,690	1,909,692,298
Kono DC	300,346,324	255,464,707	74,100,677	780,180,358	1,410,092,066
New Sembehun CC	112,763,511	243,740,938	142,751,444	-	499,255,894
Makeni CC	108,697,362	75,598,783	223,809,489	-	408,105,634
Moyamba DC	246,482,55	463,461,418	64,800,255	705,957,703	1,480,702,231
Port Loko DC	524,244,539	935,176,218	151,379,730	1,352,882,879	2,963,683,367
Pujehun DC	249,302,338	360,445,022	48,441,163	663,407,366	1,321,595,889
Tonkolili DC	511,652,338	668,042,444	118,690,061	989,805,279	2,288,190,122
Western Area Rural DC	270,154,224	197,978,980	172,110,460	657,408,412	1,297,652,076
NATIONAL TOTAL	5,840,000,000	7,300,000,000	4,380,000000	11,680,000,000	29,200,000,000

Source: Local Council Equitable Grants Distribution Formulae & Annual Allocations 2010

2.3 Accounting and Financial Reporting (Including PETRA)

Eight (8) out of the nineteen (19) councils have installed the PETRA Financial Accounting Package as the main PFM application for accounting and reporting purposes, with the remaining eleven (11) LCs planned to be implemented by the end of the year 2010. PETRA was introduced early in 2009 and the approach was to pilot the software in three (3) Local Councils. The pilot programme was successful and PETRA was subsequently extended to the implementation in Five (5) additional councils (Bo District Council, Freetown

City Council, Kenema District Council, Koinadugu District Council and Kono District Council). Early in 2010 February, a refresher course for the Finance Officers & Accountants of all eight (8) LCs which PETRA had been implemented was conducted by Lennap Services Ltd, organised by the PFMRU with the objectives of the training as follows: as a refresher course on the use of the PETRA Accounting Package; to update them on the new functionalities of the system; to obtain feedback from them on their 8 and 12 months experiences on the use of the package; and to identify new developments that might be needed to the package.

We noted that a “roll-out training” course by Lennap Services Ltd, and organised by the PFMRU IPFMRP was conducted for a further three (3) LCs and staff of the LGFD in March 2010, but as at the time of this review, PETRA had not been implemented in those councils. The objective of the training was: to introduce the PETRA Accounting Package as the tool used by the Local Councils Finance Officers & Accountants and staff of the LGFD; for the production of the Financial Statements; to enable the Finance Officers & Accountants and staff of the LGFD, to fully understand the relationship between the 27 digits Chart of Account Code within PETRA; to enable the Finance Officers & Accountants and staff of the LGFD understand the nature and content of the various reports generated through PETRA; to enable the Finance Officers & Accountants and staff of the LGFD, understand the enhanced PETRA v.3.0.1; to enable the Finance Officers & Accountants and staff of the LGFD understand the use of PETRA generated reports in Expenditure Control and Allocation Monitoring; to obtain feedback from the Finance Officers & Accountants and staff of the LGFD on the use of PETRA; to obtain ICT Knowledge needed in the use of PETRA; and to identify areas in which PETRA could be further enhanced. (See Annex IV – PETRA Training Manual).

The PETRA Financial Accounting package has been developed and married with the GFS/COFOG compliant IFMIS used in central government so that there may be a consolidation of LC accounts with central government accounts in the future (as yet no LCs use the PETRA chart of accounts). Key to this is the use of the twenty seven (27) digit chart of account codes. Within PETRA, this is captured in a coding block which is used to classify and track spending on the following Dimensions: Cost Centre; Fund Source; PSRSP Activity; Location and the Object Code.

The functionalities and controls in the PETRA Financials are as follows:

Systems Admin Module – the System Admin Module is used by system administrators or super-users (PFMRU Unit) to define and create the master data of the system such as User Security, Bank Accounts, Suppliers, etc. We noted that access to this module was given to limited users only, the information that are defined in this module is very critical and will affect the behavior of all the functions in the system.

Budget Controls Module – the Budget Control Module is potentially (not in practice as yet as controls are generally manual) used to create all levels of budget controls, i.e., the Annual Budget and the Quarterly Ceiling. We noted that the Annual Budget is usually created on higher level of the COA and it provides the basis for the Quarterly Ceiling. The Budget Control Module includes the Budget Summary Report for all level of budget.

General Leger Module – the General Ledger Module is a core module where all financial transactions (Journal Vouchers, Expense Vouchers and Revenue Vouchers) are being captured. In this module, the user can create Journal Vouchers, produce Financial Statements and perform Bank Reconciliation.

Expenditures Module – the Expenditures Module is used to record all the expenditures for the LCs. We noted that the system has inherent budget controls wherein expenditures inputted could not exceed budget levels set within the system. The review noted that this is a very good potential control mechanism.

Revenue Module – the Revenue Module is used to record all the revenue transactions for the LCs.

Audit Trail – the Audit Trail is a function which tracks every transaction/tasks performed within PETRA. It details the user, the time and date, and the list of all critical changes such as creating, deleting and updating transactions that happened in the system and is usually used for auditing purposes.

2.3.1 Manual Accounting System

A General ledger and cash book system, aided by spreadsheet is maintained in eleven (11) of the remaining LCs where PETRA has not yet been put into use. In general, there seem to be adequate internal procedural controls in the LCs. All the LCs maintain manual cash books (Receipts and Payments) and some of them also keep electronic spreadsheet 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 simple system recommended by the PFM Reform Unit. A manual hard copy Vote Service Ledgers is in operation in two (2) of the LCs. Other LCs systematically check actual spending against the budget.

Numbered payment vouchers are used for all expenditures and are correctly completed and authorized by the Chief Administrator and the Finance Officer. Controls over the bank accounts are adequate with each cheque requiring three (3) signatories - the Chairman, CA and the Treasurer. Four (4) signatories are required for devolved function bank accounts, the fourth being the head of the appropriate department. Monthly bank reconciliations are carried out though not entirely satisfactory.

All LCs now have an Accountant in addition to the Finance Officer which was previously not the case and as a result, there was no segregation of duties in the finance department. The then Treasurer was 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.

There is 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. Further comments on this will be provided in individual LC reports.

Even though the PETRA system has been in use in eight (8) LCs for between 12 and 16 months, the system is not “real time”. Transactions are posted into the system after the event. Real time recording of transactions in the future (as in the case of the IFIMIS system used at CG), should be a priority for implementation.

2.4 Internal Audit

All 19 councils currently have an Internal Audit Unit established as specified in the Act. This is an improvement from the 2007 PEFA which noted that only the FCC had an IA unit. The IA units have the role to monitor adherence to internal controls and compliance with the Act, regulations and other financial instructions. The review noted that for all the LCs except the FCC, the Internal Audit Unit is staffed by only one person. In particular, we found in the KCC that the IA was inexperienced and without the proper qualification in accounting and auditing, required to carry out his duties. Also, we noted that IA has not been properly equipped in terms of logistics needed to carry out his work. Since he was recruited in July 2009 his office was not supplied with a computer and he has never issued an audit report.

The Internal Audit Unit of the FCC comprises 9 (nine) audit staff, including the Head and a Deputy. Staff in this unit has relevant experience and qualification in accounting and auditing, and have attended at least three audit training workshops organised by the Internal Audit Unit in the Ministry of Finance. Internal Audit Manuals based on international auditing standards are available⁵ and are being used, although there is need to develop audit manuals tailored for Local Government.

⁵ September 2006

The Internal Audit Unit prepares an annual work plan which is being followed and audit reports are issued. The Mayor and the Chief Administrator place heavy reliance on pre-audit checks carried out by the Internal Audit Unit before cheques are being signed. This is an apparent weakness in the system as the IA should not be directly responsible for applying financial controls, as doing so weakens the proper oversight role on behalf of the executive. Thus, there are many pre-audit checks carried out by the unit making it part of the control process and reducing the focus on necessary risk-based auditing. In the absence of audit committee within council, the Internal Auditor reports to the Chief Administrator, who is also an auditee. But nonetheless, the Mayor is said to be keen on audit reports and would call up meetings to discuss audit findings and recommendations. Usually, audit recommendations are being followed up and are said to be implemented within six months.

2.4.1 Issues Arising

1. The Internal Audit Departments are poorly staffed and not sufficiently trained. Given that the Decentralisation Process is advanced and the amount of transfers to the LCs are significant, proper Internal Controls need to be in place for effective running of the LCs.
2. Proper logistical support is not provided for the IA to carry out their duties.
3. The IA's report to the CA on all matters where it concerns the LCs, but then reports to the Mayor when it concerns the CA, with this function supplemented by external audit.
4. We note that there are no Audit Committees in place in most of the councils.

2.5 Revenue/Rates

The Revenue Assessment and Collection in LCs is headed by a Principal Revenue Co-ordinator or the Finance Officer. The major sources of revenues are:

- Property Taxes – City Rates
- Municipal Licences for Businesses and market due
- Local Tax (a head tax for each adult)
- Fees and Other Charges
- Diamond Area Development Fund

Assessments for Property Taxes in City Councils are carried out by a Valuation Unit in some LCs (e.g. FCC), and in others by a Valuation team working with the FO (e.g. MCC, BCC). The valuation of properties requires attention in most LCs as it is still based on valuations from many years ago. There are also concerns with regard the capture of all eligible properties (FCC estimates suggest only a 23% capture rate). Arrears also present problems, being sourced through manual ledgers and applied arbitrarily at times, some going back decades. The system developed in Bo CC appears to be a reasonable solution for most LCs, with software being used to record properties and payments, in tandem with up to date property surveys and valuations. The system is being rolled out to other LCs (including Makeni and Kenema) at present. The policy followed by Bo CC of writing off arrears before the initiation of the new system also seems appropriate given the past poor record keeping of arrears and the ad hoc nature of their collection.

Licenses for businesses and market dues also require clarification. Many businesses claim that their HQ payments in Freetown enable them to waive licence fees in the provinces. Market dues are also a source of contention with many chieftaincies with collections and dues sometimes shared, and sometimes in dispute.

City councils do not collect local tax with the exception of FCC. It is collected by chieftaincies and then shared with LCs. Local Tax in FCC again presents collection problems. In the absence of ID cards, collection is either voluntary (which works to an extent for public servants and during election years when Local Tax payment cards are required for voting purposes), or arbitrary with municipal police "searching" citizens in public areas or at roadblocks. Those without papers are required to pay or are taken into custody, even if they have forgotten their papers or do not live in the relevant municipality. One wonders, given the

low rate of Local tax (about Le 5,000), whether the cost of enforcement is worth it. No doubt all councils would benefit to a greater extent if they concentrated on property tax collection, which yields potentially greater revenue than other taxes. Legislation further complicates collection as it does not stipulate that women should pay local tax, though this has emerged as normal practice in recent years.

The Diamond Area Development Fund is a major source of revenue in qualifying areas. The fund is paid into by businesses and proceeds shared between the local council and chieftaincy. Payments from the funds are irregular and of unpredictable size. Of the five councils studied only Kono District Council benefitted from this fund.

2.5.1 Computerised System of Rates & Licences Valuation and Assessment

We found a computerised system of rates and licences assessment and valuation in operation in the KCC, BCC and MCC. The system used is a valuation and licence assessment software developed by a Swedish International Consultant and hired by BCC.

2.5.2 Manual System of Rates & Licences Valuation and Assessment

Demand notes are sent to property owners every year detailing computation of tax liability, including tax arrears (sample was provided). Penalties are being instituted for tax arrears owed and these are shown clearly in the Demand Notes as Poundage (specific penalty for property tax). With the use of the manual system of capturing property taxes through huge rates ledgers maintained in the Rates Section, there is no proper tax identification system, except by house address. Also, there are serious concerns about delays in updating the Rates Ledgers, which is an issue of concern for councils. Regularly, there are radio discussions (two every week) and TV discussions (fortnightly) to discuss revenue collection. Tax appeals may be done through the Chief Administrator and there are no independent appeal mechanisms being established.

2.6 Audits and Follow-up on audits.

Audit Reports on all 19 local council audits for the period 2004 to 2008 are only now being issued, with the audit of 2009 of the local councils in progress. The review noted however, according to the Director of the PFMRU, that none of these reports have been tabled before Parliament. The LGA2004 S80(3) requires that “The Auditor General shall submit a report of the audit to the local council and the Minister for Local Government”. This has been a source of conflict between the ASSL and the LG Minister. We were led to understand that moves are being made to amend the section of the Act, to enable the ASSL to submit the reports directly to Parliament, instead of to the Minister.

It is our view that the current difference between the ASSL and the Minister for Local Government, regarding the laying of the reports before Parliament is a moot point. The LGA 2004 S81(5) stating “The accounts and the Auditor General’s report thereon shall be public documents and shall be posted in a conspicuous place in the locality for public scrutiny” , provides sufficient legal backing for the 2004 – 2008 audit reports to be tabled in Parliament by the ASSL immediately since they have become public documents. This review believes that no amendment of the Act is needed in this respect, given the current level of implementation.

2.7 Procurement

The National Public Procurement Act, 2004 established the National Public Procurement Authority (NPPA) to regulate and harmonise public procurement processes in the public service, including local councils, to

decentralise public procurement to procuring entities, to promote economic development, including capacity building in the field of public procurement by ensuring value for money in public expenditures and the participation in public procurement by qualified suppliers, contractors, consultants and other qualified providers of goods, works and service and to provide for other related matters. Regulations to give effect to the Act and Manuals are in place.

Procurement committees have been established in all local councils, chaired by the Chief Administrator with the procurement officer as secretary. The committee includes membership from the procuring unit in the associated MDA, usually the programme manager making the requisition for the goods or services relevant for the LC. It should also be noted that procurement officers in LCs are all specifically trained to be Procurement Officers, in contrast to the LMs where Procurement Officers are often LM officers with other specialisations who have been given the procurement responsibility.

Information on tenders and contract awards are published by Local Councils on notice boards in conspicuous places at the Council Offices and various wards in the localities. Radio stations are also used to air notices of such tenders & contract awards.

A procurement complaints mechanism is in place through the Independent Procurement Review Panel (IPRP). The CA is the first point to handle complaints before escalating to the IPRP if it cannot be resolved. Clear timelines are stipulated in Part VI – Complaints Procedure in the NPPA, 2004. There has never been an occasion where this has been used with respect to LCs. At CG level, it is deemed that whilst the complaints mechanism is well defined, implementation is weak and significant levels of capacity building and resources will be required to establish this more credibly and with actual and perceived independence of the IPRP.

The procurement of items, which have been a result of direct transfers by Line Ministries, does not fall under the direct jurisdiction of the LCs. These items (such as drugs and medical supplies, and textbooks and teaching materials) are procured centrally in bulk and distributed to the LCs based on the Grant Distribution Formula, even though the funds had been provided for as tied grants in the budget estimates of the LCs. However, information on the value of items transferred are normally not presented to the LCs in sufficient time, and thereby not accounted in their financial statements, making it difficult to compare actual spending with budgeted amounts.

3.0 Aggregation of Results

The individual council results are presented in the table below

A. PFM-OUT-TURNS: Credibility of the budget		FCC	BCC	KCC	MCC	KDC
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	D	D	D	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C	D	C	D
PI-3	Aggregate revenue out-turn compared to original approved budget	D	D	D	D	D
PI-4	Stock and monitoring of expenditure payment arrears	NR	NR	NR	NR	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						

PI-5	Classification of the budget	C	D	D	D	D
PI-6	Comprehensiveness of information included in budget documentation	D	D	D	D	C
PI-7	Extent of unreported government operations	D+	A	D+	A	A
PI-8	Transparency of inter-governmental fiscal relations	n/a	n/a	n/a	n/a	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a	n/a	n/a	n/a	n/a
PI-10	Public access to key fiscal information	C	B	C	C	C
C. BUDGET CYCLE						
C(i) Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	C	C+	C	C	C
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	D+	D+	D+	C
C(ii) Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	D	C	D+	D+	D
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D	C	C	C	NR
PI-15	Effectiveness in collection of tax payments	NR	D+	NR	NR	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D	D	D	D	D
PI-17	Recording and management of cash balances, debt and guarantees	D+	C	C	C	C
PI-18	Effectiveness of payroll controls	D+	C+	B+	B+	C+
PI-19	Competition, value for money and controls in procurement	A	A	A	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	C+	C+	C+	C
PI-21	Effectiveness of internal audit	D	D	NR	NR	D+
C(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	A	A	A	A	D
PI-23	Availability of information on resources received by	D	D	D	D	D

	service delivery units					
PI-24	Quality and timeliness of in-year budget reports	NR	NR	NR	NR	NR
PI-25	Quality and timeliness of annual financial statements	C+	C+	C+	C+	C+
C(iv) External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	NR	D+	NR	NR	NR
PI-27	Legislative scrutiny of the annual budget law	D+	D+	D+	D+	D+
PI-28	Legislative scrutiny of external audit reports	NR	NR	NR	NR	NR
D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	n/a	n/a	n/a	n/a	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	n/a	D	D	D	n/a
D-3	Proportion of aid that is managed by use of national procedures	n/a	A	A	A	n/a
E. CG PRACTICES						
HLG-1	Predictability of Transfers from Higher Level of Government	D+	D+	D+	D+	D+

Whilst it is important to study the individual results of each LC, it is also instructive to pick up themes of PFM strengths and weaknesses from the aggregated results which are presented in the table below. The PEFA recommendation is to present both the mean and the mode as given below:

A. PFM-OUT-TURNS: Credibility of the budget		LC Mode	LC Mean
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	D+
PI-2	Composition of expenditure out-turn compared to original approved budget	D	D+
PI-3	Aggregate revenue out-turn compared to original approved budget	D	D
PI-4	Stock and monitoring of expenditure payment arrears	NR	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	D	D+
PI-6	Comprehensiveness of information included in budget documentation	D	D+
PI-7	Extent of unreported government operations	A	C+
PI-8	Transparency of inter-governmental fiscal relations	n/a	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector	n/a	n/a

	entities.		
PI-10	Public access to key fiscal information	C	C+
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	C	C
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	D+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	D+	D+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	D+
PI-15	Effectiveness in collection of tax payments	NR	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D	D
PI-17	Recording and management of cash balances, debt and guarantees	C	C
PI-18	Effectiveness of payroll controls	C+	C+
PI-19	Competition, value for money and controls in procurement	A	A
PI-20	Effectiveness of internal controls for non-salary expenditure	C+	C
PI-21	Effectiveness of internal audit	D	D
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	A	B+
PI-23	Availability of information on resources received by service delivery units	D	D
PI-24	Quality and timeliness of in-year budget reports	NR	NR
PI-25	Quality and timeliness of annual financial statements	C+	C+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	NR	NR
PI-27	Legislative scrutiny of the annual budget law	D+	D+
PI-28	Legislative scrutiny of external audit reports	NR	NR
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	n/a	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	D
D-3	Proportion of aid that is managed by use of national procedures	A	A
E. CG PRACTICES			
HLG-1	Predictability of Transfers from Higher Level of Government	D+	D+

The results above reveal the following salient features of LC PFM:

3.1 Credibility of the budget

The credibility of the budgets at LC level is weak. Both expenditures and revenues display weakness in estimation. This has been explained by the irregularity of CG transfers as witnessed in HLG-1 (though this is improving) and also optimistic own revenue collection estimates, which to an extent, reflects the disputes surrounding collections of market dues and property/business taxes, as well as weaknesses in the collection methods of property taxes. Regarding expenditures, it is still the case that there are areas of expenditure associated with devolved functions, over which the council has still not managed to assume full control vis-a-vis the relevant Line Ministry.

Arrears are, in the main, claimed to be non-existent as invoices are paid shortly after presentation, though some local councils have a weak system for documenting arrears which do arise, which gives cause for concern as the LC budgets and responsibilities increase.

3.2 *Comprehensiveness and Transparency*

Comprehensiveness and transparency are also weak though some positive signs are displayed. Budget classification is weak with manual systems still in use, though PETRA accounting software is in the process of being rolled out which will marry local accounting systems to CG systems, which would therefore assume a C score for classification given the CG's compatibility with GFS/COFOG.

LCs are not accustomed to presenting comprehensive budget documentation. Given the lack of credibility of the budget, the incentive to compare budgeted to actual expenditure is low both during the year and also during budget preparation, though regulations may require such comparisons. However, many aspects of improving comprehensiveness can be relatively easily addressed.

Unreported government operations are minimal in both non-donor and donor interventions.

There are no transfers to lower levels of government, nor to other public sector entities set up by local councils.

Public Access to LC financial information is, on the whole, admirable, given the size of the LC operations, and lack of LC websites. Appropriate information is regularly posted on notice boards on a monthly basis. Large documents such as the budget cannot be posted, so if this score is to be improved it would be important to develop websites to provide public access, though summary analysis of the budgets could at least be posted on the notice boards.

3.3 *Policy-Based Budgeting*

LCs follow a budget process prescribed by the CG and therefore have little need to prepare their own calendar or processes (Bo CC being a notable exception). This will change as operations become more sophisticated, particularly as untied revenues increase and departments require ceilings not only determined by the CG. There is lip service paid to a medium term budget in that estimates of revenues and expenditures are provided in budget documentation. However, outer years are often simple percentage add-ons and are not used in planning for purposes such as estimating future recurrent costs of maintenance of projects; though such sophistication is maybe misplaced given the relatively small budgets LCs operate with at present. Weakness in this area reflects weakness at CG level where MTEF development is still in progress.

3.4 *Predictability and Control in Budget Execution*

Tax coverage and collection are a bone of contention in all LCs. A degree of confusion exists regarding the ownership of some taxes vis-a-vis chieftaincies (market dues, local tax). Databases of taxpayers are weak though are improving along the lines of Bo CC's efforts in using property tax software. Unsurprisingly, the recording, monitoring and collection of arrears are generally weak.

Accounting practices are in general rudimentary though reasonably effective given the size of LC operations. However, they will require strengthening, as operations increase. Reconciliation is usually good, though predictability of funds not so.

Payroll controls are appropriate for levels of staff at LCs (excepting Freetown CC). Control of the payroll software is in the hands of one officer, enabling an audit trail of any changes made. Full payroll audits are not

made, though with small levels of staff it is debateable whether this is a priority at this stage of the reform process.

Procurement is strong, reflecting the CG system, though does not always cover all expenditures for which the LC is legally responsible for, as LMs still use their own procurement officers, despite the higher level of training of LC procurement officers. The complaints mechanism is weak, reflecting the weaknesses of the CG system, though in practice, this has not been an issue, as no complaints have been forwarded to the CG mechanism in the 5 LCs visited.

Systems of control over non-salary expenditure are reasonably strong though can be undermined by political influence or the absence of qualified finance staff. Also, the issue of unrecorded expenditure arrears, as expenditures are recorded on cash basis, may pose a risk of budget over expenditure or of being used to circumvent budgetary controls.

Internal audit is in its infancy. Officers are often in post for a relatively short amount of time. Occasionally the CA will view the IA as an essential partner in strengthening PFM, but in some cases the IA is viewed as an extra administrative burden, and they are marginalised from the LC management team (again Bo CC is the exception to this generalisation). A formal link with the MOF IA would serve to assist LC IAs in carrying out their duties and also sensitise LC management to their value. In some cases, the IA has had little access to a computer and a private office.

3.5 *Accounting, Recording and Reporting*

Accounts are maintained with regular monthly bank reconciliation, but in-year budget reports are nonexistent and annual financial statements display weaknesses in coverage. Information provided to service delivery units is not regularly given, though LCs appear refreshingly willing to provide such information, but are often beholden to LM representatives when goods or services are delivered, sometimes being unaware of deliveries in their own area.

3.6 *External Scrutiny and Audit*

External scrutiny is weak regarding audit as this is the first year when audit reports have been produced and, as yet, have not been circulated within the LCs. It remains to be seen how effective scrutiny will be. Scrutiny of the budget is also weak and reflects weak knowledge amongst councillors, as well as the prescribed nature of much of the budget from the CG. In addition, it appears that councillors are still used to a situation whereby it is more important to lobby for expenditures as needs arise rather than plan for them in the budget. Training and sensitisation is required therefore for councillors as well as the establishment of Council Accounts Committees or similar.

3.7 *Donor Practices*

There is no direct budget support from Donors. Information provided by donors is haphazard. It is more likely that LMs are informed of donor interventions than LCs. Donor support to LCs is minimal, though where it occurs there have been positive experiences of using LC procurement (such as KCC).

4.0 Assessment of the Challenges or Prospects for Success of the Reform Program

Although the Decentralisation Reform Programme has completed its transition phase, many challenges remain for the deepening of decentralization. Many elements of the required architecture for decentralization have been established. Indeed, given that decentralization only started in earnest in 2004, the progress made has been remarkable in some areas (PI-10, 11, 13,17,18,20 and 22). However, full control of budgets, planning and associated accountability still requires strengthening. The most important areas requiring attention in the future appear to be:

- Predictability and delivery of resource transfers from CG to LCs
- Clarity regarding the potential own revenue sources of LCs
- Full transfer of ministerial budgets to LCs enabling the provision of decentralized service delivery. In this regard, it is also recommended that the Officers of line ministries (stationed in the LC areas) are fully accountable to LCs
- Strengthened PFM at LC level, in particular:
 - The Strengthening of development plans including the incorporation of robust sectoral plans aligned with national sectoral plans where existing
 - Improved estimation of own source revenues
 - Continued improvement regarding tax registration and collection
 - Improved budget classification which should be resolved as PETRA is rolled out
 - Finalisation of the draft financial management regulations
 - Improved policy-based budgeting which should be facilitated as LCs assume more control over policy and resources
 - Consolidation of Internal Audit functions
 - Significant strengthening of in-year budget reports and refinement of financial statements, with appropriate presentation formats developed
 - Significant strengthening of external scrutiny, particularly the training of councilors to fully understand PFM processes and responsibilities.
 - The full assimilation of local donor support into LC budgets (rather than line ministry budgets)

Whilst many of these areas are highlighted above and in the individual reports, it is worth pinpointing areas which are critical for the success of the reform programme. In some respects the weaknesses represent a “chicken-and-egg” situation whereby responsibilities are not handed over to LCs as their PFM systems are not regarded to be robust enough, but then the incentive for the systems to develop is not there as they have little room for maneuvering within the budgets allocated. A pertinent example in this regard concerns the predictability of funding from the CG. Whilst this is improving, it is still far from acceptable and provides a serious disincentive for LCs to prepare even robust annual budgets, never mind medium term budgets, as they are aware that any robust budgeting is likely to be significantly undermined by late or reduced transfers. It therefore seems pertinent to point out that transfers are aimed to be made at mid quarter. This results in LCs operating between January 1st and February 15th with no resources other than own revenues, hardly a recipe for efficient service delivery during this period. Also, the format for Budget Submissions should be reviewed to ensure transparency and an improved standard of presentation. The LGFD should also assist the LCs in carrying out quality checks on their Budget Submissions so as to correct errors and mistakes before finalization.

