



**SIERRA LEONE  
HIPC EXPENDITURE TRACKING  
ASSESSMENT AND ACTION PLAN (AAP)**

**PREPARED BY THE WORLD BANK AND THE IMF  
IN COLLABORATION WITH  
THE AUTHORITIES OF SIERRA LEONE**

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**8 July 2004**

## LIST OF ABBREVIATIONS

AGD	Accountant-General's Department
BOSL	Bank of Sierra Leone
CFAA	Country Financial Accountability Assessment
CPAR	Country Procurement Assessment Report
CRF	Consolidated Revenue Fund
CTB	Central Tender Board
DFID	UK Department for International Development
EC	European Commission
EU	European Union
ESDS	Educational Services Delivery Survey
FMS	Financial Management System
GFS01	Government Financial Statistics (IMF manual, 2001 edition)
GOSL	Government of Sierra Leone
HIPC	Heavily Indebted Poor Countries Initiative
IAU	Internal Audit Unit
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
MDAs	Ministries, departments and agencies
MEDP	Ministry of Economic Development and Planning
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
OAG	Office of the Auditor-General
PEM	Public Expenditure Management
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Surveys
PEMFAR	Public Expenditure Management and Financial Accountability Review
PRP	Poverty Reduction Programs
PRSP	Poverty Reduction Strategy Paper
PPRSC	Public Procurement Reforms Steering Committee
SOE	State Owned Enterprise
TA	Technical Assistance
WB	World Bank

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## I. SUMMARY

The objective of this report is to assess the capacity of the public expenditure management systems of the Government of Sierra Leone (GOSL), as they were at the end of 2003, to effectively allocate and track poverty-reducing public expenditure, identify ongoing and planned initiatives and associated technical assistance (TA) for improving Public Expenditure Management (PEM) and prepare a draft action plan for improving PEM.<sup>1</sup>

The mission benefited from a multi-donor workshop on Sierra Leone held at the World Bank's headquarters in October, 2003 which assessed the current and planned donor activities in the PEM area. This was followed by discussions with the authorities in Freetown between 26 January and 5 February 2004.

Sierra Leone has initiated a number of reform in its PEM systems. These include:

- The introduction of Public Expenditure Tracking Surveys (PETS), since 2000.
- The introduction of a Medium-Term Expenditure Framework (MTEF), since the 2001 budget.
- Creation of a computerized Financial Management System for the Accountant-General's Department in 1998. The FMS unit was set up in 2002.
- Creation of community budget oversight committees in 2003.
- The design of a new GFSM2001-compliant chart of accounts in 2003. This is to be adopted for the 2005 budget.
- The launch of a procurement reform program in late 2003.
- The approval of the Terms and Conditions of the staff to be appointed by the new Audit Service Board.

Sixteen key indicators are reviewed and each are ranked A, B or C according to pre-determined criteria. Benchmarks are set for each question, some require a B ranking, others require an A. **The current assessment shows that the country met 7 out of the 16 PEM benchmarks in 2003 (Table 1).** Four questions were ranked A, 6 were ranked B and 6 were ranked C.

The view of the mission is that these reforms will need to be deepened and broadened. Substantial effort is still required to improve the overall PEM system, particularly its capability to track poverty-related expenditures. A suggested action plan is laid out in Table 4. With the coordinated assistance of the major donors active in PEM, adequate Technical Assistance (TA) should be available to support a comprehensive PEM Action Plan.

The Government of Sierra Leone has agreed to the publication of this report.

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<sup>1</sup> There was no assessment in 2001 due to security concerns.

## II. COVERAGE

**This assessment is limited to GOSL Central Government.** For the period being covered, 2003, local government activities in Sierra Leone were not substantial relative to the central government's budget.<sup>2</sup> Almost all local expenditure was financed by transfers from the central budget. More recently, a Local Government Act was approved by Parliament in February 2004, creating district councils and devolving a number of functions (especially education and health). The first local government elections in 30 years were completed in May 2004.

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<sup>2</sup> No comprehensive estimate of local government expenditures was available at the time this report was prepared.