Responsibilities for service delivery, whilst assumed in law, have not been fully assumed in practice. Unsurprisingly, line ministries (to varying degrees) are reluctant to transfer responsibilities and budgets to LCs. Whilst tied grants have been made to LCs, there are varying degrees of control over the use of these tied grants at LC level, which includes carrying out procurements without the involvement of the LCs. This

partially reflects the lack of expertise beholden to LCs in the respective sectors. In general, line ministry staff stationed in LC areas, still resides in ministerial offices rather than council offices, interact more with ministerial superiors rather than LC officers or councilors, and control most of the donor resources targeting to the locality. Much of the contact with the LCs is with regard to securing the release of the tied grants and the supply of goods procured by the respective line ministry on behalf of the LCs (without their involvement). In essence, LCs receive tied grants and pay local bills but assume not much control in service delivery. A simple resolution of this issue would be to ensure that all local staff (of line ministries) are accommodated in council offices and are fully responsible to the LC. Interactions with ministries should only be at the level of ensuring that local sectoral plans are compatible with national plans.

Much of the required improvements in PFM performance at LC level can be accommodated through existing training and supervision emanating from the Ministry of Finance: PETRA will be rolled out and improve accounting control and reporting; revenue software will also be rolled out and controls therefore improved; development officers will receive continued training to improve development plans and their co-ordination with sectoral plans; finance officers will improve on in-year budget reports (especially if budgets become a more realistic predictor of reality), and financial statements. With regard to Financial Statements, there is urgent need to improve their quality of presentation and to ensure adequate level of transparency by developing an appropriate presentation format for Local Councils.

Areas which may require more fine-tuning in regard to future plans include Internal Audit and External Scrutiny. At present LC internal audit officers are accountable to the Ministry of Local Government. Many are not provided with appropriate resources by LCs. It is possible that senior management has not fully appreciated the usefulness of internal audit, but has noted the potential for officers to reduce any existing flexibility in LC PFM. This is particularly so in LCs which display political interference by councilors over expenditures. Given the expertise of the Internal Audit Department at the Ministry of Finance, it may be appropriate that LC IA officers should also report to the Ministry of Finance. Training and comments on reports as well as an advice desk would be a useful resource. No doubt this would require extra funding for Internal Audit in the Ministry of Finance.

External scrutiny by councilors has not appeared to have been addressed at all, beyond the legal requirement that it should happen. As at CG level, the awareness of politicians of PFM is sketchy at best. Training is required, though this will be of greater importance as LCs assume greater responsibilities and their discretion over prioritization increased.

Annex 1 List of Contacts

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Sub National Governments

Individual Local Council Report 1

FREETOWN CITY COUNCIL

Background

Freetown City Council is a local government authority established pursuant to the Local Government Act 2004 to provide administrative control in the Freetown Municipality, which comprises 49 councillors and a Lord Mayor as Head. The current Lord Mayor is Herbert A. George-Williams.

Freetown City is one of the oldest cities in West Africa at over 220 years old and is home to the deepest port in West Africa as well as the oldest College south of the Sahara –Fourah Bay College – which has over the years earned the accolade of the Athens of West Africa. Freetown city is the capital and largest city in Sierra Leone with a population estimated at 772,873 people⁶. This number is now said to have increased considerably, though there exist no robust current estimates. The city is an ethnically diverse city with significant numbers of virtually all the country's ethnic groups. It is characterised by over hanging mountains and very beautiful sand beaches, providing abundant opportunities for investment and tourism.

⁶ Population and Housing census 2004 conducted by Statistics Sierra Leone

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		FCC
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	C
PI-6	Comprehensiveness of information included in budget documentation	D
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of inter-governmental fiscal relations	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	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	D
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D
PI-15	Effectiveness in collection of tax payments	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	D+
PI-18	Effectiveness of payroll controls	D+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	NR
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	NR
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	NR
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	n/a
D-3	Proportion of aid that is managed by use of national procedures	n/a
E. CG PRACTICES		
HLG-1	Predictability of Transfers from Higher Level of Government	D+

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of the Freetown City Council at September 2010. The Report follows the SN PEFA methodology and should be read alongside the Sub-National Government Summary Report which draws out themes common to all the LCs assessed.

Based on the PEFA training materials, the consultants carried out a day's training workshop for the FCC officials assigned to the PEFA exercise (Mayor, CA, Treasurer, Procurement Officer) in August 2010, to prepare them to assist with the assessment.

The draft report was circulated in November 2010, and benefitted from comments from the Freetown City Council, Government of Sierra Leone, its development partners and by the PEFA Secretariat in Washington DC.

(i) *Integrated assessment of PFM performance*

1. **Credibility of the Budget**

This group of indicators (PI-1 to PI-4, CG1) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

FCC displays weak budget credibility both in terms of expenditures and revenue.

Actual expenditure falls short of budgeted in 2007 and 2009 but is significantly above budgeted in 2008, mainly as a result of funds received from FCC's Investment abroad. This reflects, somewhat, the irregularity of transfers from Central Government, as well as overambitious revenue collection targets.

Also, in 2009, an excess of expenditure over income in the region of Le1,997 million was recorded and was financed by an increased overdraft facility (despite the supposed inability of LCs to borrow without the agreement of the Ministry of Finance – a source of dispute at present).

Revenue collection displays a similar trend, falling short of targets in 2007 and 2009 but surpassing the target in 2008.

Central government transfers fell short of forecast in all 3 years.

FCC does not have a reliable system for assessing its arrears, though this is currently being addressed.

2. **Comprehensiveness and transparency**

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

FCC is using the PETRA accounting system which is compatible with the CG chart of accounts, which in turn is GFS/COFOG compatible. Budget documentation is rudimentary, though could easily be improved if previous years' budgeted and actual expenditures and revenues were included. All FCC operations are reported on, though the capturing of donor projects is not currently a major problem for FCC as they are still, by and large, channelled through ministry budgets, despite the supposed devolution of responsibility to the LCs. However, one JICA project was channelled through FCC and not fully reported on, resulting in a poor score for this indicator. Of the required information for public access, only procurement contracts were posted on notice boards. A web site would facilitate the posting of more information.

3. Policy-based budgeting

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

FCC displays weak policy based budgeting. It has not initiated its own budget calendar and circular, though does adhere to the CG calendar and circular, and the medium term perspective is weak. This reflects, to some extent, the lack of budget credibility.

The budget calendar is determined by the deadlines set by CG. As such there is no FCC budget calendar or circular sent to departments. However, the council does approve the budget before it is sent to the CG.

Forecasts are made for three years but are simple "increments" on the coming budget year. There is no linkage between the development budget and recurrent implications.

4. Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

FCC exhibits some basic controls on revenues and expenditures, with procurement a particular strongpoint. Tax procedures are weak, including the complaints mechanism. Tax registration is manual and arbitrarily enforced. Penalties for non-payment of property tax are high but as yet have not been enforced. Tax audits are not undertaken. The collection of tax arrears is not made due to insufficient records, and FCC Treasury has weak controls on payments made internally. It simply accepts what is transferred to treasury. A recent IA report pinpointed this area as a weakness within FCC.

No cash flow planning occurs with the resulting lack of resource availability knowledge for departments, inhibiting their budgeting. Adherence to the budget is therefore minimal with frequent reallocations made in a non-transparent manner. Cash balances are reconciled on a monthly basis. FCC is not legally able to contract debt though it has managed to negotiate a Le 6 billion overdraft without the knowledge of the Ministry of Finance.

Payroll controls are mostly strong, with a clear audit trail to changes and adjustments made in a timely manner. However, the lack of a payroll audit undermines the other strong controls.

Procurement is strong with well trained officers following a strong central system. Open competitive bidding has been used for all procurements except one, where accelerated procedures were correctly followed.

Controls on non-salary expenditures are strong for CG tied grants but are not strong for own revenue expenditures. Emergency procedures are often followed with political expediency cited as a reason for such emergencies. A manual for procedures is currently being developed which should strengthen controls. Internal audit is only now becoming a key institution in FCC. Staff are well trained and follow an audit plan. Management response to IA findings occurs, though with delays.

5. Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

Bank reconciliation is carried out on monthly basis and filed.

No systematic information is provided to service delivery units on items delivered.

In year budget execution reports are not presented, relating back to the weakness in budgeting above.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. The basis of accounting used is the cash basis. However, comparisons with budgeted amounts are not provided in any of the financial statements for the past three years (2007 – 2009).

6. External scrutiny and audit

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

Audit reports for the financial years 2005 – 2008 are only now being submitted to Council by the Auditor General. Legislative scrutiny of the budget law occurs though it is possible that councillors require training to improve their contributions to such scrutiny.

7. Donor Practices

Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

FCC received no donor support during the review period

8. Transfers from Higher Level Government

This indicator assesses the predictability of inflows of transfers from CG. The regularity of inflows can affect the SN government's fiscal management and its ability to deliver services.

CG transfers to FCC were lower than forecast in 2007 by 76%, by 47% above in 2008 and lower by 8% in 2009, impacting on expenditure composition. Transfers are made irregularly, mostly in the first quarter in 2007, second quarter in 2008 and more evenly in 2009.

(ii) Assessment of the impact of PFM weaknesses

Weaknesses can be summarized as:

- Budget Planning
 - Planning and budget formulation is weak. There is need to improve planning and budget formulation in FCC to fully reflect policy priorities established through the MTEF, as well as realistic revenue forecasts. Specific attention needs to be directed at formulating a costed development plan and associated sector strategies. To facilitate this. It is important to fully devolve sector responsibilities from the line ministries, given that currently, line ministries still dominate sector planning. The consequence of these weaknesses are that resource allocation linked to priorities is ineffective and FCC allocates the budget as it sees fit rather than an allocation based on priorities and sectoral expertise. Transparency under these circumstances could be doubted. The incentive for planning is currently undermined by the irregularity of resource flows from CG. An adherence to a strict timetable of transfers would greatly assist budget planning.
- Budget Execution
 - There is a need to address the recording and management of arrears so that a realistic financial position of FCC can be established
 - No cash flow planning occurs. Therefore there is little adherence to the budget
 - Tax procedures are weak. Property tax collection is significantly below potential
 - There is a sizeable and increasing overdraft seriously undermining the provision of services for the future
- Budget Accounting and Controls
 - Budget accounting and controls are still in their infancy although some progress has been made in recent years. The PETRA accounting software when fully rolled out will greatly assist in improving accounting and controls, including the compatibility with CG. Internal control is also in its infancy and there is a need to support the LC officers with appropriate resources to complete their task. Without these, control will focus on top-down compliance and enforcement rather than holding sector managers fully accountable for managing their budgets. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
 - Cash management is weak resulting in leakages from revenues
 - Although arrears appear to be minimal, there should be robust systems developed for recording arrears
- Budget Reporting and External Audit
 - In year budget reports are not produced further undermining the credibility of the budget
 - External audit also in its infancy. Impact of initial reports remains to be seen.

(iii) Prospects for reform planning and implementation

See summary report

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	FCC has accrued an overdraft in the region of Le 6 billion. Budget estimates of revenue and expenditure are weak.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
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	Budget documentation is weak	All expenditures and revenue are included in the Budget. Availability of information on the budget to the public and scrutiny of the budget by council does not provide adequate transparency.	The connection between sector strategies and budgets is limited.
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. However, there is little evidence that this is the case.	The budget calendar (as given by CG) provides sufficient time for due deliberation by council to establish expenditure ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within departments is yet to be developed. The next stage of the MTEF needs to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum service delivery.

<p>B1. Predictability and control in budget execution</p> <p>The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds</p>	<p><i>Predictable and controlled budget execution is necessary to enable effective management of policy and program implementation.</i></p>		
	<p>Tax collection and arrears requires significant strengthening</p> <p>The execution of the budget is at times ad hoc ad subject to political influence</p>	<p>If departments do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.</p>	<p>The lack of adherence to the budget may mean that inputs are not supplied when they are needed. Service delivery may be part of the decision making process but cash availability is the ultimate deciding factor, constrained by irregular transfers from CG.</p> <p>Internal audit is improving and addressing major items of expenditure and risk.</p>
<p>B2. Accounting, recording and reporting</p> <p>Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes</p>	<p><i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i></p>		
	<p>Accounting records are rudimentary and so do not provide adequate information for decision-making.</p>	<p>Information on actual expenditure against budgeted is not provided during the year.</p>	<p>The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.</p>
<p>C1. Effective external scrutiny and audit</p> <p>Arrangements for scrutiny of public finances and follow up by executive are operating</p>	<p><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></p>		
	<p>There is scrutiny of the overall fiscal position at council level</p>	<p>Scrutiny through external audit is only just starting and has not been scrutinised by the administration as yet.</p> <p>Council needs to build capacity to fully evaluate the results of the work of the SAI.</p>	<p>The development of audits over time will assist in the development of overall service delivery</p>

Assessment of the PFM systems, processes and institutions

1. Budget credibility

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

Aggregate budgeted and outturn expenditure is presented below for 2007, 2008 and 2009 covering aggregate expenditure. In each of the years, outturn is below budgeted expenditure.

The position relating to aggregate actual expenditure compared to budgeted is weak though improving. The 2007 deviation stood at 63%, fell to 44% (though positive variance) in 2008 and fell again to 18% in 2009.

Aggregate Expenditure Le million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	11,102	4,148	-6,954	63
2008	12,611	18,146	5,535	44
2009	22,634	18,648	-3,986	18

Source: MTEF Budgets and Annual Financial Statements

A Score of D is therefore appropriate.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	Score D (i) In two or all of the last three years the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

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

This indicator measures the extent to which reallocations 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 the organisational 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)
2007	63%	67%	4%
2008	44%	141%	97%
2009	18%	62%	44%

Source: MTEF Budgets and Annual Financial Statements

Expenditure variance differs from overall deviation in aggregate expenditure by 4% in 2007 (67% as against 63%) but deteriorated further to 97% (141% as against 44%) in 2008. It however improved to 44% (62% as against 18%) in 2009. This gives a score of D. Recurrent and capital expenditure are included in the calculation.

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score D (i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

**ANNEX to PI- 2 - EXPENDITURE
ANALYSIS 2007 - 2009**

	2007				2008				2009			
	Budget	Actual	Absolute Difference	%	Budget	Actual	Absolute Difference	%	Budget	Actual	Absolute Difference	%
Total Expenditure	Le' m 11,102	Le' m 4,148	Le' m 7,483	% 67%	Le' m 12,611	Le' m 18,146	Le' m 17,785	% 141%	Le' m 22,634	Le' m 18,648	Le' m 14,142	% 62%
General Administration	3,058	3,322	264	9%	3,255	14,428	11,173	343%	8,419	10,923	2,504	30%
Devolved Function - Education	4,507	105	4,402	98%	4,940	400	4,540	92%	5,060	1,029	4,031	80%
Devolved Function - Health	818	515	302	37%	2,589	1,294	1,295	50%	2,350	3,039	689	29%
Devolved Function - Solid Waste Mangt.	674	-	674	100%	-	487	487		250	1,981	1,731	692%
Devolved Function - Agriculture	43	20	23	54%	50	29	21	42%	75	104	28	38%
Other Devolved Functions	142	48	94	66%	144	98	46	32%	147	273	126	85%
Development Expenditure	1,861	138	1,723	93%	1,634	1,412	223	14%	6,333	1,300	5,033	79%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl.
In Health

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

Outturn and budgeted own revenue data for 2007, 2008 and 2009 are presented below.

Own Revenue Le million

	Budget	Outturn	Diff +/-	Diff %
2007	3,235	1,474	-1,761	54
2008	3,183	4,905	1,722	54
2009	13,272	8,026	-5,246	40

Source: MTEF Budgets and Annual Financial Statements

Actual own source revenue was lower than forecast in the budget in 2007 by 54%, above forecast by 54% in 2008 and below forecast by 40% in 2009, reflecting a weak estimate of actual revenue collection in all years. The significant factor in these variations was the poor estimation of own revenues, in particular property tax.

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score D (i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.

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

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

There is no reliable information on the extent of arrears as no robust system existed for capturing arrears. This is presently being addressed with Treasury recently adopting a spreadsheet for capture. The 2009 Unaudited Financial Statements depicts that amounts payable to Contractors totalled Le 2,408 million, representing 13% of total expenditure.

Not rated

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

Data on the stock of arrears for contractual payments were made available for the first time in the 2009 Financial Statements but other unpaid bills not presented. There is not, however, an analysis of the age of the arrears.

The appropriate score for this sub-dimension is D.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Not Rated (i) Not rated. There is no reliable information on the extent of arrears as no robust system existed for capturing arrears. This is presently being addressed with Treasury recently adopting a spreadsheet for capture. The 2009 Unaudited Financial Statements depicts that amounts payable to Contractors totalled Le 2,408 million, representing 13% of total expenditure. (ii) Score D. There is no reliable data on the stock of arrears from the last two years.

2. Transparency and comprehensiveness

PI-5. Classification of the budget

This indicator assesses the classification system used for formulation, execution and reporting of the central government's budget.

The classification of the budget has a simple administrative breakdown only under the manual system in use. However, FCC also uses PETRA software for the historical recording of transactions which is expected to be fully compatible with the CG IFMIS.

At CG level, 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. There are plans at MOF level to marry PETRA to the IFMIS and thereby achieve a similar classification of the budget in use at SN level, which would improve the score to a C.

Score D. GFS/COFOG standards can be generated, but only economic and administrative categories and are not used in budget formulation or execution.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: D. Dimension (i) Score: D The budget formulation and execution is based on a different classification.

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

The MTEF for the next and subsequent two years is the main document which is produced as part of the budget calendar. The documentation does include the estimated budget data for the current year presented in the same format as the proposed budget. No other required elements of information are included.

Given the size of FCC's overdraft (currently Le6 billion or \$1.5 million) , it was felt appropriate to assess whether this information and its financing was provided to council. It isn't.

The following elements are included in the MTEF.

Element	MTEF
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.	No
3. Deficit financing, describing anticipated composition.	No
4. Debt stock, including details at least for the beginning of the current year.	No
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
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	Minimum Requirements (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score D Recent budget documentation fulfills 1 of the 9 information benchmarks.

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.

Given that there is no evidence of “unreported” government operations this dimension scores an A.

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

The only operation flowing through council bank accounts was a JICA grant of \$69,169 in March 2009. This represents 1.1% of expenditure (using forex rate of Le3,000/\$). The information was not captured in fiscal reports.

FCC also holds assets in the form of a residual balance in a closed Superannuation fund (held by Crown Agents). The only information available is the transfer of some of these assets to the FCC budget on occasion. The Ministry of Finance has attempted to access this information without success.

Score D

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score D+ (i)Score A. The level of unreported extra budgetary expenditure (other than donor projects) is insignificant (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

There are no transfers made to lower levels of government by FCC. Only expenses are paid for the holding of ward meetings. No monitoring of Ward Committees’ finances is made. Ward members are occasionally used to collect fees and charges on behalf of the FCC and will be paid accordingly.

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	n/a There are no transfers made to lower levels of government by FCC.

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

FCC does not own any AGAs or PEs. Neither is it relevant for it to monitor the fiscal position of lower SN levels. The next level below FCC is the ward committee which does not operate any significant budget, nor

receive transfers from FCC.
This indicator is therefore not applicable.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	n/a FCC does not own any AGAs or PEs.

PI-10. Public Access to key fiscal information

All works contract awards (the only large awards and often below \$100,000) are posted on the FCC notice board and also publicised in the press. This is not a requirement but an example of good practice operated by the FCC Procurement Office. There have been no published External Audit reports in the last 3 years. Other information is not made available to the public.

Public access to key fiscal 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.	No
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Not produced
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No
(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.	First audits only recently submitted to the FCC
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	All works contract awards (only large awards and often below \$100,000) are posted on the FCC notice board and also publicised in the press.
(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).	Not routinely publicised

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score C Government makes available to the public 1 of the 7 listed types of information.

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 no budget calendar for FCC – only a willingness to adhere to the MOF budget calendar. Dates are annually prepared for departmental submissions and Budget and Finance committee meetings Score D
- (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation.
There is no FCC circular prepared. Departments are not provided with ceilings. They make submissions and then the Finance Office (with CA) decides on allocations Score D
- (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).
The legislature/council has approved the budget before it has been sent to MOF always by September. However, it should be noted that the development budget is often not included in this approval as ceilings are determined by CG later. Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	Score C (i) D. There is no budget calendar for FCC – only a willingness to adhere to the MOF budget calendar. Dates are annually prepared for departmental submissions and Budget and Finance committee meetings (ii) D. There is no FCC circular prepared. Departments are not provided with ceilings. They make submissions and then the Finance Office (with CA) decides on allocations (iii) A. The legislature has approved the budget before it has been sent to MOF

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

- (i) Preparation of multi -year fiscal forecasts and functional allocations.
Forecasts are made on an administrative classification only. They are a 5% increment on the budget year for the 2 outer years. Score D
- (ii) Scope and frequency of debt sustainability analysis.
FCC has no debt (apart from the overdraft mentioned above) n/a
- (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure. There has been no development plan for the FCC since 2005. One is being developed right now for 2011. Correspondingly, there are no departmental strategies – the ministerial strategies take precedence in the case of devolved sectors. Score D
- (iv) Linkages between investment budgets and forward expenditure estimates

No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score D</p> <p>(i) No forward estimates of fiscal aggregates are undertaken Score D</p> <p>(ii) n/a</p> <p>(iii) Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure. Score D</p> <p>(iv) Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. Score D.</p>

4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Revenue Assessment and Collection in FCC is headed by a Principal Revenue Co-ordinator and the major sources of revenues are:

- Property Taxes – City Rates
- Municipal Licences for Businesses and market dues
- Local Tax
- Fees and Other Charges

Assessments for Property Taxes are carried out through the Valuation Unit but issues remain with regard to houses valued now being given higher valuation than those of same or greater sizes that were valued years back, as a result of inflation. This is posing serious concern for the council and the suggestion given is that houses should instead be placed into bands (by category) and property rates accorded by band, as in the UK. There is also concern in capturing all the houses within the Freetown Municipality, for which serious effort is needed. An independent survey carried out in recent years was said to have placed the number of properties in Freetown at 155,000 and at present there are only about 35,000 properties being captured in huge manual ledgers being used. There is an urgent need to computerise the system used for property taxes.

In summary, legislation is clear about tax liabilities covering property and market dues but not so clear about local taxes. Procedures are however unclear e.g. who pays local tax – should women be included? FCC Police collect local tax in a non-systematic manner, for example road blocks or random campaigns in areas of the city.

Score D

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

Taxpayers can access the legislation (LGA 2004) but not the procedures. Demand notes are sent to property owners every year detailing computation of tax liability, including tax arrears (sample was provided). Penalties are being instituted for tax arrears owed and these are shown clearly in the Demand Notes as Poundage. Also, there are serious concerns about delays in updating the Rates Ledgers, which could at times cause embarrassments for council. Regularly, there are radio discussions (two every week) and TV discussions (fortnightly) to discuss revenue collection within FCC.

Score D

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

The LGA 2004 does not allow for a complaints mechanism. Tax appeals may be lodged through the Chief

Administrator. There is no independent appeal mechanism being established.
Score D

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	Score D (i) D. Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities. (ii) D. Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient. (iii) D. No functioning tax appeals system has been established

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

(i) Controls in the taxpayer registration system.

Property tax registration is manual, not kept up to date, and arbitrarily enforced. There is no proper tax identification system, except by house address.

There is no database for local tax, but reliance on self payment supplemented by council employed local tax collectors who are possibly going to be discontinued given their lack of effectiveness.

Score D

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

The penalties for non payment of property tax include the eventual sale of the property by auction. Warrants have only been issued to collect property tax in 2010. However, as yet they have not necessarily been enforced as the cost of prosecution is prohibitive. Arrears are sometimes as much as 15 years and include interest. There is no penalty for the non payment of local tax except the inability to vote.

Score D

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

Tax audits are not undertaken

Score D

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D (i) D. Property tax registration is manual and arbitrarily enforced. There is no database for local tax, but reliance on self payment supplemented by local tax collectors who are possibly going to be discontinued given their lack of effectiveness. (ii) D. Penalties for non-compliance are generally non-existent or ineffective (i.e. rarely imposed) (iii) D. Tax audits are not undertaken

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 is no comprehensive record of tax arrears, in particular debts on property tax. Debtors are chosen for targeting for arrears on the basis of manually scouring the books for large debtors. No database exists for the collection of Local Tax.

Not rated

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

Treasury has no information on what should be transferred or when. It simply accepts revenues when they

arrive. The internal audit of the cash office indicates significant discrepancies in taxes collected and transfers from the cash office to the Treasury, particularly with respect to market dues..

Not rated

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

No reconciliation occurs.

Not rated

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Not rated</p> <p>(i) Not rated. There is no comprehensive record of arrears of any tax</p> <p>(ii) Not rated. Treasury has no information on what should be transferred or when.</p> <p>(iii) Not rated. 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.</p>

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

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

No cash flow planning occurs.

Score D

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

Departments are not provided with reliable indications of resource availability for commitment. However, tied grants provide some reliability in terms of knowing that devolved functions will be resourced.

Score D

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

It appears that adherence to the budget is minimal, particularly given the absence of in-year budget reports. Crisis management results in frequent reallocations made in a non-transparent manner.

Score D

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	<p>Score D</p> <p>(i) D. Cash flow planning and monitoring are not undertaken or of very poor quality.</p> <p>(ii) D MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.</p> <p>(iii) D Significant in-year budget adjustments are frequent and not done in a transparent manner.</p>

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

(i) Quality of debt data recording and reporting

FCC not legally able to contract debt without approval from MOF, though has run up a Le6 Billion overdraft without such approval. The records on this debt were not held in a transparent manner, with amounts varying between various officers of FCC

Score D

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

Cash balances of the 44 FCC bank accounts occurs at least monthly

Score C

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

There is no system for the contracting of loans. The overdraft mentioned above is not considered a contracted loan, given the lack of knowledge of the Ministry of Finance of this arrangement.

n/a

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	<p>Score D+</p> <p>(i) D. Debt data records are incomplete and inaccurate to a significant degree.</p> <p>(ii) C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</p> <p>(iii) n/a No contracting of loans</p>

PI-18 Effectiveness of payroll controls

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

Payroll is held on MS Excel spreadsheet. Personnel records are manual. Adjustments, such as promotions and redundancies, are made to the payroll within a month, usually within a week. These changes are supported by full documentation between payroll and the Finance Office

Score B

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

All necessary changes to the data base are performed timely on a monthly basis, on accurate documentation from Personnel. Retroactive adjustments are very rare.

Score A

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

Head of payroll is the only person who can access the payroll spreadsheet. In his absence the spreadsheet is given to the Head Treasury. The authority for Payroll is defined by procedures related to the level of access to data. On the basis of verified documented information, the accounting employee forms, amends and adjusts the database as necessary. He/she also performs essential reconciliation control of monthly work records, as well as control of the payroll itself.

Score A

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

No payroll audits have taken place in the past 3 years, except for Solid Waste Management Employees when they were transferred to FCC.

Score D

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>D+</p> <p>(i) B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel</p>

	<p>records each month and checked against the previous month's payroll data.</p> <p>(ii) A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(iii) A. Authority to change records and payroll is restricted and results in an audit trail.</p> <p>(iv) D. No payroll audits have been undertaken within the last three years.</p>
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PI-19 Competition, value of money and controls in procurement

(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (Le60 million) (percentage of the number of contract awards that are above the threshold).

FCC procurement is subject to Public Procurement Act 2004 and the 2006 Procurement Regulations and has close links to the CG Procurement Agency. All procurements over the past 3 years used open competitive bidding, except that for the Sewa market (representing over 75% of procurements using open methods).
Score A

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

The Sewa market required accelerated procurement (the imminent rains and the security of the site as previous vendors had been expelled meant construction should begin before open procedures could be completed). Correct procedures were followed through NPPA. Open competition is the preferred method of procurement.
Score A

(iii) Existence and operation of procurement complaints mechanism

Complaints can be made to the CA in the first instance and then to the Independent Review Panel through the NPPA, though the level of complaints is minimal.
Score A

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>A</p> <p>(i) A. Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>(ii) A. Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>(iii) A. A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.</p>

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

(i) Effectiveness of expenditure commitment controls.

Procedures exist but in the case of own revenue expenditures, political expediency can result in them being violated. Tied grants conform to CG standards. Developing manual for procedures now. PETRA used but is historical and not necessarily comprehensive in picking up all transactions.
Score C

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

A basic set of rules exist but they are not written down, rather understood by the users. Inaccurate reporting and recording can result. The FAR was not mentioned by the FO as being used and understood

Score D

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

Compliance is lacking for expenditures arising from own revenues. CG grants used CG systems. As a whole, this results in rules being complied with in a majority of transactions, but emergency procedures are used often with own source expenditures. The emerging Internal Audit function is currently improving compliance with procedures

Score C

.	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	D+ (i) C Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. (ii) D Clear, comprehensive control rules/procedures are lacking in other important areas. (iii) 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 Internal Audit Unit comprises 9 (nine) audit staff, including the Head and a Deputy. Staff in this unit has relevant experience and qualification in accounting and auditing, and have attended at least three audit training workshops organised by the Internal Audit Unit in the Ministry of Finance. Internal Audit Manuals based on international auditing standards are available⁷ and being used, although there is need to develop audit manuals tailored for Local Government.

The Internal Audit Unit prepares an annual work plan which is being followed and audit reports issued out, covering the majority of FCC operations. The primary responsibility is to audit FCC operations in totality. Quality is improving. However, the Mayor and the Chief Administrator are said to place heavy reliance on pre-audit checks carried out by the Internal Audit Unit before cheques are signed. As a result, there are lots of pre-audit checks carried out by the unit making it part of the process being audited and reducing the focus on necessary risk-based auditing. In the absence of an audit committee within council, the Internal Auditor reports to the Chief Administrator, who is supposed to be an auditee. But nonetheless, the Mayor is said to be keen on audit reports and would call up meetings to discuss audit findings and recommendations.

Score B

(ii). Frequency and distribution of reports

As the service is currently being developed there has been no regularity of reporting in the past years, with those completed being on an ad hoc basis, though this is expected to improve given the development of work plans over the recent years. Audit Reports are issued and shared with MOF and Audit Service.

Score D

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

Internal audit staff are comfortable with Management responses with prompt action (within 6 months) on recommendations experienced though delays may occur. In some instances the scope of the internal audit reports has been determined by senior management in response to concerns in certain areas of PFM, such as the Cash Office and Freetown Waste Management.

⁷ September 2006

Score C

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	<p>D+</p> <p>(i) B. Internal audit is operational for the majority of SN government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time).</p> <p>(ii) D Reports are either non-existent or very irregular.</p> <p>(iii) C Some action is taken by many managers on major issues but often with delay.</p>

5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Bank reconciliation is carried out on a monthly basis and filed, within 4 weeks of end of period, usually within a week of end of period. The bank reconciliation statements are monitored and signed by the Deputy City Treasurer.

Score A

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

There are no suspense accounts or advances.

n/a

	Minimum requirements (Scoring Method M2).
PI-22 Timeliness and regularity of accounts reconciliation	<p>A</p> <p>(i) A Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.</p> <p>(ii) n/a</p>

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.

No data collection exists. The transition of responsibility from the line ministries to the LCs for the service delivery in devolved functions is still in process. The LCs still do not have full responsibility for the planning, procurement and delivery of resources. CG compiles an annual PETS report which partially covers service delivery at LC level.

Score D

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	<p>Score D</p> <p>(i) D No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.</p>

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

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

There are no such reports, though financial statements exist which, in theory could be compared to the budget,

though this does not occur in practice.
Not rated

(ii) Timeliness of the issue of reports
Not rated

(iii) Quality of information
Not rated

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Not rated There are no such reports

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. There have been many improvements in disclosure in the Unaudited 2009 financial statements with salient information placed as memorandum items, such as human resource data, outstanding payments to contractors. There is also presented the Report of His Worship the Mayor, which is very informative including the achievements of council during the year by facility and the challenges ahead. However, comparisons with budgeted amounts are not provided in any of the financial statements for the past three years (2007 – 2009).

Financial Statements include service delivery units only as far as expenditure payments are made but do not include unpaid bills, outstanding payments to contractors (though 2009 Accounts provide details of these) and the superannuation fund balance held with Crown Agents.

Score C

(ii). Timeliness of submission of the Financial Statements.

The financial statements are usually submitted promptly, usually well before the 6 month limit, for auditing according to the LGA.

Score A

(iii). Accounting Standards Used.

The basis of accounting used is cash. The accounting standards followed are stated in the notes to the financial statements and are consistent over time

Score C

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	C+ (i) C A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) A The statements are submitted for external audit within 6 months of the end of the fiscal year. (iii) C Statements are presented in a consistent format over time with some disclosure of accounting standards.

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)

Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs (including the council) and were therefore not available for review by the PEFA team. The coverage is that of a normal financial audit.

Score C

(ii) Timeliness of submission of audit reports to legislature

Not rated

(iii) Evidence of follow up on audit recommendations

Not rated

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	Not rated (i) C SN government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only (ii) Not rated (iii) Not rated

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

The Freetown Council’s review covers details of expenditure and revenue, but only after the budget has been prepared by the executive, when detailed proposals have been finalized. The capacity of the legislature to review the budget is weak.

Score C

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

Procedures for adoption of the budget are not defined but are generally respected in terms of timing. There are no specialised reviewing panels, though individual councillors are much involved.

Score C

(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.

Council has at least one month to review the budget before it is sent to the Ministry of Finance in November. As noted above, this budget often does not include development expenditures given the lack of a development ceiling from Ministry of Finance.

Score C

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

Rules exist under the FAR but are not followed as yet. This would require training and enforcement.

Score D

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	D+ <ul style="list-style-type: none"> (i) C The legislature’s review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. (ii) C Some procedures exist for the legislature’s review but they are not comprehensive and only partially respected. (iii) C The legislature has at least one month to review the budget proposals. (iv) D. Rules regarding in-year budget amendments may exist but are either rudimentary or unclear OR they are usually not respected.

PI-28: Legislative scrutiny of external audit report

No recent external audit reports have, as yet, been scrutinised by the council⁸. Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs.
Not rated

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	Not rated None published as yet

7. Donor practices

D-1 Predictability of Direct Budget Support

There has been no budget support
n/a

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	n/a

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

There has been no support through the budget from donors. However, it should be noted that donors are supporting devolved functions in the LC area through the line ministries for which the LC has little information.
n/a

	Minimum requirements (Scoring methodology: M1)
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⁸ An audit report was issued for July-Dec 2004 in 2005. This is outside the review period for this PEFA.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid	n/a
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D-3 Proportion of aid that is managed by use of national procedures

There has been no aid through the budget from donors.

n/a

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	n/a

HLG - 1

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

HLG transfers were lower than forecast in 2007 by 76%, higher by 47% in 2009 and lower by 8% in 2008. Reasons for shortfalls include cash rationing at treasury (MOF) as well as the filing of reports by FCC. The increase recorded in 2008 was to compensate for the shortfall in 2007 and also as a result of investment funds received from abroad. It appears that the regularity of transfers is improving. 2007, an election year, saw cash rationing at the Ministry of Finance. 2008 saw compensatory payments and 2009 represents a much improved situation.

CG Transfers Le million

	Budget	Outturn	Diff +/-	Diff %
2007	7,868	1,877	-5,991	76
2008	9,428	13,834	4,406	47
2009	9,362	8,625	-737	8

Score D

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

In the absence of information on the amounts of each earmarked grant actually transferred to general administration, this indicator has been assessed by looking at the variation in earmarked grants transferred under devolved functions (assuming that none of the actual expenditures were funded from own revenues). It can be seen that in 2007, variance within grants did not differ significantly from the reduction in transfers. However in 2008 and 2009 the earmarked grants suffered more vis-a-vis the total transfer from CG.

The budgeted and actual transfer data for earmarked grants are as follows:

CG Earmarked transfers Le million

	Transfer Deviation	Transfer Variance	Variance in excess of Deviation
2007	90	93	3
2008	60	190	130
2009	46	99	53

Source: MTEF Budgets and Annual Financial Statements

Score D

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

There is no disbursement timetable but transfers are made quarterly. In 2007, transfers were made in only the first quarter whereas in 2008 nearly all transfers were in the second quarter. But in 2009, the transfers were fairly evenly disbursed in all four quarters. Interestingly, the Ministry of Finance attempts to disburse at mid quarter rather than at the beginning of the quarter, resulting in no funding from January 1st – mid February each year.

Score C

	2010	
	Score	Explanation
HLG - 1 Predictability of Transfers from Higher Level of Government	D+	<p>(i) D – In at least two of the last three years HLG transfers fell short of the estimate by more than 15% OR no comprehensive estimate is submitted to the SN government in time for inclusion in its budget.</p> <p>(ii) D – Variance in provision of earmarked grants exceeded overall deviation in total transfers by 10 percentage points in at least two of the last three years</p> <p>(iii) C –. A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years.</p>

ANNEX to HLG-1 - EXPENDITURE ANALYSIS 2007 - 2009

	2007						2008						2009					
	Budget	Actual	Difference	% Difference	Absolute Difference	% Var	Budget	Actual	Difference	% Difference	Absolute Difference	% Var	Budget	Actual	Difference	% Difference	Absolute Difference	% Var
Total Transfer	Le' m 8,044	Le' m 826	Le' m -7,218	% 90%	Le' m 7,482	% 93%	Le' m 9,356	Le' m 3,718	Le' m 5,638	% 60%	Le' m 17,785	% 190%	Le' m 14,215	Le' m 7,725	Le' m 6,490	% 46%	Le' m 14,142	% 99%
Devolved Function - Education	4,507	105	-4,402	98%	4,402		4,940	400	4,540	92%	4,540		5,060	1,029	4,031	80%	4,031	
Devolved Function - Health	818	515	-302	37%	302		2,589	1,294	1,295	50%	1,295		2,350	3,039	689	29%	689	
Devolved Function - Solid Waste Mangt.	674	-	-674	100%	674		-	487	487		487		250	1,981	1,731	692%	1,731	
Devolved Function - Agriculture	43	20	-23	54%	23		50	29	21	42%	21		75	104	28	38%	28	
Other Devolved Functions	142	48	-94	66%	94		144	98	46	32%	46		147	273	126	85%	126	
Development Expenditure	1,861	138	-1,723	93%	1,723		1,634	1,412	223	14%	223		6,333	1,300	5,033	79%	5,033	

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health

APPENDIX 1 - OVERALL BUDGETARY ANALYSIS 2007 - 2010

	2007			2008			2009			2010	%
	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Change in 2010 Bud/2009 Act.
	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	%
Total Revenue	11,102	3,351	-70%	12,611	18,739	49%	22,634	16,651	-26%	22,745	36.6%
Own Source Revenue	3,235	1,474	-54%	3,183	4,905	54%	13,272	8,026	-40%	12,629	57.3%
Grants	7,868	1,877	-76%	9,428	13,834	47%	9,362	8,625	-8%	10,115	17.3%
Admin & Devolved Grants	6,654	657	-90%	7,964	6,587	-17%	8,599	4,510	-48%	10,115	124.3%
Local Development Grants	1,214	1,220	1%	1,463	92	-94%	763	1,236	62%	-	-100.0%
Others	-	-	-	-	7,155	-	-	2,879	-	-	-
Total Expenditure	11,102	4,148	-63%	12,611	18,146	44%	22,634	18,648	-18%	22,745	22.0%
Recurrent Expenditure	9,242	4,010	-57%	10,977	16,735	52%	16,302	17,348	6%	20,117	16.0%
Development Expenditure	1,861	138	-93%	1,634	1,412	-14%	6,333	1,300	-79%	2,627	102.1%
Overall Balance	0	(797)		-	592		-	(1,997)		-	
Net Change in Fund Balance	-	797		-	(592)		-	1,997		-	
External financing (net)	-	-		-	-		-	-		-	
Local financing (net)	-	-		-	-		-	-		-	
Financing gap	0	-		-	-		-	-		-	

Sources: MTEF Budgets and Annual Financial Statements

Individual Local Council Report 2

BO CITY COUNCIL

Background

The City of Bo is the capital and administrative centre of Bo District which lies in the Southern Province of Sierra Leone and has an area of about 10 sq. miles. Based on population, Bo City is the second largest city in Sierra Leone (after the capital Freetown) with a population of 167,144 as per the 2004 population and housing census (Statistics Sierra Leone). The inhabitants of the city are engaged mainly in subsistence agriculture, with other sources of livelihood being mining and marketing of gold and diamonds, as well as petty trading. The City, like other cities in Sierra Leone, is an ethnically diverse city with significant numbers of virtually all the country's ethnic groups. The city of Bo is governed with a city council form of government, which is headed by a mayor elected by the residents, in whom executive authority is vested. The mayor is responsible for the general management of the city and for seeing that all local and national laws are enforced. The current mayor of Bo is Dr. Wusu Sannoh, being mayor since the 2004 Local Government Elections. The Council has 18 councillors, including one paramount chief as ex-officio member.

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		BCC
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	D
PI-6	Comprehensiveness of information included in budget documentation	D
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a
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	D
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	A
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	A
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	NR
PI-25	Quality and timeliness of annual financial statements	C+
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	D+
PI-28	Legislative scrutiny of external audit reports	NR
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
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	A
E. CG PRACTICES		
HLG-1	Predictability of Transfers from Higher Level of Government	D+

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of Bo City Council at September 2010. The Report follows the SN PEFA methodology and should be read alongside the Sub-National Government Summary Report which draws out themes common to all the LCs assessed.

Based on the PEFA training materials, the consultants carried out a day's training workshop for the BCC officials assigned to the PEFA exercise (Mayor, CA, Treasurer, Procurement Officer) in August 2010, to prepare them to assist with the assessment.

The draft report was circulated in December 2010, and benefitted from comments from the Bo City Council, Government of Sierra Leone, its development partners and by the PEFA Secretariat in Washington DC.

(iv) *Integrated assessment of PFM performance*

9. Credibility of the Budget

This group of indicators (PI-1 to PI-4, CG1) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

BCC displays weak budget credibility both in terms of expenditures and revenue.

Actual expenditure falls short of budgeted in all years. This reflects, somewhat, the irregularity of transfers from Central Government, as well as overambitious revenue collection targets.

Also, in 2007 and 2008, an small excess of expenditure over income was recorded and was financed by existing balances.

Revenue collection displays a similar trend, falling short of targets in all years though the shortfall is reducing.

Central government transfers fell short of forecast in all 3 years, again with a reducing shortfall.

BCC does not have a reliable system for assessing its arrears, though this is currently being addressed.

10. Comprehensiveness and transparency

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

BCC is using a manual accounting system which is not compatible with the CG chart of accounts. It is expected that it will soon use PETRA software which will be compatible with CG accounts. Budget documentation is rudimentary, though could easily be improved if previous years' budgeted and actual expenditures and revenues were included. All BCC operations are reported on, though the capturing of donor projects is not currently a major problem for BCC as they are still, by and large, channelled through ministry budgets, despite the supposed devolution of responsibility to the LCs. However, one UNDP project was

channelled through BCC and fully reported on. Of the required information for public access, only procurement contracts were posted on notice boards. A web site would facilitate the posting of more information.

11. Policy-based budgeting

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

BCC displays weak policy based budgeting. Although, it has initiated its own budget calendar, there is no circular and the medium term perspective is weak. This reflects, to some extent, the lack of budget credibility.

The budget calendar is largely determined by the deadlines set by CG. Council is represented at many of the administrations management (including finance) meetings. The council does approve the budget before it is sent to the CG.

Forecasts are made for three years but are simple "increments" on the coming budget year. There is no linkage between the development budget and recurrent implications.

12. Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

BCC exhibits some basic controls on revenues and expenditures, with procurement a particular strongpoint. Property and Business Tax registration is now computerised and enforced. Penalties for non-payment of property tax are sufficiently high. Arrears for Property Tax were written off in 2008, thereby allowing BCC to institute a new collection policy which has proved successful and is being rolled out to other councils. Tax audits are not undertaken. Tax procedures are weak, including the complaints mechanism.

No cash flow planning occurs with the resulting lack of resource availability knowledge for departments, inhibiting their budgeting. Adherence to the budget is therefore minimal with reallocations made in a non-transparent manner, largely politically motivated. Cash balances are reconciled on a monthly basis. BCC is not legally able to contract debt.

Payroll controls are mostly strong, with a clear audit trail to changes and adjustments made in a timely manner. However, although there is a lack of a payroll audit, strong controls are in place to avoid ghost workers, such as reviews of all staff and their payment through bank accounts only accessible if they produce a chit provided by the CA.

Procurement is strong with well trained officers following a strong central system. Open competitive bidding has been used for all procurements.

Controls on non-salary expenditures are strong for CG tied grants but are not strong for own revenue expenditures. Emergency procedures are often followed with political expediency cited as a reason for such emergencies. A manual for procedures is currently being developed which should strengthen controls.

Internal audit is a key institution in BCC, playing a central role in the Senior Management team. Staff are well trained and follow an audit plan. Management response to IA findings occurs, though with delays.

13. Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

Bank reconciliation is carried out on monthly basis and filed.

No systematic information is provided to service delivery units on items delivered.

In year budget execution reports are not presented, relating back to the weakness in budgeting above.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. The basis of accounting used is the cash basis but the accounting standards followed are not stated in the financial statements. However, comparisons with budgeted amounts are not provided in any of the financial statements for the past three years (2007 – 2009).

14. External scrutiny and audit

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

Audit reports for the financial years 2005 – 2008 are only now being submitted to Council by the Auditor General. Earlier drafts were commented on by council. Legislative scrutiny of the budget law occurs with enough time to deliberate, though it is possible that councillors require training to improve their contributions to such scrutiny.

15. Donor Practices

Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

BCC received little donor support during the review period and that which was given did not provide detailed disbursement schedules, though BCC procurement was used for purchases.

16. Transfers from Higher Level Government

This indicator assesses the predictability of inflows of transfers from CG. The regularity of inflows can affect the SN government's fiscal management and its ability to deliver services.

CG transfers to BCC were lower than forecast in 2007 by 75%, by 65% in 2008 and by 16% in 2009, impacting on expenditure composition. Transfers are made irregularly, mostly in the first quarter in 2007, second quarter in 2008 and more evenly in 2009.

(v) *Assessment of the impact of PFM weaknesses*

Weaknesses can be summarized as:

- Budget Planning
 - Planning and budget formulation is weak. There is need to improve planning and budget formulation in BCC to fully reflect policy priorities established through the MTEF, as well as

realistic revenue forecasts. Specific attention needs to be directed at formulating a costed development plan and associated sector strategies. To facilitate this. It is important to fully devolve sector responsibilities from the line ministries, given that currently, line ministries still dominate sector planning. The consequence of these weaknesses are that resource allocation linked to priorities is ineffective and BCC allocates the budget as it sees fit rather than an allocation based on priorities and sectoral expertise. The incentive for planning is currently undermined by the irregularity of resource flows from CG. An adherence to a strict timetable of transfers would greatly assist budget planning.

- Budget Execution
 - There is a need to address the recording and management of arrears so that a realistic financial position of BCC can be established
 - No cash flow planning occurs. Therefore there is little adherence to the budget
 - There is a need for greater controls on own revenue expenditures which can be subject to demands outside of the budget initiated by politicians
- Budget Accounting and Controls
 - Budget accounting and controls are still in their infancy although some progress has been made in recent years. The PETRA accounting software when fully rolled out will greatly assist in improving accounting and controls, including the compatibility with CG. In year budget reports require development is adherence to the budget is to be improved. Internal control is also in its infancy and there is a need to further support the LC officers with appropriate resources to complete their task. Without these, control will focus on top-down compliance and enforcement rather than holding sector managers fully accountable for managing their budgets. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
 - Cash management is weak resulting in leakages from revenues
 - Although arrears appear to be minimal, there should be robust systems developed for recording arrears
- Budget Reporting and External Audit
 - In year budget reports are not produced further undermining the credibility of the budget
 - External audit also in its infancy. Impact of initial reports remains to be seen.

(vi) *Prospects for reform planning and implementation*

See summary report

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 The budget is realistic and is implemented as intended	<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>		
	Budget estimates of revenue and expenditure are weak.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
A2 Comprehensiveness and transparency The budget and fiscal risk oversight are complete and fiscal and budget information is accessible to the budget	<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>		
	Budget documentation is weak	All expenditures and revenue are included in the Budget. Availability of information on the budget to the public and scrutiny of the budget by council does not provide adequate transparency.	The connection between sector strategies and budgets is limited.
A3 Policy-based budgeting The budget is prepared with due regard to government policy	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. However, there is little evidence that this is the case.	The budget calendar provides sufficient time for due deliberation by council to establish expenditure ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within departments is yet to be developed. The next stage of the MTEF needs to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum 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>		

<p>The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds</p>	<p>Tax collection and arrears requires strengthening, building on the progress made in property tax collection</p> <p>The execution of the budget is at times ad hoc and subject to political influence</p>	<p>If departments do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.</p>	<p>The lack of adherence to the budget may mean that inputs are not supplied when they are needed. Service delivery may be part of the decision making process but cash availability is the ultimate deciding factor, constrained by irregular transfers from CG.</p> <p>Internal audit is improving and addressing major items of expenditure and risk.</p>
<p>B2. Accounting, recording and reporting</p> <p>Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes</p>	<p><i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i></p>		
<p>C1. Effective external scrutiny and audit</p> <p>Arrangements for scrutiny of public finances and follow up by executive are operating</p>	<p>Accounting records are rudimentary so do not ensure adequate decision-making information.</p> <p>There is scrutiny of the overall fiscal position at council level</p>	<p>Information on actual expenditure against budget is not provided during the year.</p> <p>Scrutiny through external audit is only just starting and has not been scrutinised by the administration as yet.</p> <p>Council needs to build capacity to fully evaluate the results of the work of the SAI.</p>	<p>The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.</p> <p>The development of audits over time will assist in the development of overall service delivery</p>

Assessment of the PFM systems, processes and institutions

3. Budget credibility

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

Aggregate budgeted and outturn expenditure is presented below for 2007, 2008 and 2009 covering aggregate expenditure. In each of the years, outturn is below budgeted expenditure.

The position relating to aggregate actual expenditure compared to budgeted is weak though improving. The 2007 deviation stood at 63%, fell to 62% in 2008 and fell again to 32% in 2009.

Aggregate Expenditure Le million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	3,361	1,260	2,101	63
2008	3,802	1,457	2,345	62
2009	3,736	2,532	1,204	32

Source: MTEF Budgets and Annual Financial Statements

A Score of D is therefore appropriate.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	Score D (i) In two or all of the last three years the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

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

This indicator measures the extent to which reallocations 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 the organisational 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)
2007	63%	67%	4%
2008	62%	62%	0%
2009	32%	76%	44%

Source: MTEF Budgets and Annual Financial Statements

Expenditure Variance differs from overall deviation in aggregate expenditure by 4% in 2007 (67% as against 63%) and were both the same (at 62%) in 2008. But the difference rose substantially to 44% in 2009 (76% as against 32%).

Score C

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

ANNEX to PI-2 - EXPENDITURE ANALYSIS 2007 - 2009

	2007				2008				2009			
	Budget	Actual	Absolute Differenc e	%	Budget	Actual	Absolute Differenc e	%	Budget	Actual	Absolute Differenc e	%
	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%
Total Expenditure	3,361	1,260	2,236	67%	3,802	1,457	2,376	62%	3,736	2,532	2,830	76%
General Administration	926	692	235	25%	937	738	199	21%	506	1,319	813	161%
Devolved Function - Education	1,479	34	1,445	98%	1,807	168	1,638	91%	1,460	301	1,158	79%
Devolved Function - Health	253	281	28	11%	304	265	39	13%	311	184	127	41%
Devolved Function - Solid Waste Mangt.	131	79	52	40%	157	130	27	17%	190	147	43	23%
Devolved Function - Agriculture	31	71	39	126%	38	52	15	39%	103	59	44	42%
Other Devolved Functions	79	15	63	81%	47	48	1	2%	46	33	14	30%
Development Expenditure	462	88	373	81%	513	55	458	89%	1,119	489	631	56%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health

- 2008 Budget for Development Expenditure adjusted for error
- For 2008 Actuals, Trial Balance presented is confusing and figures may be incorrect
- 2009 Bud. For Gen. Admin adjusted for error

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

Outturn and budgeted own revenue data for 2007, 2008 and 2009 are presented below.

Own Revenue Le million

	Budget	Outturn	Diff +/-	Diff %
2007	889	547	342	38
2008	937	537	400	43
2009	1,182	852	330	28

Source: MTEF Budgets and Annual Financial Statements

Actual own source revenue was lower than forecast in the budget in 2007 by 38%, by 43% in 2008 and by 28% in 2009, reflecting a weak estimate of actual revenue collection in all years. The significant factor in these variations was the poor estimation of own revenues, in particular property tax. The practice of setting high targets to encourage increased revenue collection exists but ultimately serves to undermine the budget's credibility as in year expenditures suffer as targets are not met.

Score D

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score D (i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.