### III. BUDGET FORMULATION

#### Indicator 1~ Coverage of the budget or fiscal reporting entity.

- Q1. How well does the coverage of fiscal information match the GFS definition of the general government sector?
- a. Very close fit – *Benchmark*.
  - b. Quite close fit.
  - c. Considerable differences.

*Agreed ranking of B. Coverage of the budget is restricted to the central government. Local governments, parastatals, subvented entities and the Road Fund are not covered.*

*Explanation:* According to the GFS manual, general government comprises of all government units and non-market non-profit institutions that are controlled and mainly financed with government resources. This includes: all units of central and local governments; statutory institutions established as government owned self-governing units carrying out government policies; and extra-budgetary funds which are generally financed from earmarked revenues or receipts and established by specific Parliamentary Acts. The central bank, financial institutions and public corporations established under Company Law, and operating on market principles are not included in general government.

The omissions in GOSL's budget coverage are related to the local governments, to special funds (such as the Road Fund, and the Reforestation Fund), and to subvented institutions, such as universities and teachers schools.

*Agreed Measures:* The ability to report on GFS concept of general government will require accounting and reporting on chiefdoms, city councils and district councils. This will be facilitated by the establishment of the necessary reporting requirements, training and by the introduction of the new chart of accounts in 2005 along with the expected new Financial Management System.

**Indicator 2 ~ Spending from inadequately reported extra-budgetary sources.**

- Q2. To what degree are general government activities funded through inadequately reported extra-budgetary sources?
- a. Not significant (Smaller than 3% of total spending) – *Benchmark*.
  - b. Significant (Between 3 and 10% total spending).
  - c. Very significant.

*Agreed ranking of A. The Road Fund is the main extra-budgetary item and only in the sense that its actual expenditures are not adequately reported to the Ministry of Finance. This Benchmark has been met.*

*Explanation:* The main source of funding for expenditures by all MDAs is budgeted allocations. Several MDAs do collect and retain revenues but these are quite small relative to budgetary resources.<sup>3</sup> The Road Fund is the main extra-budgetary item in the sense that its actual expenditures are not adequately reported. The Road Fund obtains earmarked revenues from the excise tax on petrol and diesel fuel. Road Fund expenditures are estimated to be approximately 1 percent of total expenditures (2 percent of primary expenditures).

While this indicator is based on expenditures, it should be noted that there are a number of revenues which are not adequately reported, among these are the hospital charges for cost recovery. Their volume is small, however, relative to Customs & Excise, the main revenue source.

*Agreed Measures:* Government reports ordinarily show only budgetary allocations to each MDA. Revenues generated and retained by MDAs are usually not reported. The ability to accurately portray fiscal outcomes will require accounting for, and reporting, fees for cost recovery as well as flows into, and out of, special funds (such as Road Fund and the Reforestation Fund).

It will also be necessary to enforce the regulation mandating all revenues collected by non-subsided agencies be lodged in the CRF and that all subsidized agencies report to the Ministry of Finance and the Accountant-General's Department on a quarterly basis.

Note: The issue of the inclusion of donor funds in fiscal reports is considered under Indicator 4.

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<sup>3</sup> A full list of all such revenues was not available at the time this report was prepared.

**Indicator 3 ~ Reliability of budget as a guide to future.**

Q3. How would you describe the level and composition of the budget out-turn at an administrative or functional level relative to the original budget's appropriations?

a. Very close. No more than two years out of three years with more aggregate variance than 5 percent of total budgeted expenditure. In addition, an average of no more than 10 percent variance at vote or functional level in at least two of the three years (excluding interest on debt).

b. Quite close -- *Benchmark*

c. Not close. More than two years out of the past three with aggregate variance of more than 15 percent of total primary outlays. An average of at least 20 percent variation at vote or functional level in at least two of the three years (excluding interest on debt).

*Agreed ranking B: The level and composition of aggregate actual spending is quite close to original appropriations. **This benchmark has been met.***

*Explanation:* For the period 2001-03, only two out of three years show an aggregate variance of more than 5 percent. None of the years show an average variance of more than 20 percent at the vote level. Sierra Leone therefore meets the bench-mark as it is defined above. This can be seen in Table 1 below. The top section of the table presents the observed discrepancies (variances) between aggregate budget votes and actual out-turns for 2001-2003 as percentages of the intended budget votes.<sup>4</sup> (Supporting data are shown in Annex Table 5.)

There is some cause for concern, however, when looking at individual budget heads rather than the aggregate. The results show an increasing tendency to deviate from the budget. In 2001, 23 out of 54 budget heads showed actual spending that varied less than 5 percent from the voted budget. By 2003, this had fallen to only 15 out of 55 budget heads. Average variances increased from a weighted average of 12 percent in 2001 to 13 percent in 2002 and 14 percent in 2003. This can be traced mainly to recurrent non-wage spending on goods and services.

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<sup>4</sup> Excludes externally funded portion of the Development Budget.

It is noted, however, that weighted average for 2003 would be lower if the Disarmament, Demobilization and Re-Integration program is omitted.<sup>5</sup> Actual spending for this program in 2003 exactly matched the amount allocated. The allocation, however, was 8 times larger than the amount in the voted budget. Some allocations are less than voted. In 2001, for example, the allocation given to the Ministry for Youth and Sports for personnel was only 53 percent of the voted budget. Aggregate allocations were slightly higher than the voted totals, with more budget heads receiving higher than planned allocations than those receiving less than planned allocations. The variance between allocations and actual spending was slightly less than the variance with the voted budget in 2001 and 2003 but slightly more in 2002.

The number of budget heads that were under-spent outweigh those that were over-spent. This is especially true for non-wage recurrent spending which shows a steady rise in under-spending. The domestically financed portion of the Development Budget displays the least budgetary credibility with weighted average deviations over 80% in 2002 and 2003. These appear evenly divided between under- and over-spending. Part of this is linked to counter-part financing required by donors, while some donor aid has been somewhat unpredictable.

*Agreed Measures:* Discrepancies in spending will be reduced by making more accurate projections of requirements from line ministries. In this regard, new budget votes will be based on previous *actual* spending tempered by knowledge of policy changes and forecast program costs. This will help take into account the actual capacity to spend and its evolution over time.

**Table 1: Discrepancy between Voted Budget & Actual Expenditures, 2001-03<sup>a/</sup>**

	2001	2002	2003
<b>Total (excl. Externally Financed Development)</b>			
Aggregate Variance b/	6%	2%	6%
Average Variance, Weighted c/	12%	13%	14%
Count of Budget Heads with Variance > +5%	10/54	15/55	14/55
Count of Budget Heads with Variance < -5%	21/54	23/55	26/55
<b>Wage Bill</b>			
Aggregate Variance b/	17%	6%	4%
Average Variance, Weighted c/	24%	8%	13%
Count of Budget Heads with Variance > +5%	15/51	18/52	22/49
Count of Budget Heads with Variance < -5%	27/51	13/52	15/49
<b>Other Recurrent (excl. Interest &amp; Transfers)</b>			
Aggregate Variance b/	1%	11%	1%
Average Variance, Weighted c/	7%	20%	15%
Count of Budget Heads with Variance > +5%	8/51	8/51	12/50
Count of Budget Heads with Variance < -5%	17/51	27/51	29/50
<b>Domestically Financed Development Budget</b>			
Aggregate Variance b/	6%	54%	63%
Average Variance, Weighted c/	29%	85%	83%
Count of Budget Heads with Variance > +5%	4/17	7/24	9/26
Count of Budget Heads with Variance < -5%	6/17	8/24	11/26

a. Excludes budget heads after code 501.

b. Calculated as the absolute value of Actual Spending less Budget Vote as a percentage of Budget Votes.

<sup>5</sup> Actual spending for DDR in 2003 exactly matched the amount allocated. The allocation, however, was 8 times larger than the amount in the voted budget.

Weights are Budget Vote shares.

- c. Calculated as the sum of the shares of each budget head in the total vote multiplied by the absolute value of the percent variance for each budget head.

Source: Accountant-General's Department, Ministry of Finance and staff calculations.