PI-4. Stock and monitoring of expenditure payment arrears

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

There is no reliable information on the extent of arrears as no robust system exists for capturing arrears. This is presently being addressed with the Finance Officer recently adopting a spreadsheet for capture.

Not rated

- (i) Availability of data for monitoring the stock of expenditure payment arrears

There is no data on the stock of arrears.

The appropriate score for this sub-dimension is D.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Not rated (iii) Not rated. There is no reliable information on the extent of arrears as no robust system exists for capturing arrears. (iv) Score D. There is no reliable data on the stock of arrears from the last two years.

4. Transparency and comprehensiveness

PI-5. Classification of the budget

This indicator assesses the classification system used for formulation, execution and reporting of the central government's budget.

The classification of the budget has a simple administrative breakdown only. BCC has not started using PETRA Accounting Software for recording of transactions, though training has been provided. A manual

system is presently in use. Once the PETRA Accounting System is in use, the MOF IFMIS Chart of Accounts would be adopted at SN level which would improve the score to a C.
Score D.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: D. (i) D The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

PI-6. Comprehensiveness of information included in budget documentation

The MTEF for the next and subsequent two years is the main document which is produced as part of the budget calendar. No required elements of information are included.

The following elements are included in the MTEF.

Element	MTEF	Notes
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	No	Budgetary Notes provided on the Economic and Political Environment but there is no information on estimates of aggregate growth, inflation and exchange rate
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	n/a	Budget Documentation presents zero budget deficit
3. Deficit financing, describing anticipated composition.	n/a	The Deficit Financing is zero as Budget Deficit presented is zero
4. Debt stock, including details at least for the beginning of the current year.	No	There is no information presented on the level of debt stock or arrears
5. Financial Assets, including details at least for the beginning of the current year.	No	This information is not provided
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No	This information is not provided
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Partial	But narrative notes on budgetary performance for the current year are provided
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	Summarised budget performance data only provided for the current year revenue
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	There is no assessment of budget implications for changes in policy

	Minimum Requirements (scoring Method M1)
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PI-6. Comprehensiveness of information included in budget documentation.	Score D Recent budget documentation fulfills 0 of the 9 information benchmarks (2 or less).
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PI-7. Extent of unreported government operations

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

There is no evidence of extra-budgetary expenditures and therefore no “unreported” government operations.
Score A

(iv) Income/expenditure information on donor-funded projects which is included in fiscal reports. All information on donor assistance through projects passing through the council’s budget was available and therefore captured in financial statements. In particular, the \$23,000 UNDP assistance to property tax valuation was fully captured in fiscal reports and represents 2.7% of actual expenditure (using \$=Le3000 forex rate). Other donor projects in the municipality exist but are not routed through the budget of BCC.
Score A

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score A (i)Score A. The level of unreported extra budgetary expenditure (other than donor projects) is insignificant (ii)Score A. Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).

PI-8. Transparency of Inter-Governmental Fiscal Relations

There are no transfers made to lower levels of government by BCC. Only expenses are paid for the holding of ward meetings. No monitoring of Ward Committees’ finances is made. Ward members are occasionally used to collect fees and charges on behalf of the BCC and will be paid accordingly.

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	n/a There are no transfers made to lower levels of government by BCC.

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

BCC does not own any AGAs or PEs. Neither is it relevant for it to monitor the fiscal position of lower SN levels. The next level below BCC is the ward committee which does not operate any significant budget, nor receive transfers from BCC.

This indicator is therefore not applicable.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk	n/a BCC does not own any AGAs or PEs.

from other public sector entities	
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PI-10. Public Access to key fiscal information

All works contract awards (the only large awards and often below \$100,000) are posted on the BCC notice board and also publicised in the press. This is not a requirement but an example of good practice operated by the BCC Procurement Office. There have been no published External Audit reports in the last 3 years. School Fees Subsidies, transfers, drugs, etc. are displayed on own Notice Board. Other information is not made available to the public.

Public access to key fiscal 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. Copies of the Budget approved by the Council are readily made available on request. Given its bulky nature only content pages and important tables of the Budget Documentation is placed on the Notice Board with details of where to access the rest of the documentation
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Limited. Summary Details of Actual Cash Flows of Revenue and Expenditure (Budget Outturns) are normally placed on the Notice Board by the 15th of the following month signed by Chief Administrator and Finance Officer but these are not being compared with the Approved Budget
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No. This is currently not available as the Audited Accounts and Audit Reports for a number of years are only being received now
(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	Yes. Reports for 2004-2008 have been discussed and made public within 6 months of receipt. 2009 is now under discussion.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.	Yes. Copies of Award Letters displayed on Notice Board
(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. School Fees Subsidies, transfers, drugs, etc. Displayed on own Notice Board
Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media	Not systematically

	Minimum Requirements (Scoring Method M1)
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PI-10. Public Access to key fiscal information	Score B Government makes available to the public 4 of the 7 listed types of information.
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3 Policy-based budgeting

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

- (iv) Existence of and adherence to a fixed budget calendar
There exists a clear budget calendar, based on the MOFED calendar but with dates added for departmental submissions, which allows departments 2 weeks to prepare detailed submissions. The constrained time period is a function largely of the adherence to the MOF timetable, requiring LCs to submit budgets by the end of September.
Score C
- (ii) Guidance on the preparation of budget submissions.
There is no BCC circular prepared, though the MOFED circular is distributed but ceiling therein are only relevant to the devolved functions. All departments are not provided with ceilings. They make and present annual work plans and budget submissions (by end of September deadline), which are being considered by a Budget Committee that decides on aggregate allocations.
Score D
- (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).
The legislature approved the budget before the end of the year (by November of the current year and always before December) before being sent to MOF. However, it should be noted that MoFED does provide extra funds to the agreed budget during the fiscal year, particularly the development budget which appears to take longer to agree at CG level. This constrains the Development planning of the LC
Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	Score C+ (iv) C. An annual budget calendar exists, but it is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely. (v) D. A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment. (vi) A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.

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

- (v) Preparation of multi -year fiscal forecasts and functional allocations.
Three-year rolling forecasts are generally made on the administrative classification and on economic classification (as received from CG) for devolved sectors only (the majority of the BCC budget and the main categories of economic classification). They are a 5% increment on the budget year for the 2 outer years.
Score C

(vi) Scope and frequency of debt sustainability analysis.

BCC has no debt and has no independent borrowing powers. Debts could be accrued with the agreement of MOFED but this has not happened as yet.

n/a

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

The council provides services directed towards improving the welfare of its inhabitants and each councillor is primarily charged with the responsibility of consulting with its ward on their basic needs and expectations. These are communicated to council and translated into three-year rolling development plan, based on which the three-year MTEF Budget is being prepared. The development plan is built up after many ward consultations and needs assessment, including consultative meetings with Section Chiefs, civil society representatives, and other stakeholders and technical experts in the city. The Local Government Finance Department is usually at hand to assist the council in its budget process. With regard to administrative items, departments are requested to submit their budgets and procurement needs which are then being aggregated, as the budgets are not presented by departments but are all grouped together. The Draft Budget Proposal is considered by the Budget and Finance Committee of Council before final approval by whole of Council.

Score D

(viii) Linkages between investment budgets and forward expenditure estimates

No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.

Score D

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score D+</p> <p>(i) C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</p> <p>(ii) n/a</p> <p>(iii) D Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.</p> <p>(iv) D Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</p>

4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Revenue Assessment and Collection in BCC is headed by a Principal Revenue Co-ordinator and the major sources of revenues are:

- Property Taxes – City Rates
- Municipal Licences for Businesses and market dues
- Local Tax
- Fees and Other Charges

New software for revenue is in use for property rates and business licences. This software was developed using the Ms Access platform and ensures that revenue records are maintained electronically, with a Tax Identification Number. A User Manual was prepared dated March 2010 for the Revenue Software. However, the Revenue Software is not considered robust in dealing with revenue valuation and collection as it: a) lacks audit trail; b) does not provide adequately for segregation of duties with tight password control; c) does not integrate well with the Accounting System – will have to input receipts manually; and d) could not easily move data from one period to the other so as to generate arrears. However, this software has reduced

potential discretionary powers of the council.

Legislation is clear about tax liabilities. Property tax and market dues. Procedures are sometimes unclear e.g. problems exist with Guest Houses (who claimed to have paid business licences to National Tourist Board) and Banks (who claimed to have paid business licences to Company Registrar).

Score B

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

Taxpayers can access the legislation (LGA 2004) and administrative procedures of most taxes through local radio programmes on weekly basis (with Council Hour every Wednesday).

Score C

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

The LGA 2004 does not allow for a complaints mechanism. Tax appeals may be lodged through the Chief Administrator. There is no independent appeal mechanism being established.

Score D

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	<p>Score C</p> <p>(i) B. Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.</p> <p>(ii) C. Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.</p> <p>(iii) D. No functioning tax appeals system has been established</p>

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

(ii) Controls in the taxpayer registration system.

A Revenue Database Software (based on Ms Access) is currently in use for both Property tax registration and Business Licences. Surveys of potential taxpayers (and liabilities) have been carried out since 2008.

Score C

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

The penalties for non payment of property tax include poundage and are effective in that arrears are collected with an interest charge (poundage) for late payment. Arrears were written off on the adoption of the computerised registration system in 2008. These arrears are still recorded as are arrears since 2008. Current collection is much improved. Other taxes are less effectively collected.

Score B

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

Tax audits are not undertaken

Score D

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer	<p>C</p> <p>(i) 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</p>

registration and tax assessment	<p>supplemented by occasional surveys of potential taxpayers.</p> <p>(ii) B. Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.</p> <p>(iii) D. Tax audits are not undertaken</p>
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PI-15 Effectiveness in collection of tax payments

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 is a comprehensive record of debts on property tax (2008 amnesty has resulted in a system which allows for a ready calculation of arrears on the Access software), but not on business licences. No figures exist yet on arrears collection.

Not rated

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

Property tax (or rates) and Business Licences are paid directly into bank by householders and businesses. Collection of market dues are contracted out and also paid directly into the bank.

Score A

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

No reconciliation occurs.

Score D

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Score D+</p> <p>(i) Not rated No figures exist on arrears collection.</p> <p>(ii) A All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.</p> <p>(iii) 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.</p>

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

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

No cash flow planning occurs. However, the desire to make such projections will be hindered by poor budgeting, poor revenue performance and the unpredictability nature of Central Government transfers.

Score D

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

Budgets are not disaggregated and departments are not provided with reliable indications of resource availability for commitment. However, tied grants provide some reliability, on annual basis, in terms of knowing that devolved functions will be resourced, though timing of transfers inhibits expenditure planning.

Score D

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

It appears that adherence to the budget is minimal. There is weak budgetary control, with additional risk posed by unpaid bills and outstanding contractual payments that are not recorded until they are paid or cleared. Although commitments are checked against budget lines, emergencies can override this control, though this is decreasing under the new administration (since mid 2009)

Score D

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	Score D (iv) D Cash flow planning and monitoring are not undertaken or of very poor quality. (v) D MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment. (vi) D Significant in-year budget adjustments are frequent and not done in a transparent manner.

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

(i) Quality of debt data recording and reporting

BCC not legally able to contract debt without approval from MOF.
n/a

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

Cash balances are consolidated and monitored at least monthly when monthly financial statements are prepared.
Score C

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

There is no contracting of loans.
n/a

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	Score C (iv) n/a. BCC not legally able to contract debt without approval from MOF (v) C. Calculation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances (vi) n/a No contracting of loans

PI-18 Effectiveness of payroll controls

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

Payroll is held on MS Excel spreadsheet. Personnel records are manual. Adjustments such as promotions and redundancies are made to the payroll within a month with full documentation passed between personnel and the Finance Office. The Finance Office checks changes made each month.
Score B

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

Updates occur within one month and are supported by documentation from the Chief Administrator. Given the small size of the workforce, the FO could not recall the need for retroactive adjustments ever.
Score A

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

Authority and basis of changes to personnel and payroll records are clear and are monitored by the Finance Officer resulting in a clear audit trail. The payroll is prepared using MS Excel spreadsheet , but there is no payroll comparative analysis schedule being prepared that shows the payroll adjustments from the previous month. However, all staff salaries are paid through individual bank accounts.

Score B

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

No payroll audits have taken place in the past 3 years. However the new administration has carried out staff verification exercises (calling all employees to the BCC HQ and verifying them compared to personnel records) backed up with an agreement with the bank that salaries are only collected at the bank with the provision of a chit by the CA.

Score C

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>C+</p> <p>(v) B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(vi) A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(vii) B Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(viii) C. Partial payroll audits or staff surveys have been undertaken within the last 3 years.</p>

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

(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).

BCC procurement is subject to Public Procurement Act 2004 and the 2006 Procurement Regulations, and the procurement department liaises closely with the CG Procurement Agency. 100% of procurements over the past 3 years over the national threshold (Le60 million) used open competitive bidding.

Score A

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

Procurements below the threshold follow the law and regulations above. There were no instances of less competitive methods used for items over the threshold.

Score A

(iii) Existence and operation of procurement complaints mechanism

Complaints can be made to the CA in the first instance and then to the Independent Review Panel through the NPPA. Apparently there have been no complaints brought to the CA in the past 3 years.

Score A

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>A</p> <p>(iv) A. Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>(v) A Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>(vi) A A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of</p>

	an external body with data on resolution of complaints accessible to public scrutiny.
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PI-20 Effectiveness of internal controls for non-salary expenditure

(ii) Effectiveness of expenditure commitment controls.

Procedures exist but in the absence of the Vote Service Ledger (VSL) the Finance Officer manually checks aggregate expenditure (by line item) on Excel Spreadsheet against budgeted amounts (in hard copy). The PETRA Accounting System once in use would provide improved commitment control.

Score C

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

Financial Administration Regulations exist but in draft form. There are basic rules being followed with authority sought from the CA. However, there are concerns for inaccurate reporting and recording for some unpaid bills and staff loans, especially where cash based accounting is used.

Score C

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

Compliance with existing rules is fairly high, in particular as a result of significant involvement of the Mayor and deputy mayor in ensuring compliance, but the financial administrative regulations need to be finalized. Emergency procedures are used occasionally (usually to satisfy councillors requests for expenditures) without adequate justification.

Score B

.	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	<p>C+</p> <p>(iv) C Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.</p> <p>(v) C Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.</p> <p>(vi) B Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.</p>

PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

The Internal auditor has been in post for one year and has relevant qualification and skill in Accounting and Auditing. He uses Audit Manuals prepared by Internal Audit, Ministry of Finance and has also received audit training. He has one assistant. He has the full support of senior management. His work plan covers systemic issues and the majority of staff time both for devolved functions and also own revenue expenditures.

Score A

(ii). Frequency and distribution of reports

The IA has produced four internal audit reports, though not to a fixed schedule, that are sent to CA for the attention of Council. The reports are shared with the Internal Audit, Ministry of Finance and SAI. However, the internal auditor will need to be provided with computer (as he currently uses his personal laptop) and vehicle/transport for field visits. The regularity of reporting is expected to improve as IA develops and adheres to work plans.

Score D

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

The IA is satisfied with prompt (within 4 weeks) management action on 25% of recommendations so far, with the most critical areas addressed. However, there is no audit committee to monitor the internal audit function. The IA reports to the council issues concerning the activities of the CA.

Score B

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	Score D+ (iv) A Internal audit is operational for all SN government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time). (v) D Reports are either non-existent or very irregular. (vi) B Prompt and comprehensive action is taken by many (but not all) managers.

5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Bank reconciliation is carried out on monthly basis within 4 weeks of the end of period. The bank reconciliation statements are signed by the Accountant, the Finance Officer and the Chief Administrator.

Score A

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

There are no suspense accounts or advances, according to financial statements which are derived from the trial balance.

n/a

	Minimum requirements (Scoring Method M2).
PI-22 Timeliness and regularity of accounts reconciliation	A (iii) A Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (iv) n/a

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.

Data is available from the annual CG PETS report but not compiled into local reports. It is questionable how comprehensive the data is.

Score D

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score D (ii) D No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

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

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

In-year financial statements are produced on cash basis but there are no comparisons made with budgeted figures, though in theory this could be achieved. Council meetings are held monthly where the in-year financial statements are being scrutinised. Consultants attended the 31st August 2010 Council meeting wherein the Finance Officer presented his July 2010 Financial Statements, which were discussed.

Not rated

(ii) Timeliness of the issue of reports

There are no in-year budget execution reports. In-year financial statements are produced every month by the 15th of the subsequent month and placed in the Council's notice board

Not rated

(iii) Quality of information

There are no in-year budget reports.

Not rated

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Not rated

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. Financial statements are prepared annually but some information is missing, such as accounting policies, and arrears position.

Score C

(ii). Timeliness of submission of the Financial Statements.

Financial Statements are produced and submitted for external audit within three months of the end of the financial year.

Score A

(iii). Accounting Standards Used.

Financial Statements are not presented in a professional and user friendly manner. However, accounting standards are disclosed in the notes to the accounts and are consistent over time.

Score C

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>C+</p> <p>(iv) C A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</p> <p>(v) A The statement is submitted for external audit within 6 months of the end of the fiscal year.</p> <p>(vi) C Statements are presented in a consistent format over time with some disclosure of accounting standards.</p>

6 External scrutiny and audit

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

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

Given the infancy of local government, external audit reports have not been issued out until 2010. These

cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs (including the council) and were therefore not available for review by the PEFA team. The coverage is that of a normal financial audit.

Score C

(ii) Timeliness of submission of audit reports to legislature

Audit reports for the 2005 – 2008 are only now being submitted to the Chief Administrator for onward forwarding to Council, being more than 12 months from the end of those financial years

Score D

(iii) Evidence of follow up on audit recommendations

Council deliberated on the past audit reports just being submitted and issued out queries.

Score C

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	<p>D+</p> <p>(iv) C SN government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only</p> <p>(iv) 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).</p> <p>(v) C A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.</p>

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

The Council annually considers the detailed budget proposals (including medium term priorities and revenue and expenditure estimates) for coming year as well as the Development plan that presents the medium term priorities and form the basis for the detailed budget proposals. The B&F committee representative attends budget preparation meetings

Score A

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

Simple procedures exist and are respected. The detailed budget proposal is thoroughly scrutinized by the Budget and Finance Committee of Council before being considered by the whole of Council

Score B

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

The budget proposals are usually submitted to Council in September and approved by November. Council has at least one month to review the budget before it is sent to the Ministry of Finance in November. As noted above, this budget often does not include development expenditures given the lack of a development ceiling from Ministry of Finance.

Score B

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

Rules exist under the FAR but reallocations are made sometimes in a non-transparent manner

Score D

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>D+</p> <p>(v) A The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.</p> <p>(vi) B Simple procedures exist for the legislature’s budget review and are respected.</p> <p>(vii) B The legislature has at least one month to review the budget proposals.</p> <p>(viii) D. Rules regarding in-year budget amendments may exist but are either rudimentary or unclear OR they are usually not respected.</p>

PI-28: Legislative scrutiny of external audit report

Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs and have been scrutinised by the council but as yet have not been formally commented on by LCs.
Not rated

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	Not rated None formally scrutinised as yet

7. Donor practices

D-1 Predictability of Direct Budget Support

There has been no budget support
n/a

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	n/a

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

- (i) Completeness and timeliness of budget estimates by donors for project support.
UNDP’s assistance was reflected in budget expenditures but was not planned in time to be incorporated in the 2009 budget
Score D
- (ii) Frequency and coverage of reporting by donors on actual donor flows for project support.
UNDP did not provide reports on disbursements.
Score D

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	D (i) 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 its start. (ii) D Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

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. All procurement under the UNDP assistance was effected using LC procurement, banking and accounting procedures.
Score A

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	A (i) A 90% or more of aid funds to central government are managed through national procedures.

HLG - 1

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget. CG transfers were lower than forecast in 2007 by 75%, 69% in 2008 and improving to 16% in 2009. Reasons for shortfalls include cash rationing at treasury as well as the filing of reports by BCC. It appears that the regularity of transfers is improving. 2007, an election year, saw cash rationing at the Ministry of Finance. 2009 represents a much improved situation.

CG Transfers Le million

	Budget	Outturn	Diff +/-	Diff %
2007	2,472	613	1,859	75
2008	2,865	875	1,990	69
2009	2,554	2,136	418	16

Score D

(ii) Annual variance between actual and estimated transfers of earmarked grants. In the absence of information on the amounts of each earmarked grant actually transferred to general administration, this indicator has been assessed by looking at the variation in earmarked grants transferred under devolved functions (assuming that none of the actual expenditures were funded from own revenues). It can be seen that in all years, variance within grants did not differ significantly from the reduction in transfers, though did exceed 10% in 2008.

The budgeted and actual transfer data for earmarked grants are as follows:

CG Earmarked transfers Le million

	Transfer Deviation	Transfer Variance	Variance in excess of Deviation
2007	77	82	5
2008	65	76	11
2009	62	62	0

Source: MTEF Budgets and Annual Financial Statements

Score C

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

There is no disbursement timetable but transfers are made quarterly. In 2007, transfers were made in only the first quarter whereas in 2008 nearly all transfers were in the second quarter. But in 2009, the transfers were fairly evenly disbursed in all four quarters. Interestingly, the Ministry Finance attempts to disburse at mid quarter rather than at the beginning of the quarter, resulting in no funding from January 1st – mid February each year.

Score C

	2010	
	Score	Explanation
HLG - 1 Predictability of Transfers from Higher Level of Government	D+	<p>(iv) D – In at least two of the last three years HLG transfers fell short of the estimate by more than 15% OR no comprehensive estimate is submitted to the SN government in time for inclusion in its budget.</p> <p>(v) C – Variance in provision of earmarked grants exceeded overall deviation in total transfers by more than 10 percentage points in no more than one of the last three years</p> <p>(vi) C –. A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years.</p>

ANNEX to HLG-1 - EXPENDITURE ANALYSIS 2007 - 2009

	2007						2008						2009					
	Budget	Actual	Difference	% Difference	Absolute Difference	%	Budget	Actual	Difference	% Difference	Absolute Difference	%	Budget	Actual	Difference	% Difference	Absolute Difference	%
	Le' m	Le' m	Le' m	%	Le' m	%	Le' m	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%	Le' m	%	
Total Transfer	2,435	568	1867	77	2,000	82%	2,865	719	2,146	75%	2,177	76%	3,230	1,213	2,017	62%	2,017	62%
Devolved Function - Education	1,479	34			1,445	98%	1,807	168			1,638	91%	1,460	301			1,158	79%
Devolved Function - Health	253	281			28	11%	304	265			39	13%	311	184			127	41%
Devolved Function - Solid Waste Mangt.	131	79			52	40%	157	130			27	17%	190	147			43	23%
Devolved Function - Agriculture	31	71			39	126%	38	52			15	39%	103	59			44	42%
Other Devolved Functions	79	15			63	81%	47	48			1	2%	46	33			14	30%
Development Expenditure	462	88			373	81%	513	55			458	89%	1,119	489			631	56%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health

- 2008 Budget for Development Expenditure adjusted for error
- For 2008 Actuals, Trial Balance presented is confusing and figures may be incorrect
- 2009 Bud. For Gen. Admin adjusted for error

APPENDIX 1 – BUDGETARY ANALYSIS 2007 - 2010

	2007			2008			2009			2010	% Change in 2010 Bud/2009 Act.
	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	
	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	%
Total Revenue	3,361	1,159	-66%	3,802	1,412	-63%	3,736	2,988	-20%	5,025	68.2%
Own Source Revenue	889	547	-38%	937	537	-43%	1,182	852	-28%	1,743	104.5%
Grants	2,472	613	-75%	2,865	875	-69%	2,554	2,136	-16%	3,283	53.7%
Admin & Devolved Grants	2,087	370	-82%	2,480	762	-69%	2,215	1,588	-28%	3,283	106.8%
Local Development Grants	385	243	-37%	385	113	-71%	339	541	59%	-	-100.0%
Others	-	-		-	-			7			
Total Expenditure	3,361	1,260	-63%	3,802	1,457	-62%	3,736	2,532	-32%	5,025	98.5%
Recurrent Expenditure	2,899	1,171	-60%	3,417	1,402	-59%	2,617	2,043	-22%	4,764	133.2%
Development Expenditure	462	88	-81%	385	55	-86%	1,119	489	-56%	261	-46.5%
Overall Balance	-	(100)		-	45		-	456		-	
Net Change in Fund Balance	-	100		-	45		-	(456)		-	
External financing (net)	-	-		-	-		-	-		-	
Local financing (net)	-	-		-	-		-	-		-	
Financing gap	-	-		-	-		-	-		-	

Sources: MTEF Budgets and Annual Financial Statements

Individual Local Council Report 3

MAKENI CITY COUNCIL

Background

The City of Makeni is the capital and administrative centre of the Bombali District and the city lies 110 miles (177 km) north-east of the capital Freetown. It has a population of 105,900 as per the 2004 population and housing census (Statistics Sierra Leone). It is the fifth largest city in Sierra Leone (after Freetown, Bo, Kenema and Koidu Town). The city is the hometown of the current president of Sierra Leone Ernest Bai Koroma. The population of the city is ethnically diverse, with Temne and Limba forming the largest ethnic groups. The city of Makeni is governed with a city council form of government, which is headed by a mayor, in whom executive authority is vested. The mayor is responsible for the general management of the city and for seeing that all local and national laws are enforced. The mayor is elected directly by the residents of Makeni. The current mayor of Makeni is Moses Musa Sesay, a member of the ruling All People's Congress (APC), replacing Alhaji Andrew Kanu after the Local Government Elections in July 2008. The Council, divided into three wards, has 16 councillors plus one paramount chief as ex-officio member.

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		MCC
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	D
PI-6	Comprehensiveness of information included in budget documentation	D
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	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	D+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	A
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	A
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	NR
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	NR
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	NR
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	n/a
D-3	Proportion of aid that is managed by use of national procedures	n/a
E. CG PRACTICES		
HLG-1	Predictability of Transfers from Higher Level of Government	D+

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of Makeni City Council at September 2010. The Report follows the SN PEFA methodology and should be read alongside the Sub-National Government Summary Report which draws out themes common to all the LCs assessed.

Based on the PEFA training materials, the consultants carried out a day's training workshop for the MCC officials assigned to the PEFA exercise (Mayor, CA, Treasurer, Procurement Officer) in August 2010, to prepare them to assist with the assessment.

The draft report was circulated in December 2010, and benefitted from comments from the Makeni City Council, Government of Sierra Leone, its development partners and by the PEFA Secretariat in Washington DC.

(vii) *Integrated assessment of PFM performance*

17. Credibility of the Budget

This group of indicators (PI-1 to PI-4, CG1) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

MCC displays weak budget credibility both in terms of expenditures and revenue.

Actual expenditure falls short of budgeted in all years. This reflects, somewhat, the irregularity of transfers from Central Government, as well as overambitious revenue collection targets.