Discrepancies between the voted budget and actual spending can be reduced, in part, by reducing the variance between the voted budget and the sum of quarterly allocations. Reduced quarterly allocations can be avoided through better forecasting of resource availability. Allocations above the voted budget should not be allowed other than as authorized through supplemental budgets approved by Parliament.

Discrepancies in the Development Budget will also be reduced in future budgets by making more realistic projections of external aid and by taking into account more accurately the capacity constraints within ministries.

In the medium-term, as procurement reform progresses, budget votes and indicative spending forecasts in the MTEF will be informed by approved procurement plans from each Ministry, Department or Agency. Overspending on goods and services should be reduced by implementing cost saving procurement procedures.

**Indicator 4 ~ Inclusion of donor funds.**

- Q4. Are donor funds included in central, state and local governments' budget(s) and/or fiscal reports?
- a. All -- *Benchmark*
  - b. Incomplete
  - c. None

*Agreed ranking B: Donor funds are estimated in the budget but are not properly accounted for in the fiscal reports.*

*Explanation:* The Budget Bureau prepares annual estimates of donor funding, according to information provided by the donors. Donor commitments are separately identified as 'grants' or 'borrowing' and, also, by program or project. There is also an assessment on the likelihood of the promised resource be actually disbursed.

Donor funds are deposited in special accounts kept in commercial banks, and are not part of the consolidated fund.<sup>6</sup> The Office of the Accountant General authorizes the opening of each account but it has no control over them nor access any detailed information.

The Internal Audit Unit of the MOF has no power to audit the special projects accounts. These audits are only carried out on the donors behalf by privately owned accounting firms.

*Agreed Measures:* The ability to accurately report actual spending will require accounting and reporting on expenditures financed by external sources. This can be achieved by sending to the AGD monthly reports on bank account balances and expenditures data from project/program units. This can be accommodated by the new chart of accounts which allows accountants to designate the source of funds as well as the use. Government should request from donors access to reports and audits of special accounts as needed to ensure proper reporting.

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<sup>6</sup> Some 95% of the development budget heads are not classified according to the existing program and object classification. (DfID, Chart of Accounts Report, December 2003.)

**Indicator 5 ~ Classification.**

- Q5. Which of the following best describe the types of classification that apply to the budget and budget expenditures?
- a. Administrative, economic, functional, and programmatic
  - b. Administrative, economic, and functional (to sub-functional level) or administrative, economic, and programmatic -- *Benchmark*
  - c. Other

*Agreed ranking B: Budget and fiscal reporting figures are classified in a detailed administrative fashion; economic classification can be closely approximated by account code categories, and the classification by programs is acceptable. **This benchmark was met.***

*Explanation:* While the current classification system does not adequately meet the GFSM 2001 standards, it does meet the benchmark in terms of providing adequate classification according to administrative, economic and programmatic lines. According to the DfID report that proposed the new chart of accounts, the current classification system breaks down expenditures by sector group<sup>7</sup>, ministries, and divisions of a ministry. In each division there is a classification by program, which broadly corresponds to division units. In some cases divisions or programs correspond to functions. Expenditures are also broken-down by regions. The remaining levels cover the classification into *recurrent, capital or development budget* and line items (also called *objects* or *sub-heads* of expenditures). The current classification lacks a codification for source of funds and a classification by district or chiefdom.

A GFS-compliant chart of accounts was recently proposed and is scheduled to be adopted by 2005.

*Agreed Measures:* Implement the new Chart of Accounts to make functional reports and within-in year reports on anti-poverty spending.

In the medium-term, implementation of a stronger programmatic classification will require identification of goal oriented programs within and across MDAs. This can be achieved through improved planning and budget procedures, prior to Budget Policy Hearings, and through the PRSP process.

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7 General services, security services, social services, economic services, and miscellaneous services.