Also, in 2008, a small excess of expenditure over income was recorded and was financed by existing balances.

Revenue collection displays a similar trend, falling short of targets in all years, with the shortfall reducing though still serious.

Central government transfers fell short of forecast in all 3 years, again with a reducing shortfall.

MCC does not have a reliable system for assessing its arrears, though this is currently being addressed.

18. Comprehensiveness and transparency

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

MCC is using a manual accounting system which is not compatible. It is expected that it will soon use PETRA software which will be compatible with CG accounts. Budget documentation is rudimentary, though could easily be improved if previous years' budgeted and actual expenditures and revenues were included. All

MCC operations are reported on, though the capturing of donor projects is not currently a major problem for MCC as they are still, by and large, channelled through ministry budgets, despite the supposed devolution of responsibility to the LCs. Information for public access is poor and again could easily be addressed. A web site would facilitate the posting of more information.

19. Policy-based budgeting

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

MCC displays weak policy based budgeting. It has no budget calendar, there is no circular (though there is adherence to the MOFED calendar and circular) and the medium term perspective is weak. This reflects, to some extent, the lack of budget credibility.

The budget calendar is largely determined by the deadlines set by CG. The council does approve the budget before it is sent to the CG.

Forecasts are made for three years but are simple "increments" on the coming budget year. There is no linkage between the development budget and recurrent implications.

20. Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

MCC exhibits some basic controls on revenues and expenditures, with procurement a particular strongpoint. Penalties for non-payment of property tax are sufficiently high. Tax audits are not undertaken. Tax procedures are weak, including the complaints mechanism.

No cash flow planning occurs with the resulting lack of resource availability knowledge for departments, inhibiting their budgeting. Adherence to the budget is therefore minimal with reallocations made in a non-transparent manner, largely politically motivated. Cash balances are reconciled on a monthly basis. MCC is not legally able to contract debt.

Payroll controls are mostly strong, with a clear audit trail to changes and adjustments made in a timely manner. There is a lack of a payroll audit.

Procurement is strong with well trained officers following a strong central system. Open competitive bidding has been used for all procurements.

Controls on non-salary expenditures are strong for CG tied grants but are not strong for own revenue expenditures. Emergency procedures are often followed with political expediency cited as a reason for such emergencies. A manual for procedures is currently being developed which should strengthen controls.

Internal audit is in its infancy with the officer responsible requiring more management support

21. Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak

accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

Bank reconciliation is carried out on monthly basis and filed.

No systematic information is provided to service delivery units on items delivered.

In year budget execution reports are not presented, relating back to the weakness in budgeting above.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator.

22. External scrutiny and audit

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

Audit reports for the financial years 2005 – 2008 are only now being submitted to Council by the Auditor General. Legislative scrutiny of the budget law occurs with enough time to deliberate, though it is possible that councillors require training to improve their contributions to such scrutiny.

23. Donor Practices

Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

MCC received no donor support during the review period.

24. Transfers from Higher Level Government

This indicator assesses the predictability of inflows of transfers from CG. The regularity of inflows can affect the SN government's fiscal management and its ability to deliver services.

CG transfers to MCC were lower than forecast in 2007 by 42%, by 57% in 2008 and by 7% in 2009, impacting on expenditure composition. Transfers are made irregularly, mostly in the first quarter in 2007, second quarter in 2008 and more evenly in 2009.

(viii) Assessment of the impact of PFM weaknesses

Weaknesses can be summarized as:

- Budget Planning
 - Planning and budget formulation is weak. There is need to improve planning and budget formulation in MCC to fully reflect policy priorities established through the MTEF, as well as realistic revenue forecasts. Specific attention needs to be directed at formulating a costed development plan and associated sector strategies. To facilitate this. It is important to fully devolve sector responsibilities from the line ministries, given that currently, line ministries still dominate sector planning. The consequence of these weaknesses are that resource allocation linked to priorities is ineffective and MCC allocates the budget as it sees fit rather than an allocation based on priorities and sectoral expertise. The incentive for planning is currently undermined by the irregularity of resource flows from CG. An adherence to a strict timetable of transfers would greatly assist budget planning.

- Budget Execution
 - There is a need to address the recording and management of arrears so that a realistic financial position of MCC can be established
 - No cash flow planning occurs. Therefore there is little adherence to the budget
 - There is a need for greater controls on own revenue expenditures which can be subject to demands outside of the budget initiated by politicians
- Budget Accounting and Controls
 - Budget accounting and controls are still in their infancy although some progress has been made in recent years. The PETRA accounting software when fully rolled out will greatly assist in improving accounting and controls, including the compatibility with CG. In year budget reports require development is adherence to the budget is to be improved. Internal control is also in its infancy and there is a need to further support the LC officers with appropriate resources to complete their task. Without these, control will focus on top-down compliance and enforcement rather than holding sector managers fully accountable for managing their budgets. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
 - Cash management is weak resulting in potential leakages from revenues
 - Although arrears appear to be minimal, there should be robust systems developed for recording arrears
- Budget Reporting and External Audit
 - In year budget reports are not produced further undermining the credibility of the budget
 - External audit also in its infancy. Impact of initial reports remains to be seen.

(ix) ***Prospects for reform planning and implementation***

See summary report

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	Budget estimates of revenue and expenditure are weak.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
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	Budget documentation is weak	All expenditures and revenue are included in the Budget. Availability of information on the budget to the public and scrutiny of the budget by council does not provide adequate transparency.	The connection between sector strategies and budgets is limited.
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. However, there is little evidence that this is the case.	The CG budget calendar provides sufficient time for due deliberation by council to establish expenditure ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within departments is yet to be developed. The next stage of the MTEF needs to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum 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>		

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
The budget is executed in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds	<p>Tax collection and arrears requires strengthening. The full operation of property tax software should assist in this regard</p> <p>The execution of the budget is at times ad hoc ad subject to political influence</p>	<p>If departments do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.</p>	<p>The lack of adherence to the budget may mean that inputs are not supplied when they are needed. Service delivery may be part of the decision making process but cash availability is the ultimate deciding factor, constrained by irregular transfers from CG.</p> <p>Internal audit is improving and addressing major items of expenditure and risk.</p>
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>Accounting records are rudimentary so do not provide an adequate basis for decision-making.</p>	<p>Information on actual expenditure against budget is not provided during the year.</p>	<p>The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.</p>
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	<p>There is scrutiny of the overall fiscal position at council level</p>	<p>Scrutiny through external audit is only just starting and has not been fully scrutinised by the administration as yet.</p> <p>Council needs to build capacity to fully evaluate the results of the work of the SAI.</p>	<p>The development of audits over time will assist in the development of overall service delivery</p>

Assessment of the PFM systems, processes and institutions

5. Budget credibility

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

Aggregate budgeted and outturn expenditure is presented below for 2007, 2008 and 2009 covering aggregate expenditure. Although the situation improved substantially in 2009, the position relating to aggregate actual expenditure compared to budgeted amounts was still weak due to poor budgeting, poor revenue collection and the unpredictability of CG Transfers. The deviation was 66% in 2007, reducing to 54% in 2008 and further to 25% in 2009.

Aggregate Expenditure Le million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	2,488	847	1,641	66
2008	2,319	1,075	1,244	54
2009	2,373	1,784	589	25

Source: MTEF Budgets and Annual Financial Statements

A Score of D is therefore appropriate.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	Score D (i) In two or all of the last three years the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

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

This indicator measures the extent to which reallocations 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 the organisational 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)
2007	66%	66%	0%
2008	54%	60%	6%
2009	25%	35%	10%

Source: MTEF Budgets and Annual Financial Statements

Expenditure Composition and overall deviation in aggregate expenditure both stood at 66% in 2007, but they differ by 6% in 2008 (60% as against 54%), and by 10% in 2009 (35% as against 25%).

Score C

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

ANNX to PI-2 - EXPENDITURE ANALYSIS 2007 - 2009

	2007				2008				2009			
	Budg et	Actu al	Absolu te Differ ence	%	Bud get	Actu al	Absol ute Differ ence	%	Bud get	Actu al	Absol ute Differ ence	%
	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%
Total Expenditure	2,488	847	1,641	66%	2,319	1,075	1,403	60%	2,373	1,784	825	35%
General Administration	491	473	18	4%	914	476	439	48%	840	774	66	8%
Devolved Function - Education	518	40	478	92%	575	26	549	95%	616	176	440	71%
Devolved Function - Health	253	142	111	44%	183	134	49	27%	149	92	56	38%
Devolved Function - Solid Waste Mangt.	72	6	66	91%	300	40	260	87%	105	76	29	28%
Devolved Function - Agriculture	34	22	12	35%	54	34	20	37%	99	73	26	26%
Other Devolved Functions	25	6	19	76%	29	23	6	22%	29	148	118	401%
Development Expenditure	1,094	158	937	86%	262	342	80	30%	534	445	89	17%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health
- For 2007 Actuals adjusted for errors

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

Outturn and budgeted own revenue data for 2007, 2008 and 2009 are presented below.

Revenue Le million

	Budget	Outturn	Diff +/-	Diff %
2007	1,219	231	988	81
2008	1,105	348	757	68
2009	870	492	378	43

Source: MTEF Budgets and Annual Financial Statements

Actual own source revenue was lower than forecast in the budget in 2007 by 81%, by 68% in 2008 and by 43% in 2009, reflecting a weak estimate of actual revenue collection in all years. The significant factor in these variations was the poor estimation of own revenues, in particular property tax. The practice of setting high targets to encourage increased revenue collection exists but ultimately serves to undermine the budget's credibility as in year expenditures suffer as targets are not met.

Score D

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score D (i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.

PI-4. Stock and monitoring of expenditure payment arrears

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

There is no reliable information on the extent of arrears as no robust system existed for capturing arrears. However, the Finance Officer manages to keep track of most of the important bills. In general, it is claimed that MCC has no arrears.

Not rated

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

There is no data on the stock of arrears.

The appropriate score for this sub-dimension is D.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Not rated (v) Not rated. There is no reliable information on the extent of arrears as no robust system existed for capturing arrears. (vi) Score D. There is no reliable data on the stock of arrears from the last two years.

6. Transparency and comprehensiveness

PI-5. Classification of the budget

This indicator assesses the classification system used for formulation, execution and reporting of the central government's budget.

The classification of the budget has a simple administrative breakdown only. MCC did start to use PETRA Accounting Software for recording of transactions, but was later interrupted with a change of Finance Officer. The new Finance Officer needs further training on the PETRA Accounting System. Once the PETRA Accounting System is in use, the MOF IFMIS Chart of Accounts would be adopted at SN level which would facilitate budgeting at detailed level and improve the score to a C.

Score D.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: D. (i) D The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

PI-6. Comprehensiveness of information included in budget documentation

The MTEF for the next and subsequent two years is the main document which is produced as part of the budget calendar. Recent budget documentation (for 2010) fulfills none of the 9 information benchmarks. The documentation reflects zero budget deficit with financing of the deficit being n/a, but the budget deficit was not shown on the face of the document. No required elements of information are included.

The following elements should be included in the MTEF.

Element	MTEF	Notes
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	No	Budgetary Notes provided on the Economic and Political Environment but there is no information on estimates of aggregate growth, inflation and exchange rate
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	No	Budget Documentation does not show the deficit even though it is a zero budget deficit
3. Deficit financing, describing anticipated composition.	No	The Deficit Financing is zero as Budget Deficit presented is zero
4. Debt stock, including details at least for the beginning of the current year.	No	There is no information presented on the level of debt stock or arrears
5. Financial Assets, including details at least for the beginning of the current year.	No	This information is not provided
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No	This information is not provided
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Partial	Narrative notes on the current year's service delivery performance are provided
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	Summarised budget performance data only provided for the current year
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	There is no assessment of budget implications for changes in policy

	Minimum Requirements (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score D Recent budget documentation fulfills 0 of the 9 information benchmarks (2 or less).

PI-7. Extent of unreported government operations

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

There is no evidence of “unreported” government operations.
Score A

(vi) Income/expenditure information on donor-funded projects which is included in fiscal reports. The financial information on donor assistance through projects in Makeni is not routed through MCC accounts. MCC receives no donor assistance directly.
Score A

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score A (i) Score A. The level of unreported extra budgetary expenditure (other than donor projects) is insignificant (ii) Score A Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).

PI-8. Transparency of Inter-Governmental Fiscal Relations

There are no transfers made to lower levels of government by MCC. Only expenses are paid for the holding of ward meetings. No monitoring of Ward Committees’ finances is made. Ward members are occasionally used to collect fees and charges on behalf of the MCC and will be paid accordingly.

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	n/a There are no transfers made to lower levels of government by MCC.

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

MCC does not own any AGAs or PEs. Neither is it relevant for it to monitor the fiscal position of lower SN levels. The next level below MCC is the ward committee which does not operate any significant budget, nor receive transfers from MCC.
This indicator is therefore not applicable.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	n/a MCC does not own any AGAs or PEs.

PI-10. Public Access to key fiscal information

There have been no published External Audit reports in the last 3 years. School Fees Subsidies, transfers, drugs, etc. are displayed on the council’s own notice boards. MCC places summary of contract awards on its own notice boards. Other information is not made available to the public.

Public access to key fiscal information is assessed through the seven 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. Copies of Budget approved by the Council are readily made available by way of a Notice placed on the Notice board to contact the Finance Office
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Limited. Summary Details of Actual Cash Flows of Revenue and Expenditure (Budget Outturns) are normally placed on the Notice board by the 15th of the following month but these are not being compared with the Approved Budget
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No. These are not made available to the public.
(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. This is currently not available as the Audited Accounts and Audit Reports for a number of years have only been discussed recently. Information on the reports has not been made available to the public.
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. Are published at least quarterly through appropriate means.	Yes, Summary of contract awards are placed on own notice boards
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No. This is not available to the public by facility but are infrequently announced over the radio during Council hour.
(vii) Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media	No. These are sometimes published at the hospital but not systematically

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score C Government makes available to the public 2 of the 7 listed types of information.

3 Policy-based budgeting

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

- (v) Existence of and adherence to a fixed budget calendar
There is no fixed budget calendar for MCC – only a willingness to adhere to the MOF budget calendar. Dates are annually prepared for departmental submissions and Budget and Finance committee meetings. Departments are usually given about 2 weeks to prepare submissions
Score D

- (iii) Guidance on the preparation of budget submissions.
There is no MCC budget circular prepared, only the forwarding of the MOFED circular. Departments are not provided with budget ceilings. They make and present annual work plans and budget submissions (by end September deadline), which are being considered by a Budget Committee that decides on aggregate allocations.
Score D
- (iv) Timely budget approval by the legislature or similarly mandated body (within the last three years).
The legislature approved the budget before the end of the year (by November of the current year and always before the beginning of December) and before being sent to MOF. However, it should be noted that MoFED does provide extra funds to the agreed budget during the fiscal year, particularly the development budget which appears to take longer to agree at CG level. This constrains the Development planning of the LC
Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	<p>Score C</p> <p>(vii) D. A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.</p> <p>(viii) D. A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p> <p>(ix) A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p>

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

- (ix) Preparation of multi -year fiscal forecasts and functional allocations.
Three-year rolling forecasts are generally made on the administrative classification and on economic classification (as received from CG) for devolved sectors only (the majority of the BCC budget and the main categories of economic classification). They are a 5% increment on the budget year for the 2 outer years.
Score C
- (x) Scope and frequency of debt sustainability analysis.
MCC has no debt
n/a
- (xi) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.
Three-year rolling development plans are being prepared based on which the MTEF Budgets are developed and approved. However, there may be service delivery activities in the development plans not captured in the MTEF Budgets.
Score D
- (xii) Linkages between investment budgets and forward expenditure estimates
No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.
Score D

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score D+</p> <p>(v) C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</p> <p>(vi) n/a</p> <p>(vii) D Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.</p> <p>(viii) D Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</p>

4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Revenue Assessment and Collection in MCC is headed by a Principal Revenue Co-ordinator and the major sources of revenues are:

- Property Taxes – City Rates
- Municipal Licences for Businesses and market dues
- Fees and Other Charges

Legislation is comprehensive and clear for all major tax liabilities, which includes Property, market dues, and business licences. However, procedural problems exist with Guest Houses (who claimed to have paid business licences to National Tourist Board) and Mobile phone companies (who claimed to have paid to the National Telecommunications Commission), as well the collection of property tax, which is still to be computerised fully.

Score C

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

Taxpayers can access the legislation (LGA 2004) and administrative procedures of most taxes through local radio programmes on weekly basis press releases and the civil society organization is always willing to assist.

Score C

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

The LGA 2004 does not allow for a complaints mechanism. Tax appeals may be lodged through the Chief Administrator. There is no independent appeal mechanism being established.

Score D

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	<p>Score D+</p> <p>(i) 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.</p> <p>(iv) C. Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.</p> <p>(v) D. No functioning tax appeals system has been established</p>

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

(iii) Controls in the taxpayer registration system.

A Revenue Database Software (based on Ms Access) is currently in use for Property tax registration (with about 7,000 properties registered) but there are weaknesses and upgraded software is required. Temps are to be recruited soon to conduct a survey of properties in the locality. The Revenue Software is to be extended to Business Licences.

Score C

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

The penalties for non payment of property tax include poundage but enforcement is weak. Defaulters are expected to be taken to court to enforce compliance.

Score C

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

Tax audits are not undertaken

Score D

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	<p>D+</p> <p>(iv) 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.</p> <p>(v) 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.</p> <p>(i) D. Tax audits are not undertaken</p>

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 is no comprehensive record of debts on property tax and business licences. It would appear that an effective way forward is to copy the actions of Bo CC and draw a line under property tax arrears pre 2009 and establish a clear arrears record under the Access software.

Not rated

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

Property tax (or rates) and Business Licences are paid directly into MCC bank accounts controlled by treasury. Collection of market dues are contracted out and paid directly into bank.

Score A

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

No reconciliation occurs.

Score D

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Score D+</p> <p>(iv) Not rated 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).</p>

	<p>(v) A All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.</p> <p>(vi) 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.</p>
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PI-16 Predictability in the availability of funds for commitment of expenditures

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

No cash flow planning occurs. However, the desire to make such projections will be hindered by poor budgeting, poor revenue performance and the unpredictability nature of Central Government transfers.

Score D

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

Budgets are not disaggregated and departments are not provided with reliable indications of resource availability for commitment. However, tied grants provide some reliability, on annual basis, in terms of knowing that devolved functions will be resourced, though timing of transfers inhibits expenditure planning.

Score D

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

It appears that adherence to the budget is minimal. There is weak budgetary control, with additional risk posed by unpaid bills and outstanding contractual payments that are not recorded until they are paid or cleared.

Score D

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	<p>Score D</p> <p>(vii) D. Cash flow planning and monitoring are not undertaken or of very poor quality.</p> <p>(viii) D MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.</p> <p>(ix) D Significant in-year budget adjustments are frequent and not done in a transparent manner.</p>

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

(i) Quality of debt data recording and reporting

MCC not legally able to contract debt without approval from MOF.

n/a

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

Cash balances are at least consolidated and monitored monthly when financial statements are prepared.

Score C

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

There is no contracting of loans.

n/a

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	<p>Score C</p> <p>(vii) n/a. MCC not legally able to contract debt without approval from MOF</p> <p>(viii) C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</p> <p>(ix) n/a No contracting of loans</p>

PI-18 Effectiveness of payroll controls

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

Payroll (of about 54 junior staff and 12 metropolitan police) is held on Ms Excel spreadsheet. Personnel records are manual. Adjustments such as promotions and redundancies are made to the payroll within a month, and checked with previous month's data, as all personnel communications are forwarded to the Finance Officer who prepares the monthly payroll.

Score B

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

Updates occur within one month and are supported by documentation from the Acting Chief Administrator.

Score A

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

Authority and basis of changes to personnel and payroll records are clear and are monitored by the Finance Officer. There is a clear audit trail. The payroll is prepared using MS Excel spreadsheet, but there is no payroll comparative analysis schedule being prepared that shows the payroll adjustments from the previous month. All salary payments are paid to individual bank accounts.

Score B

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

Councillors did carry out a payroll verification exercise in July 2010 and another one was done in 2007.

Score C

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>C+</p> <p>(ix) B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(x) A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(xi) B Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(xii) C. Partial payroll audits or staff surveys have been undertaken within the last 3 years.</p>

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

(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).

MCC procurement is subject to Public Procurement Act 2004 and the 2006 Procurement Regulations, with close liaison with the CG Procurement Agency. All (100%) procurements over the past 3 years over the national threshold (Le60 million) used open competitive bidding.

Score A

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

Procurements below the threshold follow the law and regulations above.

Score A

(iii) Existence and operation of procurement complaints mechanism

Complaints can be made to the CA in the first instance and then to the Independent Review Panel through the NPPA.

Score A

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>A</p> <p>(vii) A. Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>(viii) A Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>(ix) A A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.</p>

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

(iii) Effectiveness of expenditure commitment controls.

Procedures exist for control of non-salary expenditure with request for payments for devolved sectors channeled through the Development Officer to check for budgetary allocations and, if procurement related, these will be forwarded to the Procurement Officer as well. The Manual Vote Service Ledger (VSL) is not in use but all payments are (in addition to the above) checked by the Finance Officer for availability of funds with approval given by the Acting CA and/or the Mayor, as the case may be. However, unpaid bills and outstanding contractual payments may pose the risk of over expenditure. The PETRA Accounting System once in use would provide commitment control but only if accounts are prepared on accrual basis rather than on cash basis.

Score C

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

Financial Administration Regulations exist but in draft form. There are basic rules being followed with authority sought from the CA. However, there are concerns for inaccurate reporting and recording for unpaid bills and staff loans, especially where cash based accounting is used.

Score C

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

Compliance with existing rules is fairly high but the financial administrative regulations need to be finalized. “Emergencies” sometimes override procedures.

Score B

	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	C+ (vii) C Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. (viii) C Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. (ix) B Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.

PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

The Internal auditor was new (only one month in post). Though he has relevant qualification in Accounting, he needs orientation and training in Auditing. He has developed a work plan based on his basic knowledge of auditing.

Score D

(ii). Frequency and distribution of reports

No audit report has been issued out as yet, as the Internal Auditor was only a month in post. However, lack of computer and proper office would be the main problems in carrying out audit function and issuing report.

Score D

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

As yet there has been no response due to lack of reports.

Not rated

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	D (vii) D There is little or no internal audit focussed on systems monitoring. (viii) D Reports are either non-existent or very irregular. (ix) n/a

5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Bank reconciliation is carried out on a monthly basis, within 4 weeks of month end. The bank reconciliation statements are signed by the Accountant, the Finance Officer and the Chief Administrator.

Score A

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

There are no suspense accounts or advances.

n/a

	Minimum requirements (Scoring Method M2).
PI-22 Timeliness and regularity of accounts reconciliation	A (v) A Bank reconciliation for all SN government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (vi) n/a

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.

No data collection exists beyond the CG PETS report. Figures therein are not isolated and developed into a local report.

Score D

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score D (iii) D No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

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

There are no in-year budget reports

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

In-year financial statements are produced on cash basis but there are no comparisons made with budgeted figures.

Not rated

(ii) Timeliness of the issue of reports

In-year financial statements are produced every month by the 15th of the subsequent month and placed in the Council’s notice board but these are not considered sufficient to be called budget performance reports. There is a need to show comparisons with budget numbers and explanatory notes issued for budget variances.

Not rated

(iii) Quality of information

The AFSs are prepared on cash basis and excludes non cash transactions, such as unpaid bills, staff loans and outstanding payments to contractors

Not rated

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Not rated

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Financial statements are prepared annually but some information is missing, such as accounting policies, and arrears position.

Score D

(ii). Timeliness of submission of the Financial Statements.

Financial Statements are produced and submitted for external audit within three months of the end of the

financial year.

Score A

(iii). Accounting Standards Used.

Financial Statements are not presented in a professional and user friendly manner. Accounting standards are disclosed in the notes to the accounts. Consistent standards are followed each year

Score D

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>D+</p> <p>(vii) C A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</p> <p>(viii)</p> <p>(ix) A The statement is submitted for external audit within 6 months of the end of the fiscal year.</p> <p>(x) C Statements are presented in a consistent format over time with some disclosure of accounting standards.</p>

6 External scrutiny and audit

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

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

Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs (including the council) and were therefore not available for review by the PEFA team. The coverage is that of a normal financial audit.

Score C

(ii) Timeliness of submission of audit reports to legislature

Audit reports for the 2005 – 2008 are only now being submitted to the Chief Administrator for onward forwarding to Council, being more than 12 months from the end of those financial years

Score D

(iii) Evidence of follow up on audit recommendations

Council is yet to receive and deliberate on the past audit reports just being submitted.

Not rated

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	<p>Not rated</p> <p>(i) C SN government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</p> <p>(ii) 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).</p> <p>(iii) Not rated</p>

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

The Council annually considers the detailed budget proposals for coming year as well as the Development plan that presents the medium term priorities and form the basis for the detailed budget proposals, including detailed estimates of expenditure and revenue.

Score A

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

Simple procedures exist and are respected. The detailed budget proposal is thoroughly scrutinized by the Budget and Finance Committee of Council before being considered by the whole of Council

Score B

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

The budget proposals are usually submitted to Council in September and approved by November. Council has at least one month to review the budget before it is sent to the Ministry of Finance in November. As noted above, this budget often does not include development expenditures given the lack of a development ceiling from Ministry of Finance.

Score B

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

Rules exist in the FAR, but are not always respected.

Score D

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>D+</p> <p>(ix) A The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.</p> <p>(x) B Simple procedures exist for the legislature’s budget review and are respected.</p> <p>(xi) B The legislature has at least one month to review the budget proposals.</p> <p>(xii) D. Rules regarding in-year budget amendments may exist but are either rudimentary or unclear OR they are usually not respected.</p>

PI-28: Legislative scrutiny of external audit report

No external audit reports have, as yet, been scrutinised by the council. Given the infancy of local government, external audit reports have not been prepared until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs.

Not rated

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	<p>Not rated</p> <p>None published as yet</p>

7. Donor practices

D-1 Predictability of Direct Budget Support

There has been no budget support

n/a

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	n/a

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

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

No donor assistance

n/a

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

n/a

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	n/a No donor assistance

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 donor assistance

n/a

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	n/a No donor assistance

HLG - 1

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

CG transfers were lower than forecast in 2007 by 42%, 57% in 2008 and improving to 7% in 2009. Reasons for shortfalls include cash rationing at treasury (MOF) as well as the filing of reports by MCC. It appears that the regularity of transfers is improving. 2007, an election year, saw cash rationing at the Ministry of Finance. 2009 represents a much improved situation.

CG Transfers Le million

	Budget	Outturn	Diff +/-	Diff %
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2007	1,268	733	535	42
2008	1,513	647	866	57
2009	1,502	1,403	99	7

Source LGDF Data
Score D

(iii) Annual variance between actual and estimated transfers of earmarked grants.
In the absence of information on the amounts of each earmarked grant actually transferred to general administration, this indicator has been assessed by looking at the variation in earmarked grants transferred under devolved functions (assuming that none of the actual expenditures were funded from own revenues). It can be seen that in 2007, variance within grants did not differ significantly from the reduction in transfers. However in 2008 and 2009 the earmarked grants suffered more vis-a-vis the total transfer from CG. The budgeted and actual transfer data for earmarked grants are as follows:

CG Earmarked transfers Le million

	Transfer Deviation	Transfer Variance	Variance in excess of Deviation
2007	80%	80%	0%
2008	57%	68%	11%
2009	35%	45%	10%

Source: MTEF Budgets and Annual Financial Statements
Score C

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year)
There is no disbursement timetable but transfers are made quarterly. In 2007, transfers were made in only the first quarter whereas in 2008 nearly all transfers were in the second quarter. But in 2009, the transfers were fairly evenly disbursed in all four quarters. Interestingly, the Ministry Finance attempts to disburse at mid quarter rather than at the beginning of the quarter, resulting in no funding from January 1st – mid February each year.
Score C

	2010	
	Score	Explanation
HLG - 1 Predictability of Transfers from Higher Level of Government	D+	(vii) D – In at least two of the last three years HLG transfers fell short of the estimate by more than 15% OR no comprehensive estimate is submitted to the SN government in time for inclusion in its budget. (viii) C – Variance in provision of earmarked grants exceeded overall deviation in total transfers by more than 10 percentage points in no more than one of the last three years (ix) C –. A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years.

ANNEX to HLG-1 - EXPENDITURE ANALYSIS 2007 - 2009

	2007				2008						2009					
	Budget	Actual	Absolute Difference	% Dev & Var	Budget	Actual	Difference	% Dev	Absolute Difference	% Var	Budget	Actual	Difference	% Dev	Absolute Difference	%
Total Transfer	Le' m 1997	Le' m 401	Le' m 1,596	% 80%	Le' m 1,405	Le' m 599	Le' m 806	% 57%	Le' m 964	% 68%	Le' m 2,373	Le' m 1,784	Le' m 825	% 35%	Le' m 1,061	% 44.7
Devolved Function - Education	518	40	478	92%	575	26	549	95%			616	176	440	71%		
Devolved Function - Health	253	142	111	44%	183	134	49	27%			149	92	56	38%		
Devolved Function - Solid Waste Mangt.	72	6	66	91%	300	40	260	87%			105	76	29	28%		
Devolved Function - Agriculture	34	22	12	35%	54	34	20	37%			99	73	26	26%		
Other Devolved Functions	25	6	19	76%	29	23	6	22%			29	148	118	401%		
Development Expenditure	1,094	158	937	86%	262	342	80	30%			534	445	89	17%		

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health
 - For 2007 Actuals adjusted for errors

**APPENDIX 1 - OVERALL BUDGETARY ANALYSIS
2007 - 2010**

	2007			2008			2009			2010	%
	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Change in 2010 Bud/2009 Act.
	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	%
Total Revenue	2,488	964	-61%	2,618	996	-62%	2,373	1,895	-20%	2,878	51.9%
Own Source Revenue	1,219	231	-81%	1,105	348	-68%	870	492	-43%	1,019	107.1%
Grants	1,268	733	-42%	1,513	647	-57%	1,502	1,403	-7%	1,859	32.5%
Admin & Devolved Grants	1,009	465	-54%	1,250	556	-56%	1,230	886	-28%	1,859	109.8%
Local Development Grants	259	224	-14%	262	91	-65%	273	510	87%	-	100.0%
Others	-	45		-	1			7			
Total Expenditure	2,488	847	-66%	2,319	1,075	-54%	2,373	1,784	-25%	2,878	61.3%
Recurrent Expenditure	1,393	690	-51%	2,056	733	-64%	1,838	1,338	-27%	2,589	93.4%
Development Expenditure	1,094	158	-86%	262	342	30%	534	445	-17%	289	-35.1%
Overall Balance	-	117		299	(80)		0	111		0	
Net Change in Fund Balance	-	(117)		(299)	80		-	(111)		-	
External financing (net)	-	-		-	-		-	-		-	
Local financing (net)	-	-		-	-		-	-		-	
Financing gap	-	-		-	-		0	-		0	

Sources: MTEF Budgets and Annual Financial Statement

Individual Local Council Report 4

KENEMA CITY COUNCIL

Background

Kenema City is the capital and administrative centre of the Kenema District which lies in the Eastern Province of Sierra Leone. Based on population, Kenema City is the third largest city in Sierra Leone (after the capital Freetown and Bo) with a population of 128,402 as per the 2004 population and housing census (Statistics Sierra Leone)⁹. The city is a major diamond trade centre serving as the economic and financial centre of Eastern Sierra Leone. Kenema City, lying 185 miles (298 km) east-south-east of the nation's capital Freetown, is an ethnically diverse city with significant numbers of virtually all the country's ethnic groups. The city is the primary home of the Eastern Polytechnic College, one of Sierra Leone's major colleges that offer degree and certificate. The city of Kenema is governed with a city council form of government, which is headed by a mayor elected by the residents, in whom executive authority is vested. The mayor is responsible for the general management of the city and for seeing that all local and national laws are enforced. The current mayor of Kenema is Chief Brima Kargbo, in post since the 2004 Local Government Elections.

⁹ A more recent population estimate of 169,937.

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		KCC
PI-1	Aggregate expenditure out-turn compared to original approved budget	D
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	NR
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	D
PI-6	Comprehensiveness of information included in budget documentation	D
PI-7	Extent of unreported government operations	D+
PI-8	Transparency of inter-governmental fiscal relations	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	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	D+
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C
PI-15	Effectiveness in collection of tax payments	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	B+
PI-19	Competition, value for money and controls in procurement	A
PI-20	Effectiveness of internal controls for non-salary expenditure	C+
PI-21	Effectiveness of internal audit	NR
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	A
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	NR
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	NR
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	NR
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
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	A
E. CG PRACTICES		
HLG-1	Predictability of Transfers from Higher Level of Government	D+

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of Kenema City Council at September 2010. The Report follows the SN PEFA methodology and should be read alongside the Sub-National Government Summary Report which draws out themes common to all the LCs assessed.

Based on the PEFA training materials, the consultants carried out a day's training workshop for the KCC officials assigned to the PEFA exercise (Mayor, CA, Treasurer, Procurement Officer) in August 2010, to prepare them to assist with the assessment.

The draft report was circulated in December 2010, and benefitted from comments from Kenema City Council, Government of Sierra Leone, its development partners and by the PEFA Secretariat in Washington DC.

(x) *Integrated assessment of PFM performance*

25. Credibility of the Budget

This group of indicators (PI-1 to PI-4, CG1) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

KCC displays weak budget credibility both in terms of expenditures and revenue.

Actual expenditure falls short of budgeted in all years. This reflects, somewhat, the irregularity of transfers from Central Government, as well as overambitious revenue collection targets.

Also, in 2007, an excess of expenditure over income was recorded and was financed by existing balances.

Revenue collection displays a similar trend, falling short of targets in all years though the shortfall is reducing though still serious.

Central government transfers fell short of forecast in all 3 years.

KCC does not have a reliable system for assessing its arrears, though this is currently being addressed.

26. Comprehensiveness and transparency

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

KCC is using a manual accounting system which is not compatible with the CG accounting system. It is expected that it will soon use PETRA software which will be compatible with CG accounts. Budget documentation is rudimentary, though could easily be improved if previous years' budgeted and actual expenditures and revenues were included. All KCC operations are reported on, though the capturing of donor

projects is not currently a major problem for KCC as they are still, by and large, channelled through ministry budgets, despite the supposed devolution of responsibility to the LCs. Information for public access is poor and again could easily be addressed in some areas. A web site would facilitate the posting of more information.

27. Policy-based budgeting

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

KCC displays weak policy based budgeting. It has no budget calendar, there is no circular (though there is adherence to the CG budget calendar and also the Budget Circular) and the medium term perspective is weak. This reflects, to some extent, the lack of budget credibility.

The budget calendar is largely determined by the deadlines set by CG. The council does approve the budget before it is sent to the CG.

Forecasts are made for three years but are simple "increments" on the coming budget year. It is difficult to elaborate sector strategies without the full co-operation of the line ministries who still hold significant power over sector budgets despite the supposed devolution. There is no linkage between the development budget and recurrent implications.

28. Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

KCC exhibits some basic controls on revenues and expenditures, with procurement a particular strongpoint. Penalties for non-payment of property tax are sufficiently high and sometimes enforced by the Native Administration Court. Tax audits are not undertaken. Tax procedures are weak, including the complaints mechanism.

No cash flow planning occurs with the resulting lack of resource availability knowledge for departments, inhibiting their budgeting. Adherence to the budget is therefore minimal with reallocations made in a non-transparent manner, largely politically motivated. Cash balances are reconciled on a monthly basis. KCC is not legally able to contract debt.

Payroll controls are mostly strong, with a clear audit trail to changes and adjustments made in a timely manner. There is a lack of a payroll audit.

Procurement is strong with well trained officers following a strong central system. Open competitive bidding has been used for all procurements.

Controls on non-salary expenditures are strong for CG tied grants but are not strong for own revenue expenditures. Emergency procedures are often followed with political expediency cited as a reason for such emergencies. A manual for procedures is currently being developed which should strengthen controls.

Internal audit is in its infancy with the officer responsible requiring more management support

29. Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

Bank reconciliation is carried out on monthly basis.

No systematic information is provided to service delivery units on items delivered.

In year budget execution reports are not presented, relating back to the weakness in budgeting above.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. The basis of accounting used is the cash basis but the accounting standards followed are not stated in the financial statements. However, comparisons with budgeted amounts are not provided in any of the financial statements for the past three years (2007 – 2009).

30. External scrutiny and audit

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

Audit reports for the financial years 2005 – 2008 are only now being submitted to Council by the Auditor General. Legislative scrutiny of the budget law occurs with enough time to deliberate, though it is possible that councillors require training to improve their contributions to such scrutiny.

31. Donor Practices

Indicators D1 – D3 show how well donors integrate their support into the Government's budget process so that it reflects all available resources in a timely manner as well as the extent donors use Government systems to manage their support. Poor scores indicate potential weakness in the Donor – Government dialogue and processes that reflect perceived fiduciary risk by donors.

KCC received little donor support during the review period. That which came was not included in the budget nor reported on well though encouragingly KCC procurement procedures were used.

32. Transfers from Higher Level Government

This indicator assesses the predictability of inflows of transfers from CG. The regularity of inflows can affect the SN government's fiscal management and its ability to deliver services.

CG transfers to KCC were lower than forecast in 2007 by 33%, by 44% in 2008 and above forecast by 41% in 2009, impacting on expenditure composition. Transfers are made irregularly, mostly in the first quarter in 2007, second quarter in 2008 and more evenly in 2009.

(xi) *Assessment of the impact of PFM weaknesses*

Weaknesses can be summarized as:

- Budget Planning
 - Planning and budget formulation is weak. There is need to improve planning and budget formulation in KCC to fully reflect policy priorities established through the MTEF, as well as

realistic revenue forecasts. Specific attention needs to be directed at formulating a costed development plan and associated sector strategies. To facilitate this. It is important to fully devolve sector responsibilities from the line ministries, given that currently, line ministries still dominate sector planning. The consequence of these weaknesses are that resource allocation linked to priorities is ineffective and KCC allocates the budget as it sees fit rather than an allocation based on priorities and sectoral expertise. The incentive for planning is currently undermined by the irregularity of resource flows from CG. An adherence to a strict timetable of transfers would greatly assist budget planning.

- Budget Execution
 - There is a need to address the recording and management of arrears so that a realistic financial position of KCC can be established
 - No cash flow planning occurs. Therefore there is little adherence to the budget
 - There is a need for greater controls on own revenue expenditures which can be subject to demands outside of the budget initiated by politicians
- Budget Accounting and Controls
 - Budget accounting and controls are still in their infancy although some progress has been made in recent years. The PETRA accounting software when fully rolled out will greatly assist in improving accounting and controls, including the compatibility with CG. In year budget reports require development if adherence to the budget is to be improved. Internal control is also in its infancy and there is a need to further support the LC officers with appropriate resources to complete their task. Without these, control will focus on top-down compliance and enforcement rather than holding sector managers fully accountable for managing their budgets. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
 - Cash management is weak resulting in potential leakages from revenues
 - Although arrears appear to be minimal, there should be robust systems developed for recording arrears
- Budget Reporting and External Audit
 - In year budget reports are not produced further undermining the credibility of the budget
 - External audit also in its infancy. Impact of initial reports remains to be seen.

(xii) *Prospects for reform planning and implementation*

See summary report

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 implemented as intended	Budget estimates of revenue and expenditure are weak.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
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	Budget documentation is weak	All expenditures and revenue are included in the Budget. Availability of information on the budget to the public and scrutiny of the budget by council does not provide adequate transparency.	The connection between sector strategies and budgets is limited.
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. However, there is little evidence that this is the case.	The CG budget calendar provides sufficient time for due deliberation by council to establish expenditure ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within departments is yet to be developed. The next stage of the MTEF needs to start delivering on the bottom up part of the process.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum 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	Tax collection and arrears requires strengthening. The development of property tax software should assist in this regard The execution of the budget is at times ad hoc ad subject	If departments do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.	The lack of adherence to the budget may mean that inputs are not supplied when they are needed. Service delivery may be part of the decision making process but cash availability is the ultimate

<p>control and stewardship in the use of public funds</p>	<p>to political influence</p>		<p>deciding factor, constrained by irregular transfers from CG.</p> <p>Internal audit is improving though requires significant strengthening.</p>
<p>B2. Accounting, recording and reporting</p> <p>Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes</p>	<p><i>Timely, relevant and reliable financial information is required to support all fiscal and budget management and decision-making processes.</i></p>		
	<p>Accounting records are rudimentary and so do not provide adequate information for decision-making.</p>	<p>Information on actual expenditure against budget is not provided during the year.</p>	<p>The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.</p>
<p>C1. Effective external scrutiny and audit</p> <p>Arrangements for scrutiny of public finances and follow up by executive are operating</p>	<p><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></p>		
	<p>There is scrutiny of the overall fiscal position at council level</p>	<p>Scrutiny though external audit is only just starting and has not been fully scrutinised by the administration as yet.</p> <p>Council needs to build capacity to fully evaluate the results of the work of the SAI.</p>	<p>The development of audits over time will assist in the development of overall service delivery</p>

Assessment of the PFM systems, processes and institutions

7. Budget credibility

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

The position relating to aggregate actual expenditure compared to budgeted is weak due to poor budgeting, poor revenue collection and the unpredictability of CG Transfers. The deviation was 34% in 2007, increasing to 52% in 2008 but narrowed down to 7% in 2009.

Aggregate Expenditure Le million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	3,576	2,353	1,223	34
2008	3,341	1,594	1,747	52
2009	3,230	3,006	224	7

Source: MTEF Budgets and Annual Financial Statements

A Score of D is therefore appropriate.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	Score D (i) In two or all of the last three years the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

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

This indicator measures the extent to which reallocations 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 the organisational 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)
2007	34%	74%	40%
2008	52%	52%	0%
2009	7%	44%	37%

Source: MTEF Budgets and Annual Financial Statements

Expenditure Composition differed from overall deviation in aggregate expenditure by 40% in 2007 (74% as against 34%). Both were exactly the same (at 52%) in 2008. It however worsened again to 37% (44% as against 7%) in 2009.

Score D

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score D (i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two of the last three years.

ANNEX for PI-2 - EXPENDITURE ANALYSIS 2007 - 2009

	2007				2008				2009			
	Budget	Actual	Absolute Difference	%	Budget	Actual	Absolute Difference	%	Budget	Actual	Absolute Difference	%
	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%	Le' m	Le' m	Le' m	%
Total Expenditure	3,576	2,353	2,654	74%	3,341	1,594	1,747	52%	3,230	2,912	1,409	44%
General Administration	872	733	139	16%	1,383	807	577	42%	881	1,331	450	51%
Devolved Function - Education	1,389	25	1,364	98%	787	124	664	84%	821	225	596	73%
Devolved Function - Health	244	685	441	181%	302	195	108	36%	231	189	41	18%
Devolved Function - Solid Waste Mangt.	112	276	164	146%	138	104	35	25%	163	113	50	31%
Devolved Function - Agriculture	48	99	51	105%	63	43	20	32%	113	75	37	33%
Other Devolved Functions	27	87	60	223%	30	27	3	11%	23	24	1	6%
UNCDF	-	-	-		162	129	33	20%	-	94	94	
Development Expenditure	883	447	436	49%	475	167	308	65%	999	861	139	14%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health

- 2008 Bud. For Gen. Admin adjusted for error

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

Outturn and budgeted own revenue data for 2007, 2008 and 2009 are presented below.

Own Revenue Le million

	Budget	Outturn	Diff +/-	Diff %
2007	1,294	283	1,011	78
2008	1,281	644	637	50
2009	1,253	710	543	43

Source: MTEF Budgets and Annual Financial Statements

Actual own source revenue was lower than forecast in the budget by 78% in 2007 and by 50% in 2008. The variance reduced further to 43% in 2009. Though apparently the situation is improving, the deviations reflect weak revenue forecasting and collection. The significant factor in these variations was the poor estimation of own revenues, in particular property tax. The practice of setting high targets to encourage increased revenue collection exists but ultimately serves to undermine the budget's credibility as in year expenditures suffer as targets are not met.

Score D

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score D (i) Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.

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

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

There is no reliable information on the extent of arrears as no robust system exists for capturing arrears. However, the Finance Officer and the Procurement Officer both manage to keep track of most of the important bills.

Not rated

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

There is no data on the stock of arrears.

The appropriate score for this sub-dimension is D.

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	Not rated (vii) Not rated. There is no reliable information on the extent of arrears as no robust system existed for capturing arrears. (viii) Score D. There is no reliable data on the stock of arrears from the last two years.

8. Transparency and comprehensiveness**PI-5. Classification of the budget**

This indicator assesses the classification system used for formulation, execution and reporting of the central government's budget.

The classification of the budget has a simple administrative breakdown only. KCC has not started using PETRA Accounting Software for recording of transactions, though training has been provided. Once the PETRA Accounting System is in use, the MOF IFMIS Chart of Accounts would be adopted at SN level which would improve the score to a C.

Score D.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: D. Dimension (i) Score: D The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

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

The MTEF for the next and subsequent two years is the main document which is produced as part of the budget calendar. Recent budget documentation (for 2010) fulfills 0 of the 8 information benchmarks. The documentation only reflects zero budget deficit with financing of the deficit being n/a.

The following elements should be included in the MTEF.

Element	MTEF	Notes
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	No	Budgetary Notes provided on the Economic and Political Environment but there is no information on estimates of aggregate growth, inflation and exchange rate
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	n/a	Budget Documentation presents zero budget deficit
3. Deficit financing, describing anticipated composition.	n/a	The Deficit Financing is zero as Budget Deficit presented is zero
4. Debt stock, including details at least for the beginning of the current year.	No	There is no information presented on the level of debt stock or arrears
5. Financial Assets, including details at least for the beginning of the current year.	No	This information is not provided
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No	This information is not provided
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Partial	Narrative notes on budgetary performance for the current year are provided
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	Summarised budget data only provided for the current year
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	There is no assessment of budget implications for changes in policy

	Minimum Requirements (scoring Method M1)
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PI-6. Comprehensiveness of information included in budget documentation.	Score D Recent budget documentation fulfills 0 of the 9 information benchmarks (2 or less).
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PI-7. Extent of unreported government operations.

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

There is no evidence of “unreported” government operations.

Score A

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

The financial information on donor assistance (UNCDF Capital Development Fund) was not available and therefore not captured in financial statements.

Score D

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score D+ (iii) A. There are no extra budgetary expenditures (iv) D. Information on donor financed projects is seriously deficient.

PI-8. Transparency of Inter-Governmental Fiscal Relations

There are no transfers made to lower levels of government by KCC. Only expenses are paid for the holding of ward meetings. No monitoring of Ward Committees’ finances is made. Ward members are occasionally used to collect fees and charges on behalf of the KCC and will be paid accordingly.

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	n/a There are no transfers made to lower levels of government by KCC.

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

KCC does not own any AGAs or PEs. Neither is it relevant for it to monitor the fiscal position of lower SN levels. The next level below KCC is the ward committee which does not operate any significant budget, nor receive transfers from KCC.

This indicator is therefore not applicable.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	n/a KCC does not own any AGAs or PEs.

PI-10. Public Access to key fiscal information

KCC makes available to the public 0 of the 7 relevant listed types of information (There have been no published External Audit reports in the last 3 years). KCC regularly publishes in-year financial statements on monthly basis by the 15th of the following month on the notice board. This represents good practice though comparisons are not made with the approved budget. Contract awards are posted on the notice board and

also in other media. Other information is not made available to the public.

Public access to key fiscal information is assessed through the seven 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. Copies of Budget approved by the Council are not readily made available but rather a Notice is placed on the Notice Board to contact the Finance Office to access a copy
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Limited. Summary Details of Actual Cash Flows of Revenue and Expenditure (Budget Outturns) are normally placed on the Notice Board by the 15th of the following month but these are not being compared with the Approved Budget
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No. This is currently not available as the Audited Accounts and Audit Reports for a number of years are only being received now
(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. This is currently not available as the Audited Accounts and Audit Reports for a number of years are only being received now
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. Are published at least quarterly through appropriate means.	Yes. Contract awards are posted on the KCC notice board.
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No. This is not available to the public by facility
(vii) Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media	No. This is not available to the public by facility

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score C Government makes available to the public 2 of the 7 listed types of information.

3 Policy-based budgeting

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

- (vi) Existence of and adherence to a fixed budget calendar

There is no fixed budget calendar for KCC – only a willingness to adhere to the MOF budget calendar. Dates are annually prepared for departmental submissions and Budget and Finance committee meetings. Departments usually have about 2 weeks to make submissions.

Score D

- (iv) Guidance on the preparation of budget submissions.
There is no KCC budget circular prepared. Departments are not provided with budget ceilings beyond the ceilings for devolved functions within the CG circular. They make and present annual work plans and budget submissions (by end September deadline), which are being considered by a Budget Committee that decides on aggregate allocations.

Score D

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

The legislature approved the budget before the end of the year (by November of the current year and always by the beginning of December) before being sent to MOF. However, it should be noted that MoFED does provide extra funds to the agreed budget during the fiscal year, particularly the development budget which appears to take longer to agree at CG level. This constrains the development planning of the LC

Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	<p>Score C</p> <p>(x) D. A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.</p> <p>(xi) D. A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.</p> <p>(xii) A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.</p>

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

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

Three-year rolling forecasts are generally made on the administrative classification and on economic classification (as received from CG) for devolved sectors only (the majority of the KCC budget and the main categories of economic classification). They are a 5% increment on the budget year for the 2 outer years.

Score C

- (xiv) Scope and frequency of debt sustainability analysis.

KCC has no debt

n/a

- (xv) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.
Three-year rolling development plans are being prepared based on which the MTEF Budgets are developed and approved. However, there may be service delivery activities in the development plans not captured in the MTEF Budgets.

Score D

- (xvi) Linkages between investment budgets and forward expenditure estimates

No current mechanism is in place to link the recurrent cost implications of investments into forward

expenditure estimates.
Score D

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score D+</p> <p>(ix) C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</p> <p>(x) n/a</p> <p>(xi) D Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.</p> <p>(xii) D Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</p>

4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Revenue Assessment and Collection in KCC is headed by a Principal Revenue Co-ordinator and the major sources of revenues are:

- Property Taxes – City Rates
- Municipal Licences for Businesses and market dues
- Fees and Other Charges

Legislation and procedures are comprehensive and clear for all major tax liabilities, which includes Property, market dues, and business licences. However, problems exist with Guest Houses (who claimed to have paid business licences to National Tourist Board) and Security Agencies (who would have to refer to their headquarters). Some property taxes are not clear as surveys to input data into the new property tax software has not been finalised.

Score C

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

Taxpayers can access the legislation (LGA 2004) and administrative procedures through local radio programmes, press releases and meetings with drivers union, trade unions and pharmacy board.

Score C

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

The LGA 2004 does not allow for a complaints mechanism. Tax appeals may be lodged through the Chief Administrator. There is no independent appeal mechanism being established.

Score D

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	<p>Score D+</p> <p>(ii) 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.</p> <p>(iii) C. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some</p>

	of the major taxes, while for other taxes the information is limited. (iv) D. No functioning tax appeals system has been established
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PI-14 Effectiveness of measures for taxpayer registration and tax assessment

(iv) Controls in the taxpayer registration system.

A Revenue Database Software (based on Ms Access) is currently in use for Property tax registration. The Revenue Software is to be extended to Business Licences.

Score C

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

The penalties for non payment of property tax include poundage and at times the Native Administration Court is used to enforce compliance.

Score B

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

Tax audits are not undertaken

Score D

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C (vi) 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. (vii) B. Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration. (viii) D. Tax audits are not undertaken

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 is no comprehensive record of debts on property tax and business licences. It would appear that an effective way forward is to copy the actions of Bo CC and draw a line under property tax arrears pre 2009 and establish a clear arrears record under the Access software.

Not rated

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

For property tax (or rates), these are paid directly into bank. However, for business licences and market dues, these are collected and brought to a Revenue Clerk who pays into the bank promptly (within a week). KCC is advised to pay business licences and market dues directly into bank rather than through a Revenue Clerk.

Score B

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

No reconciliation occurs.

Score D

	Minimum requirements (Scoring methodology: M1)
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PI-15 Effectiveness in collection of tax payments	<p>Not rated</p> <p>(vii) Not rated 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).</p> <p>(viii) B All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made at least weekly.</p> <p>(ix) 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.</p>
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PI-16 Predictability in the availability of funds for commitment of expenditures

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

No cash flow planning occurs. However, the desire to make such projections will be hindered by poor budgeting, poor revenue performance and the unpredictability nature of Central Government transfers.

Score D

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

Budgets are not disaggregated and departments are not provided with reliable indications of resource availability for commitment. However, tied grants provide some reliability, on annual basis, in terms of knowing that devolved functions will be resourced, though timing of transfers inhibits expenditure planning.

Score D

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

It appears that adherence to the budget is minimal. There is weak budgetary control, with additional risk posed by unpaid bills and outstanding contractual payments that are not recorded until they are paid or cleared.