**Indicator 6 ~ Identification of poverty-reducing spending**

- Q6. What is the principal means for tracking poverty-reducing spending?
- a. Use of the existing budgetary or treasury accounting classification system (either pre-existing or through the use of a so-called “virtual poverty fund”) -- *benchmark*
  - b. Use of a separate institution (“an actual poverty fund”)
  - c. Other—describe

*Agreed rank A: The Government relies on a virtual poverty fund in which pre-defined categories are clearly designated as poverty-reducing. These are given a special code in the chart of accounts that makes it easy to track such expenditures. **This benchmark was met.***

*Explanation:* The use of pre-defined expenditure categories ensures that all available resources can be budgeted and allocated *ex-ante* for poverty reduction rather than limiting poverty reducing expenditures only to HIPC funds. These categories are consistent with Interim PRSP priorities.<sup>8</sup> Budgeted poverty reducing expenditures for 2004 are 23 percent of total primary expenditures and approximately 8 percent of expected GDP. The expenditures can be further divided by regions, quasi-economic expenditure categories (account codes) and specific transactions. *Ex-poste* reporting is incomplete because the Office of the Accountant-General currently cannot track expenditures financed by external loans and grants.

Note: The issue of the inclusion of donor funds in fiscal reports is considered under Indicator 4.

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<sup>8</sup> A full PRSP did not exist at the time this report was prepared.

**Indicator 7 ~ Integration of medium-term forecasts.**

- Q7. How would you describe the application of the out-year estimates (medium term) for spending?
- a. Integrated into the budget formulation cycle -- *benchmark*
  - b. Projections exist, but are not integrated into the budget formulation cycle
  - c. Projections exist only for a few selected sectors, or not at all

*Agreed rank C: Out-year estimates are provided and are consistent with macroeconomic constraints. Projections do exist for a few sectors but, in general, most allocations are not based on projected costs of clearly articulated policies and a process of prioritization and trade-offs.*

*Explanation:* Projections do exist for some sectors. Examples include defense, police and power. In the case of power, projections for the Bumbuna Hydroelectric project have been incorporated into the budget. In general, however, most Ministries lack the capacity to set out clearly articulated policies and costed programs.

*Agreed measures:* An effective MTEF process will require line ministries to have well articulated policies and to know the costs of those policies. This will need to be reflected in the PRSP.

MTEF principles and/or procedures could be included in the pending Budget and Accounting Act. In particular, Budget Policy Hearings need clear information on policies, priorities and costs -- which need to be debated in the context of the needs from *all* MDAs. Conducting hearings for individual MDAs or even groups of MDAs will confound the ability of GOSL to make informed decisions.

Trade-offs between the wage bill and other needs are emerging as an important issue. To deal with this, an effective MTEF process will also require the integration of budgetary decisions for the wage bill and development expenditures. Thus, the Office of the Establishment Secretary and MODEP should be more actively involved in the process of prioritization and decision making from the first to the last stages of the budget process.

#### IV. BUDGET EXECUTION

##### Indicator 8 ~ Evidence of budget execution problems – Arrears

- Q8. What do you estimate as the level of the stock of expenditure arrears at the end of the last financial year?
- a. Very few or none -- *benchmark*
  - b. Some (up to 5 percent of total expenditure)
  - c. Significant amount (more than 5 percent of total expenditure) and/or no information on arrears is available

*Agreed rank C: Incomplete information on arrears was made available to the mission at the time of this writing.*

*Explanation:* The mission was told that only partial records are available with regard to the stock of outstanding arrears. Table 2 captures what was known by the end of 2003. These include payments in arrears to public utilities, external suppliers, domestic suppliers and the civil service. The data for the external suppliers include US\$8.65 million in outstanding arrears to contractors for the Bumbuna Hydroelectric project and US\$3 million in arrears to a contractor for a water supply project.<sup>9</sup> Taken together, these are the equivalent of 14 percent of total spending.

The mission understands strong efforts have been made in 2003 to reduce the accumulation of new arrears and to repay a substantial portion of outstanding obligations.

**Table 2: Estimated Stock of Arrears, End-2003**

	Leones
Utilities	29,750,000,000
External Suppliers	29,416,250,000
Domestic Suppliers	21,400,000,000
Salary Arrears	700,000,000
Total	81,266,250,000
Total Spending	598,000,000,000
as Percent of Total	14%

Sources: Ministry of Finance and World Bank staff.