Score D

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	<p>Score D</p> <p>(x) D. Cash flow planning and monitoring are not undertaken or of very poor quality.</p> <p>(xi) D MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.</p> <p>(xii) D Significant in-year budget adjustments are frequent and not done in a transparent manner.</p>

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

(i) Quality of debt data recording and reporting

KCC not legally able to contract debt without approval from MOF.

n/a

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

Cash balances are at least consolidated and monitored monthly when financial statements are prepared.

Score C

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

There is no contracting of loans.

n/a

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	<p>Score C</p> <p>(x) n/a. KCC not legally able to contract debt without approval from MOF</p> <p>(xi) C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</p> <p>(xii) n/a No contracting of loans</p>

PI-18 Effectiveness of payroll controls

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

Payroll is held on MS Excel spreadsheet. Personnel records are manual. Adjustments such as promotions and redundancies are made to the payroll within a month with full documentation passing from personnel to the FO and ratified by the CA.

Score B

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

Updates occur within one month and are supported by documentation from the Chief Administrator. Retroactive changes are rare.

Score A

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

Authority and basis of changes to personnel and payroll records are clear and are monitored by the Finance Officer. There is a clear audit trail. The payroll is prepared using MS Excel spreadsheet, but there is no payroll comparative analysis schedule being prepared that shows the payroll adjustments from the previous month. Also, only 20% of 125 staff are paid through individual bank accounts and the rest by cash.

Score B

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

Councillors carried out a payroll audit in July 2010 and a report is awaited.

Score B

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>B+</p> <p>(xiii) B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(xiv) A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(xv) B Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(xvi) B. A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</p>

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

(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).

KCC procurement is subject to Public Procurement Act 2004 and the 2006 Procurement Regulations, and the department has close liaison with the CG Procurement Agency. All (100%) procurements over the past 3 years over the national threshold (Le60 million) used open competitive bidding.

Score A

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

Procurements below the threshold follow the law and regulations above.

Score A

(iii) Existence and operation of procurement complaints mechanism

Complaints can be made to the CA in the first instance and then to the Independent Review Panel through the NPPA.

Score A

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>A</p> <p>(x) A. Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>(xi) A Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>(xii) A A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.</p>

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

(iv) Effectiveness of expenditure commitment controls.

Procedures exist with the use of manual Vote Service Ledger (VSL) but unpaid bills and outstanding contractual payments are not being captured and may pose the risk of over expenditure. Devolved activity commitments are controlled with respect to the budget (by the development officer and others), but own revenue expenditures less so. The PETRA Accounting System once in use would provide commitment control but only if accounts are prepared on accrual basis rather than on cash basis.

Score C

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

Financial Administration Regulations exist but in draft form. There are basic rules being followed with authority sought from the CA. However, there are concerns for inaccurate reporting and recording for unpaid bills and staff loans, especially where cash based accounting is used.

Score C

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

Compliance with existing rules is fairly high but the financial administrative regulations need to be finalized. "Emergencies" sometimes override procedures.

Score B

.	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of	<p>C+</p> <p>(x) C Expenditure commitment control procedures exist and are partially</p>

internal controls for non-salary expenditure	<p>effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.</p> <p>(xi) C Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.</p> <p>(xii) B Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.</p>
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PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

The Internal auditor was one year in post but has no relevant qualification and skill in Accounting and Auditing. Audit reports for Q1 and 2 2010 have recently been produced. They are of variable quality, and cover at least 50% of staff time. However, the Internal Auditor needs further training on accounting and auditing.

Score C

(ii). Frequency and distribution of reports

2 reports have just been produced after the IA was a year in post. Lack of a computer has been the main problem in filing reports but one has recently been provided by the CA

Score D

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

The reports were produced in the last 2 weeks and have not both been studied by the CA as yet. It remains to be seen what the management response will be.

Not rated

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	<p>Not rated</p> <p>(x) C The function is operational for at least the most important SN government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.</p> <p>(xi) D Reports are either non-existent or very irregular.</p> <p>(xii) Not rated</p>

5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Bank reconciliation is carried out on a monthly basis within 4 weeks of end of month. The bank reconciliation statements are signed by the Accountant, the Finance Officer and the Chief Administrator.

Score A

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

There are no suspense accounts or advances.

n/a

	Minimum requirements (Scoring Method M2).
PI-22 Timeliness and regularity of	<p>A</p> <p>(vii) A Bank reconciliation for all SN government bank accounts take place</p>

accounts reconciliation	at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. (viii) n/a
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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.

No data collection exists though the CG PETS report does include some KCC data

Score D

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score D (iv) D No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

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

In-year budget reports are not produced.

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

In-year financial statements are produced on cash basis but there are no comparisons made with budgeted figures.

Not rated

(ii) Timeliness of the issue of reports

In-year financial statements are produced every month by the 15th of the subsequent month and placed in the Council’s notice board but these are not considered sufficient to be called budget performance reports. There is a need to show comparisons with budget numbers and explanatory notes issued for budget variances.

Not rated

(iii) Quality of information

The financial statements are prepared on cash basis and excludes non cash transactions, such as unpaid bills, staff loans and outstanding payments to contractors

Not rated

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Not rated

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Financial statements are prepared annually but some information is missing, such as accounting policies, and arrears position.

Score C

(ii). Timeliness of submission of the Financial Statements.

Financial Statements are produced and submitted for external audit within three months of the end of the financial year.

Score A

(iii). Accounting Standards Used.

Financial Statements are not presented in a professional and user friendly manner. Accounting standards are disclosed in the notes to the accounts and are consistent over time.

Score C

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>C+</p> <p>(xi) C A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</p> <p>(xii) A The statement is submitted for external audit within 6 months of the end of the fiscal year.</p> <p>(xiii) C Statements are presented in a consistent format over time and accounting standards are disclosed.</p>

6 External scrutiny and audit

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

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

Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs (including the council) and were therefore not available for review by the PEFA team. The coverage is that of a normal financial audit.

Score C

(ii) Timeliness of submission of audit reports to legislature

Audit reports for the 2005 – 2008 are only now being submitted to the Chief Administrator for onward forwarding to Council, being more than 12 months from the end of those financial years

Score D

(iii) Evidence of follow up on audit recommendations

Council is yet to receive and deliberate on the past audit reports just being submitted.

Not rated

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	<p>Not rated</p> <p>(iv) C SN government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</p> <p>(v) 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).</p> <p>(vi) Not rated</p>

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

The Council annually considers the detailed budget proposals for the coming year including revenue and expenditure as well as the Development plan that presents the medium term priorities and form the basis for the detailed budget proposals.

Score A

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

Simple procedures exist and are respected. The detailed budget proposal is thoroughly scrutinized by the Budget and Finance Committee of Council before being considered by the whole of Council

Score B

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

The budget proposals are usually submitted to Council in September and approved by November. Council has at least one month to review the budget before it is sent to the Ministry of Finance in November. As noted above, this budget often does not include development expenditures given the lack of a development ceiling from Ministry of Finance.

Score B

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

Rules exist under FAR but are not followed as yet.

Score D

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>D+</p> <p>(xiii) A The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.</p> <p>(xiv) B Simple procedures exist for the legislature’s budget review and are respected.</p> <p>(xv) B The legislature has at least one month to review the budget proposals.</p> <p>(xvi) D. Rules regarding in-year budget amendments may exist but are either rudimentary or unclear OR they are usually not respected.</p>

PI-28: Legislative scrutiny of external audit report

No external audit reports have, as yet, been scrutinised by the council. Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs.

Not rated

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	<p>Not rated</p> <p>None published as yet</p>

7. Donor practices

D-1 Predictability of Direct Budget Support

There has been no budget support

n/a

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	n/a

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

(iv) Completeness and timeliness of budget estimates by donors for project support.
 UNCDF aid was not presented in time for budget planning
 Score D

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.
 There is no reporting of UNDP assistance
 Score D

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	<p>(i) 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 its start.</p> <p>(ii) D Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.</p>

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.
 All UNCDF aid was delivered and LC procurement used 2007-09, though now (2010) UNDP is using own procedures for some items (as UNDP involved above UNCDF with different procedures).
 Score A

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	<p>Score A</p> <p>(i) A 90% or more of aid funds to central government are managed through national procedures.</p>

HLG - 1

(i) Annual deviation of actual total HLG transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget.
 CG transfers were lower than forecast in 2007 by 33%, rising to 44% lower in 2008 and significantly surpassed estimates by 41% in 2009. 2007, an election year, saw cash rationing at the Ministry of Finance. The 2009 transfer represents compensation for the previous years' shortfalls
 Score D

CG Transfers Le million

	Budget	Outturn	Diff +/-	Diff %
2007	2,282	1,535	747	33
2008	2,060	1,158	902	44
2009	1,977	2,783	-806	41(-)

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

In the absence of information on the amounts of each earmarked grant actually transferred to general administration, this indicator has been assessed by looking at the variation in earmarked grants transferred under devolved functions (assuming that none of the actual expenditures were funded from own revenues). It can be seen that in 2007, variance within grants differed significantly from the reduction in transfers. However in 2008 and 2009 the earmarked grants were transferred in proportion to the budgeted amounts from CG.

The budgeted and actual transfer data for earmarked grants are as follows:

CG Earmarked transfers Le million

	Transfer Deviation	Transfer Variance	Variance in excess of Deviation
2007	40	93	53
2008	52	52	0
2009	33	41	8

Source: MTEF Budgets and Annual Financial Statements
Score C

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

There is no disbursement timetable but transfers are made quarterly. In 2007, transfers were made in only the first quarter whereas in 2008 nearly all transfers were in the second quarter. But in 2009, the transfers were fairly evenly disbursed in all four quarters. Interestingly, the Ministry Finance attempts to disburse at mid quarter rather than at the beginning of the quarter, resulting in no funding from January 1st – mid February each year.

Score C

	2010	
	Score	Explanation
HLG - 1 Predictability of Transfers from Higher Level of Government	D+	(x) D – In at least two of the last three years HLG transfers fell short of the estimate by more than 15% OR no comprehensive estimate is submitted to the SN government in time for inclusion in its budget. (xi) C – Variance in provision of earmarked grants exceeded overall deviation in total transfers by no more than 10 percentage points in no more than one of the last three years (xii) C –. A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement

		timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years.
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ANNEX for HLG-1 - EXPENDITURE ANALYSIS 2007 - 2009

	2007						2008				2009					
	Budget	Actual	Difference	% Dev	Absolute Difference	% Var	Budget	Actual	Absolute Difference	% Dev & Var	Budget	Actual	Difference	% Dev	Absolute Difference	%
	Le' m	Le' m			Le' m	%	Le' m	Le' m	Le' m	%	Le' m	Le' m			Le' m	%
Total Transfer	2,704	1,620	1,084	40	2,515	93%	3,341	1,594	1,747	52%	2,349	1,581	768	33	959	41%
Devolved Function - Education	1,389	25			1,364	98%	787	124	664	84%	821	225			596	73%
Devolved Function - Health	244	685			441	181%	302	195	108	36%	231	189			41	18%
Devolved Function - Solid Waste Mangt.	112	276			164	146%	138	104	35	25%	163	113			50	31%
Devolved Function - Agriculture	48	99			51	105%	63	43	20	32%	113	75			37	33%
Other Devolved Functions	27	87			60	223%	30	27	3	11%	23	24			1	6%
UNCDF	-	-			-		162	129	33	20%	-	94			94	
Development Expenditure	883	447			436	49%	475	167	308	65%	999	861			139	14%

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps incl. in Health

- 2008 Bud. For Gen. Admin adjusted for error

APPENDIX 1 - OVERALL BUDGETARY ANALYSIS 2007 - 2010

	2007			2008			2009			2010	% Change in 2010 Bud/2009 Act.
	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	
	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	%
Total Revenue	3,576	1,818	-49%	3,341	1,802	-46%	3,230	3,493	8%	3,351	-4.1%
Own Source Revenue	1,294	283	-78%	1,281	644	-50%	1,253	710	-43%	1,111	56.5%
Grants	2,282	1,535	-33%	2,060	1,158	-44%	1,977	2,783	41%	2,240	-19.5%
Admin & Devolved Grants	1,933	1,230	-36%	1,424	644	-55%	1,666	1,640	-2%	2,165	32.0%
Local Development Grants	348	304	-13%	475	295	-38%	311	1,144	268%	-	-100.0%
UNCDF Grants	-	-		162	219	35%	-	-		75	
Total Expenditure	3,576	2,353	-34%	3,341	1,594	-52%	3,230	3,006	-7%	3,351	11.5%
Recurrent Expenditure	2,692	1,905	-29%	2,704	1,298	-52%	2,231	2,052	-8%	2,902	41.5%
Development Expenditure	883	447	-49%	475	167	-65%	999	861	-14%	374	-56.6%
UNCDF Expenses	-	-		162	129		-	94		75	
Overall Balance	-	(535)		-	208		-	487		-	
Net Change in Fund Balance	-	535		-	(208)		-	(487)		-	
External financing (net)	-	-		-	-		-	-		-	
Local financing (net)	-	-		-	-		-	-		-	
Financing gap	-	-		-	-		-	-		-	

Sources: MTEF Budgets and Annual Financial Statements

Individual Local Council Report 5

KONO DISTRICT COUNCIL

Background

Kono District lies in the Eastern Province of Sierra Leone and surrounds the city of Koidu. The district is a major diamond extraction area and has been called the "breadbasket" of Sierra Leone because of its economic importance. The population of Kono District was 335,401 in the 2004 population census. The district is one of the most ethnically diverse Districts in Sierra Leone. Before the civil war, Kono District had a population well over 600,000 before the civil war but experienced severe devastation during the Sierra Leone Civil War, which drove many of its inhabitants out of the district. The District was the setting for much of *Blood Diamonds*, an Academy Award-nominated film starring Leonardo DiCaprio. It is home to the current Vice President of Sierra Leone, Hon. Samuel Sam-Sumana as well as the current first lady of Sierra Leone, Mrs. Sia Koroma. Kono District is governed with a district council form of government, which is headed by a District Council Chairman, who is responsible for the general management of the district and for seeing that all local laws are enforced. The District Council Chairman is elected directly by the residents of Kono District. The offices of the Kono District Council are located in the district capital Koidu Town, which include the official Hall where members of the Kono District Council meet. The chairman of Kono district council, Sahr John Yambasu, of the ruling All People's Congress (APC) has recently taken office as Sierra Leone Ambassador to Russia.

Overview of the Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget		KDC
PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	D
PI-4	Stock and monitoring of expenditure payment arrears	n/a
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the budget	D
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	A
PI-8	Transparency of inter-governmental fiscal relations	n/a
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	n/a
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	C
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of taxpayer obligations and liabilities	D
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	NR
PI-15	Effectiveness in collection of tax payments	NR
PI-16	Predictability in the availability of funds for commitment of expenditures	D
PI-17	Recording and management of cash balances, debt and guarantees	C
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money and controls in procurement	A
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	D
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	NR
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	NR
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	NR
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	n/a
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	n/a
D-3	Proportion of aid that is managed by use of national procedures	n/a
E. CG PRACTICES		
HLG-1	Predictability of Transfers from Higher Level of Government	D+

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of Kono District Council at September 2010. The Report follows the SN PEFA methodology and should be read alongside the Sub-National Government Summary Report which draws out themes common to all the LCs assessed.

Based on the PEFA training materials, the consultants carried out a day's training workshop for the KDC officials assigned to the PEFA exercise (Mayor, CA, Treasurer, Procurement Officer) in August 2010, to prepare them to assist with the assessment.

The draft report was circulated in December 2010, and benefitted from comments from Kono District Council, Government of Sierra Leone, its development partners and by the PEFA Secretariat in Washington DC.

(xiii) Integrated assessment of PFM performance

33. Credibility of the Budget

This group of indicators (PI-1 to PI-4, CG1) considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the variance between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills. Poor scores point to the possibility that resources may not deliver the policy priorities reflected in the budget to the extent intended.

Although expenditure estimates appear strong, this is more a case of luck than strong budgeting, as evidenced by the poor predictability of CG transfers and own revenues, compensated by Diamond Area Development Fund transfers (themselves erratic in scheduling). Overall, KDC displays weak budget credibility both in terms of expenditures and revenue.

Actual expenditure falls short of budgeted in 2007 and 2009. It surpassed budgeted in 2008, funded by previous balances. This reflects, somewhat, the irregularity of transfers from Central Government and the Diamond Area Development Fund, as well as overambitious revenue collection targets.

Own revenue collection falls short of targets in all years though the shortfall is reducing though still serious. Own revenue is a relatively small proportion of income, reflecting the status of the District Council's lack of properties to tax. It was 0% in 2007, not 10% in 2008 and not 20% in 2010.

Central government tied transfers fell short of forecast in all 3 years.

34. Comprehensiveness and transparency

This group of indicators (PI-5 to PI-10) examines the extent to which instruments such as the budget and accounts of Government reflect the totality of public finances. It examines the extent to which any Government makes available information, in a suitable form, through which it can be held accountable for the way it manages resources. Poor scores indicate fiduciary risks due to the non-availability or fragmentation of information about public finances, the absence of opportunity for Government to be held accountable by its own population and a lack of external checks and balances that transparency otherwise makes possible. Good scores point to low fiduciary risks.

KDC is using a manual accounting system which is not compatible with the CG accounting system. It is expected that it eventually use PETRA software which will be compatible with CG accounts. Budget documentation is rudimentary, though could easily be improved if previous years' budgeted and actual expenditures and revenues were included. All KDC operations are reported on, though the capturing of sectoral projects is still a problem for KDC as they are still, by and large, channelled through ministry budgets, despite the supposed devolution of responsibility to the LCs. Information for public access is poor and again could easily be addressed in some areas. A web site would facilitate the posting of more information, but the logistics of this is difficult given the remoteness of the offices from internet access apart from through the mobile phone network.

35. Policy-based budgeting

Indicators PI-11 and 12 reflect the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. Low scores would indicate risk of fiscal instability, weak prioritisation and linkage to policy objectives. They would also suggest vulnerability to imbalances between types of expenditure and inefficient use of resources due to 'stopping and starting' of projects and lack of complementarity between different categories of expenditure.

KDC displays weak policy based budgeting. It has no budget calendar, there is no circular and the medium term perspective is weak, though there is adherence to the CG calendar and circular. This reflects, to some extent, the lack of budget credibility.

The budget calendar is largely determined by the deadlines set by CG. The council does approve the budget before it is sent to the CG.

Forecasts are made for three years but are simple "increments" on the coming budget year. It is difficult to elaborate sector strategies without the full co-operation of the line ministries who still hold significant power over sector budgets despite the supposed devolution. Nevertheless, through the efforts of the development officer, a relatively credible development plan has been elaborated with costings and the collaboration of some sectors. There is no linkage between the development budget and recurrent implications.

36. Predictability and control in budget execution

Indicators PI-13 to PI-21 consider the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised. A low score here indicates vulnerability to leakage, lack of discipline and inefficient use of resources due to those resources not being in the right place at the right time or applied in the right way.

KDC exhibits some basic controls on revenues and expenditures, with procurement a particular strongpoint. Penalties for non-payment of property tax are sufficiently high and sometimes enforced by the Native Administration Court. Tax audits are not undertaken. Tax procedures are weak, including the complaints mechanism.

No cash flow planning occurs with the resulting lack of resource availability knowledge for departments, inhibiting their budgeting. Adherence to the budget is therefore minimal (though expenditure ceilings are respected to a reasonable extent) with reallocations made in a non-transparent manner, largely politically motivated. Cash balances are reconciled on a monthly basis. KDC is not legally able to contract debt.

Payroll controls are mostly strong, with a clear audit trail to changes and adjustments made in a timely manner. There is unsurprisingly a lack of a payroll audit with a staff of 12 paid by KDC.

Procurement is strong with well trained officers following a strong central system. Open competitive bidding has been used for all procurements.

Controls on non-salary expenditures are strong for CG tied grants but are not strong for own revenue expenditures. Emergency procedures are often followed with political expediency cited as a reason for such emergencies.

Internal audit is in its infancy with the officer responsible requiring more management support, and further training.

37. Accounting, recording and reporting

Indicators PI-22 to PI-25 reflect the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and ensuring transparency. Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous group of indicators since many of those controls are dependent on the flow of appropriate data.

Bank reconciliation is not carried out on monthly basis over recent months with the absence of the FO on study leave.

No systematic information is provided to service delivery units on items delivered.

In year budget execution reports are not presented, relating back to the weakness in budgeting above.

Annual Financial Statements are prepared and signed by the City Treasurer and the Chief Administrator. The basis of accounting used is the cash basis but the accounting standards followed are not stated in the financial statements. However, comparisons with budgeted amounts are not provided in any of the financial statements for the past three years (2007 – 2009).

38. External scrutiny and audit

Indicators PI-26 to PI-28 seek to show the extent and effectiveness of independent scrutiny of what the administration does. Low scores would tend to indicate a lack of independent oversight of the activities of the government.

Audit reports for the financial years 2005 – 2008 are only now being submitted to Council by the Auditor General. Legislative scrutiny of the budget law occurs with enough time to deliberate, though it is possible that councillors require training to improve their contributions to such scrutiny.

39. Transfers from Higher Level Government

This indicator assesses the predictability of inflows of transfers from CG. The regularity of inflows can affect the SN government's fiscal management and its ability to deliver services.

CG transfers to KDC were higher than forecast in 2007 by 32%, by 27% in 2009 and below forecast by 10% in 2009, impacting on expenditure composition. The increased transfers resulted from windfall transfers resulting from the Diamond Area Development Fund, masking the irregularity and shortfalls of the main CG targeted transfers, which fell short of budgeted by 24%, 15% and 11% in the same years. As noted, transfers are made irregularly, mostly in the first quarter in 2007, second quarter in 2008 and more evenly in 2009.

(xiv) Assessment of the impact of PFM weaknesses

Weaknesses can be summarized as:

- Budget Planning
 - Planning and budget formulation is weak. There is need to improve planning and budget formulation in KDC to fully reflect policy priorities established through the MTEF, as well as realistic revenue forecasts. Important progress has been made in formulating a costed

development plan which can now form the basis of associated sector strategies. No doubt this will be further strengthened once the KDC assumes greater responsibility for devolved activities which are still dominated by line ministries both in terms of planning and implementation. The consequence of these weaknesses are that resource allocation linked to priorities is ineffective and KDC allocates the budget as it sees fit rather than an allocation based on priorities and sectoral expertise, though examples exist of political initiatives being rebuffed on the basis of budget planning. The incentive for planning is also currently undermined by the irregularity of resource flows from CG. An adherence to a strict timetable of transfers would greatly assist budget planning.

- Budget Execution
 - No cash flow planning occurs. Therefore there is little adherence to the budget
 - There is a need for greater controls on own revenue expenditures which can be subject to demands outside of the budget initiated by politicians
- Budget Accounting and Controls
 - Budget accounting and controls are still in their infancy although some progress has been made in recent years. The PETRA accounting software when fully rolled out will greatly assist in improving accounting and controls, including the compatibility with CG. The current lack of bank reconciliation is of grave concern, which could easily result in unplanned debts. In year budget reports require development if adherence to the budget is to be improved. Internal control is also in its infancy and there is a need to further support the LC officers with appropriate resources to complete their task. Without these, control will focus on top-down compliance and enforcement rather than holding sector managers fully accountable for managing their budgets. These reforms fundamentally change the approach to managing financial resources and require sustained institutional changes supported by capacity building over a number of years.
 - Cash management is weak resulting in potential leakages from revenues
- Budget Reporting and External Audit
 - In year budget reports are not produced further undermining the credibility of the budget
 - External audit also in its infancy. Impact of initial reports remains to be seen.

(xv) *Prospects for reform planning and implementation*

See summary report

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 implemented as intended	Budget estimates of revenue and expenditure are weak.	The challenge will be to better forecast revenue while at the same time maintaining a more cautious stance. This will allow a better allocation of resources at the planning stage rather than decreasing allocations during the budget execution stage.	Reflecting better revenue forecasts at the budget planning stage will allow better planning of inputs needed to achieve better and more efficient service delivery.
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	Budget documentation is weak	All expenditures and revenue are included in the Budget. Availability of information on the budget to the public and scrutiny of the budget by council does not provide adequate transparency.	Though a relatively good development plan has been developed, the connection between sector strategies and budgets is limited.
A3 Policy-based budgeting	A policy-based budgeting process enables the government to plan the use of resources in line with its fiscal policy and national strategy		
The budget is prepared with due regard to government policy	The MTEF should ensure that government policy is linked to planning in the context of a resource envelop which is realistically set. Good progress has been made under the development plan. This requires further refinement with costed sector strategies and de facto control over sector budgeting	The CG budget calendar provides sufficient time for due deliberation by council to establish expenditure ceilings that reflect broad policy objectives. The allocation of ceilings to strategic priorities within departments is somewhat developed. The next stage of the MTEF needs to start fully developing sector strategies.	The underdeveloped nature of the bottom up element of the MTEF will inhibit optimum 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	Tax collection and arrears requires strengthening. The development of property tax software should assist in this regard	If departments do not have full knowledge of their allocations through the year, effective planning of service delivery is inhibited.	The lack of adherence to the budget may mean that inputs are not supplied when they are needed. Service delivery may be part of the decision

	1. Aggregate fiscal discipline	2. Strategic allocation of resources	3. Efficient service delivery
arrangements for the exercise of control and stewardship in the use of public funds	The execution of the budget is at times ad hoc ad subject to political influence		making process but cash availability is the ultimate deciding factor, constrained by irregular transfers from CG. Internal audit is improving though requires significant strengthening.
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	Accounting records are rudimentary so do not provide adequate information for decision-making information.	Information on actual expenditure against budget is not provided during the year. Bank reconciliation is not carried out at present.	The data that is being recorded should feed into the bottom up element of the MTEF and impacts on service delivery at the planning and budget formulation stages. However, the development of this aspect of the MTEF is extremely weak.
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	There is scrutiny of the overall fiscal position at council level	Scrutiny though external audit is only just starting and has not been fully scrutinised by the administration as yet. Council needs to build capacity to fully evaluate the results of the work of the SAI.	The development of audits over time will assist in the development of overall service delivery

Assessment of the PFM systems, processes and institutions

9. Budget credibility

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

The position relating to aggregate actual expenditure compared to budgeted is relatively strong, largely due to the transfer of Diamond Area Community Development Fund revenues, given fluctuations in other sources of revenue. The deviation was 4.9% in 2007, increasing to 20% in 2008 but surpassing budgeted by 3% in 2009. Given the fluctuations of revenue sources, it is deemed that the adherence to expenditure forecasts was more by accident than design.

Aggregate Expenditure Le million

year	Budget Expenditure	Actual Expenditure	Difference +/-	Difference %
2007	3,439	3,270	169	4.9
2008	3,570	2,872	698	20
2009	3,744	3,839	95(-)	3(-)

Source: MTEF Budgets and Annual Financial Statements

A Score of A is therefore appropriate.