*Agreed measures:* To avoid the accumulation of new salary arrears to teachers and other personnel based in the districts, every effort must be made to ensure timely payments to each district. Those teachers and staff not on verified payroll are not to be paid.

<sup>9</sup> The arrears for work on Bumbuna are likely to be partially repaid or rescheduled in 2004.

In the short- to medium-term, to avoid the accumulation of new arrears, it will be necessary to 1) reduce competition for resources by reducing overall expenditure commitments and 2) to provide more staff to the Accountant-General's Office to ensure adequate care is taken to vett spending requests.

**Indicator 9 ~ Effectiveness of the internal control system**

- Q9. How would you describe the internal control system?
- a. Effective -- *benchmark*
  - b. Partial
  - c. None

*Agreed answer B: Internal control is partial.*

**Explanation:** Internal controls are embedded in a fairly comprehensive set of financial regulations, but compliance is poor, and the basic features of an effective review of internal controls are essentially missing in Sierra Leone. Although there is a small internal audit department (IAD), its functions are limited to ad hoc investigations. Their 5-6 total staff members are located in MOF. There is no legal mandate nor specific work guidelines given to the IAD, and any work is given on a case-by-case basis at the direction of the Financial Secretary or Minister of Finance. IAD makes no attempt to generate any systems risk assessments.

*Agreed measures:* To improve the internal audit function, the Internal Audit unit with the MOF needs a legal mandate. The MOF Internal Audit Unit should also be empowered to oversee internal audit staff placed within each line ministry and establish standards and regulations as needed. These changes should be specified in the new Public Budget and Accounting Act.

To improve the internal audit function, more internal audit staff need to be trained and placed within each line ministry.

To facilitate decentralization, internal audit staff need to be trained and placed within each Chiefdom, City Council and District Council.

The AGD should ensure that accurate monthly Financial Management Information Reports are produced to all MDAs providing details of all payments made and uncommitted balances, allocated in accordance with devolved budget headings in the new chart of accounts. The IFMIS project should address the issue of how MDAs can best access this data in the future.

**Indicator 10 ~ Tracking surveys are in use**

<p>Q10. Is internal control supplemented by public expenditure tracking surveys (PETS) that follow funds to the ultimate service provider or beneficiary?</p> <p>a. Yes, PETS are a regular feature of the PEM system, or PETS are no longer required as the PEM system itself can reliably track resource transfers through to service delivery units and through them to the final uses.</p> <p>b. Yes, PETS have been tried, and are in the process of becoming a regular feature of the PEM system, or an alternative PEM system that can reliably track resource transfers (as defined in 'a') is being put in place – <i>Benchmark</i>.</p> <p>c. No, tracking surveys have not been used or have been used and are no longer to be used, and the underlying PEM system cannot reliably track spending.</p>
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*Agreed answer B: Tracking surveys are used to supplement internal control, but are not yet a required feature of the PEM system. **This benchmark has been met.***

**Explanation:** PETS are becoming a regular feature of the PEM system even though they are not required by law or regulation. Thus far, funding for PETS has been from DfID and UNDP.

PETS in Sierra Leone is largely a “home grown” effort that was initiated during the war. The Government initiated a pilot PETS and a Service Delivery Survey in 2000. A PETS team within the Ministry of Finance conducted two further PETS surveys, covering recurrent expenditures in key ministries during the first and second semesters of 2001. Due to the ongoing conflict, coverage was limited to then-accessible areas. In addition to collecting vital field data on a wide variety of sector issues, the surveys attempted to track the flow of funds between central government and local facilities such as health centers and schools. They also assessed local people’s perceptions of a wide range of government services.

With the assistance of a follow-up DFID/WB PETS support mission, a new PETS was launched in September, 2003. This covered all areas of the country; traced key lines of expenditure in the education, health, and agriculture sectors; and piloted a streamlined survey instrument for assessing expenditure leakages in the education sector. The new instrument was based on a new conceptual model for measuring expenditure leakages – including those associated with in-kind resource flows.