	Minimum Requirements (scoring Method M1)
PI-1 Aggregate expenditure out-turn compared to original approved budget	Score A (i) 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 5% of budgeted expenditure.

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

This indicator measures the extent to which reallocations 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 the organisational 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)
2007	5%	72%	67%
2008	20%	58%	38%
2009	3%	69%	66%

Source: MTEF Budgets and Annual Financial Statements

Expenditure Composition differed from overall deviation in aggregate expenditure by 67% (72% as against 5%) in 2007, improving to 38% (58% as against 20%) in 2008 but rose again to 66% (69% as against 3%) in 2009.

Score D

	Minimum Requirements (scoring Method M1)
PI-2. Composition of expenditure out-turn compared to original approved budget	Score D (i) D Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two of the last three years.

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

Outturn and budgeted own revenue data for 2007, 2008 and 2009 are presented below.

Own Revenue Le million

	Budget	Outturn	Diff +/-	Diff %
2007	740	0	740	100
2008	659	98	561	85
2009	659	380	279	42

Source: MTEF Budgets and Annual Financial Statements

Actual own source revenue was lower than forecast in the budget by 100% in 2007 and by 85% in 2008. The variance reduced further to 42% in 2009. Though apparently the situation is improving, the deviations reflect weak revenue forecasting and collection. The significant factor in these variations was the poor estimation of own revenues, in particular market dues, with disputes between the KDC and chieftaincies being a source of conflict to this day. The practice of setting high targets to encourage increased revenue collection exists but ultimately serves to undermine the budget's credibility as in year expenditures suffer as targets are not met. KDC has limited sources of own source revenue, there being little property of note and few businesses in this rural area. The major source is market dues.

Score D

	Minimum Requirements (scoring Method M1)
PI-3. Aggregate revenue out-turn compared to original approved budget.	Score D (i) D Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years.

PI-4. Stock and monitoring of expenditure payment arrears

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

Arrears do not exist, reflecting the small budget of the KDC and the unsophisticated accounting mechanism. All bills are paid within 30 days of issuance of invoice unless a dispute in delivery of services.

n/a

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

There are no arrears.

n/a

	Minimum Requirements (scoring Method M1)
PI-4. Stock and monitoring of expenditure payment arrears.	n/a

10. Transparency and comprehensiveness

PI-5. Classification of the budget

This indicator assesses the classification system used for formulation, execution and reporting of the government's budget.

The classification of the budget has a simple administrative breakdown only. KDC has not started using PETRA Accounting Software for recording of transactions, though training has been provided. Once the PETRA Accounting System is in use, the MOF IFMIS Chart of Accounts would be adopted at SN level which would improve the score to a C.

Score D.

	Score and PEFA Scoring Criteria met (scoring Method M1)
PI-5. Classification of the budget	Score: D (i) D The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

PI-6. Comprehensiveness of information included in budget documentation

The MTEF for the next and subsequent two years is the main document which is produced as part of the budget calendar. Recent budget documentation (for 2010) fulfills 0 of the 9 information benchmarks. The documentation only reflects zero budget deficit with financing of the deficit being n/a.

The following elements should be included in the MTEF.

Element	MTEF	Notes
1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.	No	Budgetary Notes provided gains from implementation of programmes and activities but there is no information on estimates of aggregate growth, inflation and exchange rate
2. Fiscal deficit, defined according to GFS or other internationally recognized standard.	Yes	Budget Documentation presents zero budget deficit
3. Deficit financing, describing anticipated composition.	Yes	The Deficit Financing is zero as Budget Deficit presented is zero
4. Debt stock, including details at least for the beginning of the current year.	No	There is no information presented on the level of debt stock or arrears
5. Financial Assets, including details at least for the beginning of the current year.	No	This information is not provided
6. Prior year's budget outturn, presented in the same format as the budget proposal.	No	This information is not provided
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Partial	Narrative notes on budgetary performance for the current year are provided
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	Only brief notes on service delivery provided for the current year

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	There is no assessment of budget implications for changes in policy
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	Minimum Requirements (scoring Method M1)
PI-6. Comprehensiveness of information included in budget documentation.	Score C Recent budget documentation fulfills 2 of the 9 information benchmarks (2 or less).

PI-7. Extent of unreported government operations

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

There are no “unreported” government operations.

Score A

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

There is no donor financing which goes through KDC bank accounts

Score A

	Minimum requirements (Scoring Method M1).
PI-7. Extent of unreported government operations	Score A (i)Score A. The level of unreported extra budgetary expenditure (other than donor projects) is insignificant (ii)Score A. Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).

PI-8. Transparency of Inter-Governmental Fiscal Relations

There are no transfers made to lower levels of government by KDC. Only expenses are paid for the holding of ward meetings. No monitoring of Ward Committees’ finances is made. Ward members are occasionally used to collect fees and charges on behalf of the KDC and will be paid accordingly.

	Minimum requirements (Scoring Method M2).
PI-8. Transparency of Inter-Governmental Fiscal Relations	n/a There are no transfers made to lower levels of government by KDC.

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

KDC does not own any AGAs or PEs. Neither is it relevant for it to monitor the fiscal position of lower SN levels. The next level below KDC is the ward committee which does not operate any significant budget, nor receive transfers from KDC.

This indicator is therefore not applicable.

	Minimum requirements (Scoring Method M1).
PI-9. Oversight of aggregate fiscal risk from other public sector entities	n/a KDC does not own any AGAs or PEs.

PI-10. Public Access to key fiscal information

KDC makes available to the public 1 of the 7 relevant listed types of information (External Audit reports for the last 3 years have only just been sent to KDC and as such have not been deliberated on). KDC regularly publishes in-year financial statements on monthly basis by the 15th of the following month on the notice board. This represents good practice though comparisons are not made with the approved budget. . Contract awards are posted on the notice board and also in other media. Other information is not made available to the public.

Public access to key fiscal information is assessed through the seven 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.	No. Copies of Budget approved by the Council are not readily made available
(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	Limited. Summary Details of Actual Cash Flows of Revenue and Expenditure (Budget Outturns) are normally placed on the Notice Board by the 15 th of the following month but these are not being compared with the Approved Budget
(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	No. This is currently not available as the Audited Accounts and Audit Reports for a number of years are only being received now
(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. This is currently not available as the Audited Accounts and Audit Reports for a number of years are only being received now
(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. Are published at least quarterly through appropriate means.	Yes. This is published in the press and on the KDC notice board
(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No. This is not available to the public by facility
(vii) Fees and charges for major services are posted at the service delivery site and in other appropriate locations/media	No. This is not available to the public by facility

	Minimum Requirements (Scoring Method M1)
PI-10. Public Access to key fiscal information	Score C Government makes available to the public 1 of the 7 listed types of information.

3 Policy-based budgeting

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

- (vii) Existence of and adherence to a fixed budget calendar
There is no fixed budget calendar for KDC – only a willingness to adhere to the MOF budget calendar. Dates are annually prepared for departmental submissions (allowing about 2 weeks for submissions) and Budget and Finance committee meetings.
Score D
- (v) Guidance on the preparation of budget submissions.
There is no KDC budget circular prepared. Departments are not provided with budget ceilings beyond those for devolved functions in the MOFED circular. They make and present annual work plans and budget submissions (by end September deadline), which are being considered by a Budget Committee that decides on aggregate allocations.
Score D
- (vi) Timely budget approval by the legislature or similarly mandated body (within the last three years).
The legislature approved the budget before the end of the year (by end September of the current year and always by the beginning of December) and before being sent to MOF. However, it should be noted that MoFED does provide extra funds to the agreed budget during the fiscal year, particularly the development budget which appears to take longer to agree at CG level. This constrains the development planning of the LC
Score A

	Minimum requirements (Scoring Method M2).
PI-11. Orderliness and participation in the annual budget process	Score C (xiii) D. A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions. (xiv) D. A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment. (xv) A. The legislature has, during the last three years, approved the budget before the start of the fiscal year.

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

- (xvii) Preparation of multi -year fiscal forecasts and functional allocations.
Three-year rolling forecasts are generally made on the administrative classification and on economic classification (as received from CG) for devolved sectors only (the majority of the BCC budget and the main categories of economic classification). They are a 5% increment on the budget year for the 2 outer years.

Score C

(xviii) Scope and frequency of debt sustainability analysis.

KDC has no debt

n/a

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

Three-year rolling development plans are being prepared based on which the MTEF Budgets are developed and approved. There is a relatively high quality development plan with detailed activities linked to the budget. It also represents wide consultation with Wards and devolved functions. There is little evidence of activities outside of the development plan not being resourced.

Score B

(xx) Linkages between investment budgets and forward expenditure estimates

No current mechanism is in place to link the recurrent cost implications of investments into forward expenditure estimates.

Score D

	Minimum requirements (Scoring Method M2).
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	<p>Score C</p> <p>(xiii) C. Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.</p> <p>(xiv) n/a</p> <p>(xv) B Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.</p> <p>(i) D Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.</p>

4 Predictability and control in budget execution

PI-13 Transparency of Taxpayer Obligations and Liabilities

(i) Clarity and comprehensiveness of tax liabilities

The major sources of revenues are:

- Diamond Area Community Development Fund
- Market dues
- Business Licences
- Fees and Other Charges

Legislation and procedures are not clear for all major tax liabilities, which includes Diamond Area Community Development Fund, market dues, and a few business licences. In particular KDC cannot predict the size or timing of fund transfers, claiming little transparency regarding their allotted share. Market dues are in dispute with the chieftaincies.

Score D

(ii) Taxpayer access to information on tax liabilities and administrative procedures. Taxpayers can access the legislation (LGA 2004) through local radio programmes, press releases and meetings with drivers union, trade unions and pharmacy board. Procedures, however are more opaque and often result in non-payment

Score D

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

The LGA 2004 does not allow for a complaints mechanism. Tax appeals may be lodged through the Chief Administrator. There is no independent appeal mechanism being established.

Score D

	Minimum requirements (Scoring Method M2).
PI-13 Transparency of Taxpayer Obligations and Liabilities	Score D (i) D. Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities. (ii) D. Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient. (iii) D. No functioning tax appeals system has been established

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

(v) Controls in the taxpayer registration system.

There is no taxpayer registration given the narrow base of taxes (no property and few business taxpayers) rendering it inappropriate

Not rated

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

See above

Not rated

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

See above

Score n/a

	Minimum requirements (Scoring Method M2).
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	Not rated

PI-15 Effectiveness in collection of tax payments

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)

(i) There is no comprehensive record of debts on any taxes, though the nature of tax collection means that only market dues would merit such a record, though collection is on an immediate basis on market day and also in dispute with the chieftaincy

Not rated

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

Revenue collections are made irregularly

Score D

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

No reconciliation occurs.
Score D

	Minimum requirements (Scoring methodology: M1)
PI-15 Effectiveness in collection of tax payments	<p>Not rated</p> <p>(x) Not rated 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).</p> <p>(xi) D Revenue collections are transferred to the Treasury less regularly than monthly</p> <p>(xii) 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.</p>

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

(i). Extent to which cash flows are forecast and monitored.
No cash flow planning occurs. However, the desire to make such projections will be hindered by poor budgeting, poor revenue performance and the unpredictability nature of Central Government transfers.
Score D

(ii) Reliability and horizon of periodic in-year information to LMs on ceilings for expenditure commitment. Budgets are not disaggregated and departments are not provided with reliable indications of resource availability for commitment. However, tied grants provide some reliability, on annual basis, in terms of knowing that devolved functions will be resourced, though timing of transfers inhibits expenditure planning.
Score D

(iii). Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of LMs.
It appears that adherence to the budget is minimal. There is weak budgetary control, with additional risk posed by unpaid bills and outstanding contractual payments that are not recorded until they are paid or cleared.
Score D

	Minimum requirements (Scoring Method M1).
PI-16. Predictability in the availability of funds for commitment of expenditures	<p>Score D</p> <p>(xiii) D. Cash flow planning and monitoring are not undertaken or of very poor quality.</p> <p>(xiv) D MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.</p> <p>(xv) D Significant in-year budget adjustments are frequent and not done in a transparent manner.</p>

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

(i) Quality of debt data recording and reporting
KDC not legally able to contract debt without approval from MOF.
n/a

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

Cash balances are at least consolidated and monitored monthly when financial statements are prepared.
Score C

(iii) Systems for contracting loans and issuance of guarantees.
There is no contracting of loans.
n/a

	Minimum requirements (Scoring Method M2).
PI-17 Recording and management of cash balances, debt and guarantees.	<p>Score C</p> <p>(xiii) n/a. KDC not legally able to contract debt without approval from MOF</p> <p>(xiv) C. Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances</p> <p>(xv) n/a No contracting of loans</p>

PI-18 Effectiveness of payroll controls

(i) Degree of integration and reconciliation between personnel and payroll data.
Payroll is held on MS Excel spreadsheet. Personnel records are manual. Adjustments such as promotions and redundancies are made to the payroll within a month with full documentation and compared to previous month's data.
Score B

(ii) Timeliness of changes to personnel records and the payroll.
Updates occur within one month and are supported by documentation from the Chief Administrator.
Score A

(iii) Internal controls of changes to personnel records and the payroll.
Authority and basis of changes to personnel and payroll records are clear and are monitored by the Finance Officer. There is a clear audit trail. The payroll is prepared using MS Excel spreadsheet, but there is no payroll comparative analysis schedule being prepared that shows the payroll adjustments from the previous month.
Score B

(iv). Existence of payroll audits to identify control weaknesses and/or ghost workers.
Only 11 staff are on own payroll enabling regular staff surveys (at least annual over the review period).
Score C

	Minimum requirements (Scoring Method M1).
PI-18. Effectiveness of payroll controls	<p>C+</p> <p>(xvii) B. Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(xviii) A. Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).</p> <p>(xix) B Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(xx) C. Partial payroll audits or staff surveys have been undertaken within the last 3 years.</p>

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

(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).

KDC procurement is subject to Public Procurement Act 2004 and the 2006 Procurement Regulations. It's Procurement Department liaises closely with the CG Procurement Agency. All (100%) procurements over the past 3 years over the national threshold (Le60 million) used open competitive bidding.

Score A

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

Procurements below the threshold follow the law and regulations above.

Score A

(iii) Existence and operation of procurement complaints mechanism

Complaints can be made to the CA in the first instance and then to the Independent Review Panel through the NPPA.

Score A

	Minimum requirements (Scoring Method M2).
PI-19 Competition, value of money and controls in procurement.	<p>A</p> <p>(xiii) A. Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p>(xiv) A Other less competitive methods when used are justified in accordance with clear regulatory requirements.</p> <p>(xv) A A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.</p>

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

(v) Effectiveness of expenditure commitment controls.

Procedures exist with the use of manual Vote Service Ledger (VSL) but unpaid bills and outstanding contractual payments are not being captured and may pose the risk of over expenditure, though minimal in the relatively small budget operated by KDC. The PETRA Accounting System once in use would improve commitment controls.

Score C

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

Financial Administration Regulations exist but in draft form. There are basic rules being followed with authority sought from the CA. There is a basic understanding of KDC rules by all FO officers. However, there are concerns for inaccurate reporting and recording for unpaid bills and staff loans, especially where cash based accounting is used.

Score C

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

Compliance with existing rules is in general high, but the financial administrative regulations need to be finalized. On occasion, emergency procedures are used in unjustified cases, usually as a result of political interference, requesting expenditures outside of the budget, though this is often controlled by the

Development Officer, who oversees the implementation of the Development Plan and therefore adherence to the budget.

Score C

	Minimum requirements (Scoring Method M1).
PI-20. Effectiveness of internal controls for non-salary expenditure	<p>C</p> <p>(xiii) C Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.</p> <p>(xiv) C Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.</p> <p>(xv) C Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.</p>

PI- 21 – Effectiveness of Internal Audit

(i) Coverage and quality of the internal audit function

Little internal auditing has been carried out. One report has been prepared in a year with little support from the CA. The IA has serious logistical constraints to operating effectively

Score D

(ii). Frequency and distribution of reports

1 report has just been produced after the IA was a year in post. Lack of a computer has been the main problem in filing reports but one has recently been provided by the CA. Also, the IA shares an office with other staff members.

Score D

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

Some follow up has occurred. Some areas have had no response.

Score C

	Minimum requirements (Scoring Method M1).
PI-21. Effectiveness of Internal Audit	<p>D+</p> <p>(xiii) D There is little or no internal audit focused on systems monitoring.</p> <p>(xiv) D Reports are either non-existent or very irregular.</p> <p>(xv) C A fair degree of action taken by many managers on major issues but often with delay</p>

5 Accounting, recording and reporting

PI-22. Timeliness and regularity of accounts reconciliation

(i) Regularity of bank reconciliations

Bank reconciliation was done on monthly basis until the end of 2009. In 2010, with the absence of the FO on study leave, this task has been irregular.

Score D

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

There are no suspense accounts or advances.

n/a

	Minimum requirements (Scoring Method M2).
PI-22 Timeliness and regularity of accounts reconciliation	D (ix) D Bank reconciliation for all Treasury (or equivalent) managed bank accounts take place less frequently than quarterly OR with backlogs of several months. (x) n/a

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.

No data collection exists

Score D

	Minimum requirements (Scoring Method M1).
PI-23. Availability of information on resources received by service delivery units	Score D (v) D No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

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

There are no in-year budget reports

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

In-year financial statements are produced on cash basis though with one month delay in the absence of the FO who is on study leave. Also, there are no comparisons made with budgeted figures.

Not rated

(ii) Timeliness of the issue of reports

In-year financial statements are produced every month though with one month delay and are placed in the Council’s notice board but these are not considered sufficient to be called budget performance reports. There is a need to show comparisons with budget numbers and explanatory notes issued for budget variances.

Not rated

(iii) Quality of information

The financial statements are prepared on cash basis and excludes non cash transactions, such as unpaid bills, staff loans and outstanding payments to contractors

Not rated

	Minimum requirements (Scoring Method M1).
PI-24. Quality and Timeliness of in-year budget execution reports	Not rated

PI 25. Quality and timeliness of annual financial statements

(i). Completeness of the Financial Statements.

Financial statements are prepared annually but some information is missing, such as accounting policies, and arrears position.
Score C

(ii). Timeliness of submission of the Financial Statements.

Financial Statements are produced and submitted for external audit within three months of the end of the financial year.
Score A

(iii). Accounting Standards Used.

Financial Statements are not presented in a professional and user friendly manner. Accounting standards are disclosed in the notes to the accounts and are consistent over time.
Score C

	Minimum requirements (Scoring Method M1).
PI-25. Quality and timeliness of annual financial statements.	<p>C+ (xiv) C A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.</p> <p>(xv) A The statement is submitted for external audit within 6 months of the end of the fiscal year.</p> <p>(xvi) C Statements are presented in a consistent format over time and accounting standards are disclosed.</p>

6 External scrutiny and audit

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

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

Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs (including the council) and were therefore not available for review by the PEFA team. The coverage is that of a normal financial audit.
Score C

(ii) Timeliness of submission of audit reports to legislature

Audit reports for the 2005 – 2008 are only now being submitted to the Chief Administrator for onward forwarding to Council, being more than 12 months from the end of those financial years
Score D

(iii) Evidence of follow up on audit recommendations

Council is yet to receive and deliberate on the past audit reports just being submitted. The mayor seemed only cognisant of the existence of the reports during the consultants' visit.
Not rated

	Minimum requirements (Scoring Method M1).
PI-26. Scope, nature and follow-up of external audit.	<p>Not rated (vii) C SN government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.</p> <p>(viii) D Audit reports are submitted to the legislature more than 12 months from</p>

	the end of the period covered (for audit of financial statements from their receipt by the auditors).
(ix)	Not rated.

PI-27: Legislative scrutiny of the annual budget law

(i). Scope of the legislature’s scrutiny

The Council annually considers the detailed budget proposals (including medium term development plan, expenditures and revenues) for the coming year as well as the Development plan that presents the medium term priorities and form the basis for the detailed budget proposals.

Score A

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

Simple procedures exist and are respected. The detailed budget proposal is thoroughly scrutinized by the Budget and Finance Committee of Council before being considered by the whole of Council

Score B

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

The budget proposals are usually submitted to Council in September and approved by November. Council has at least one month to review the budget before it is sent to the Ministry of Finance in November. As noted above, this budget often does not include development expenditures given the lack of a development ceiling from Ministry of Finance.

Score B

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

Rules exist under the FAR but there was no evidence that they were strictly adhered to.

Score D

	Minimum requirements (Scoring Method M1).
PI-27. Legislative scrutiny of the annual budget law.	<p>D+</p> <p>(xvii) A The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.</p> <p>(xviii) B Simple procedures exist for the legislature’s budget review and are respected.</p> <p>(xix) B The legislature has at least one month to review the budget proposals.</p> <p>(xx) D. Rules regarding in-year budget amendments may exist but are either rudimentary or unclear OR they are usually not respected.</p>

PI-28: Legislative scrutiny of external audit report

No external audit reports have, as yet, been scrutinised by the council. Given the infancy of local government, external audit reports have not been issued out until 2010. These cover the years 2005-2008. These have been submitted by the SAI to the LCs but as yet have not been commented on by LCs.

Not rated

	Minimum requirements (Scoring Method M1).
PI-28. Legislative scrutiny of external audit report	<p>Not rated</p> <p>None published as yet</p>

7. Donor practices

D-1 Predictability of Direct Budget Support

There has been no budget support

n/a

	Minimum requirements (Scoring methodology: M1)
D-1 Predictability of Direct Budget Support	n/a

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

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

There has been no donor aid to KDC

n/a

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

See above

n/a

	Minimum requirements (Scoring methodology: M1)
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	n/a

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.

There were no aid funds

n/a

	Minimum requirements (Scoring methodology: M1)
D-3 Proportion of aid that is managed by use of national procedures	n/a

HLG – 1

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

CG transfers were higher than forecast in 2007 by 32%, 10% lower in 2008 and significantly surpassed estimates by 27% in 2009. The 2007 and 2009 figures were primarily inflated by unbudgeted transfers from the Diamond Area Development Fund.

CG Transfers Le million

	Budget	Outturn	Diff +/-	Diff %
2007	2,699	3,562	863	32 (-)
2008	2,912	2,616	296	10
2009	3,086	3,933	847	27 (-)

Score A

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

In the absence of information on the amounts of each earmarked grant, this indicator has been assessed by looking at the variation in earmarked grants budgeted and actual transfers. It can be seen that in years 2007 and 2009 the earmarked grants varied most within the total transfer from CG, with an improvement in 2008. Fund monies presumably made up for the lack of funding in many instances.

The budgeted and actual transfer data for earmarked grants are as follows:

CG Earmarked transfers Le million

	Transfer Deviation	Transfer Variance	Variance in excess of Deviation
2007	5%	86%	81%
2008	47%	56%	9%
2009	6%	82%	74%

Source: MTEF Budgets and Annual Financial Statements

Score D

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

There is no disbursement timetable but transfers are made quarterly. In 2007, transfers were made in only the first quarter whereas in 2008 nearly all transfers were in the second quarter. But in 2009, the transfers were fairly evenly disbursed in all four quarters. Interestingly, the Ministry Finance attempts to disburse at mid quarter rather than at the beginning of the quarter, resulting in no funding from January 1st – mid February each year.

Score C

	2010	
	Score	Explanation
HLG - 1 Predictability of Transfers from Higher Level of Government	D+	(xiii) A – In no more than one out of the last three years have HLG transfers fallen short of the estimate by more than 5%. (xiv) D – Variance in provision of earmarked grants exceeded overall deviation in total transfers by at least 10 percentage points in at least two of the last three years (xv) C –. A disbursement timetable forms part of the agreement between HLG and SN government and this is agreed by all stakeholders at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years OR in the absence of a disbursement timetable, actual transfers have been distributed evenly across the year (or with some front loading) in one of the last three years.

APPENDIX 2 - EXPENDITURE ANALYSIS 2007 - 2009

	2007						2008						2009					
	Budget	Actual	Diff.	% Dev	Absolute Difference	%	Budget	Actual	Difference	% Dev	Absolute Difference	%	Budget	Actual	Difference	% Dev	Absolute Difference	%
Total Expenditure	Le' m	Le' m			Le' m	%	Le' m	Le' m			Le' m	%	Le' m	Le' m			Le' m	%
	2,537	2,666	129	5	2,181	86	2,708	1,446	1,262	47	1,508	56	2,828	2,668	160	6	2,309	82
Devolved Function - Education	1,009	29		97	980		1,165	118			1,047	90	1,194	275			919	77
Devolved Function - Health	535	489		9	46		597	522			75	13	434	304			130	30
Devolved Function - Solid Waste Mangt.	55	197		261	143		27	13			14	51	43	34			8	20
Devolved Function - Agriculture Other Functions	174	244		40	70		344	260			84	25	672	493			178	27
Devolved Functions Development Expenditure	95	140		48	45		83	206			123	149	84	236			152	179
	670	1,567		134	897		493	327			165	34	402	1,324			923	230

Sources: MTEF Budgets and Annual Financial Statements

NB - HIV Exps and Reproductive Health incl. in Devolved Function - Health
 - For 2009, Actuals adjusted for errors

APPENDIX 1 - OVERALL BUDGETARY ANALYSIS 2007 - 2010

	2007			2008			2009			2010	%
	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Actual	Deviation	Budget	Change in 2010 Bud/2009 Act.
	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	Le' m	%	Le' m	%
Total Revenue	3,439	3,562	4%	3,570	2,715	-24%	3,744	4,313	15%	5,546	28.6%
Own Source Revenue	740	-	-100%	659	98	-85%	659	380	-42%	710	86.7%
Grants	2,699	3,562	32%	2,912	2,616	-10%	3,086	3,933	27%	4,837	23.0%
Admin & Devolved Grants	2,190	1,655	-24%	2,419	2,067	-15%	2,759	2,462	-11%	4,837	96.5%
Local Development Grants	509	1,697	233%	493	254	-48%	327	1,333	308%	-	-100.0%
Others	-	211		-	295			137			
Total Expenditure	3,439	3,270	-5%	3,570	2,872	-20%	3,744	3,839	3%	5,546	44.5%
Recurrent Expenditure	2,769	1,703	-38%	3,078	2,545	-17%	3,342	2,514	-25%	5,514	119.3%
Development Expenditure	670	1,567	134%	493	327	-34%	402	1,324	230%	32	-97.6%
Overall Balance	-	292	0		(157)		-	474		0	
Net Change in Fund Balance	-	292		-	157		-	(474)		-	
External financing (net)	-	-		-	-		-	-		-	
Local financing (net)	-	-		-	-		-	-		-	
Financing gap	-	-	0	-	-		-	-		0	

Sources: MTEF Budgets and Annual Financial Statements