Despite the inherent challenges in tracking expenditures, the PETS work has had the following key impacts:

- The education PETS confirmed that leakages in the school subsidy were reduced substantially to 18.5 percent in the first term of the 2002/01 school year from 54.9 percent in the third term of the 2001/02 school year.<sup>10</sup> This was achieved by eliminating intermediate steps between the cheques issues by the Office of the Accountant-General and the Head Teacher of each School District.
- Government has established district level budget oversight committees and conducts periodic information campaigns in the communities. This was done in reaction to the finding that public services have been too concentrated in the Freetown area and there has been a lack of awareness in the provinces of public services that should be provided.
- Increased awareness of financial management problems and documentation of their sources: PETS reports are discussed in Cabinet, and are valued by the President's National Policy Advisory Committee, the Auditor General and the Anti-Corruption Commission. Senior public servants now have increased awareness of the high degree of non-compliance with budget execution guidelines, and of the low levels of capacity, especially in bookkeeping skills, in cost centres at all levels.
- New procedures were introduced in 2003 to improve expenditure control and recording (MTEF/PETS forms 1 and 2).
- Refinement of the chart of accounts for the national budget to include sub-heads in relevant votes to allow tracking of expenditures to the regional level (in 2003) and to the district level (in 2004)
- Provision of data for the preparation and monitoring of the full PRSP (pending).

*Agreed measures:* More work will be needed to ensure the effectiveness of subsequent PETS. In particular, additional work is required to:

- measure the levels and sources of administrative delays
- assess levels of compliance with financial and accounting rules and regulations
- extend coverage to selected elements of the development budget
- improve the quality of sampling methodology, data analysis, and data presentation
- improve the impact of the work through improved media dissemination; collaboration with civil society organizations; involvement of District government officials; and public displays of information on expenditures at local facilities.

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<sup>10</sup> Public Expenditure Tracking Survey (PETS) for Financial Year 2002, Selected Expenditures. (May 2004)

**Indicator 11 ~ Quality of fiscal information**

- Q11. Is there regular reconciliation of all government bank accounts (those held in the central bank and the commercial banks) with the government's accounting records?
- a. It occurs satisfactorily in a timely and routine way – *benchmark*.
  - b. It occurs satisfactorily, but not in a timely way.
  - c. It does not occur satisfactorily.

*Agreed answer C: Reconciliation of fiscal and banking records is routine and improving but does not yet occur satisfactorily.*

**Explanation:** The Office of the Accountant-General attempts to reconcile fiscal and banking records from the BOSL every month. The results are not yet satisfactory as substantial discrepancies in the data were found as recently as November 2003.

Investigations by MOF and BOSL staff have revealed a number of problems that are being actively rectified. Among these are the frequent misclassification of non-government transactions by commercial banks. Another problem is a lack of data sharing capacity between MOF and BOSL computer systems.

The AGD set up a special unit to perform the reconciliation of the fiscal and monetary data. The reconciliation for 2003 has been completed. The reconciliation process, however, remains mostly a manual procedure and is therefore costly in terms of time, personnel. The Government has requested technical assistance from the IMF to reconcile the data from the earlier years.

The reconciliation exercise does not include accounts held outside the BOSL nor does it include accounts established for projects and programs financed by external donors.

*Agreed measures:* To ensure satisfactory reconciliation of fiscal and banking data, it will be necessary to cover to all Government Accounts (at present accounts outside the Treasury and/or BoSL are not captured). It will also be necessary to train and provide more staff to do the work within the Account-General's Office.

To ensure satisfactory reconciliation of fiscal and banking data, it will be necessary to link the computer systems used by the Office of the Accountant-General and by the Bank of Sierra Leone.

To reduce classification errors by commercial bank staff, it will be necessary to provide periodic training.

## V. BUDGET REPORTING

### Indicator 12 ~ Regularity of timely internal fiscal reporting

Q12. When are budget-tracking reports from line ministries, other spending units and the treasury received by the central financial authority?

- a. They are received within two weeks of the end of the relevant period – *benchmark*.
- b. They are received between two weeks and four weeks of the relevant period
- c. They are received more than four weeks after the end of the relevant period

*Agreed answer A: Internal budget reports are received within two weeks of the end of the relevant period. **This benchmark has been met.***

**Explanation:** At present, all accounting is centralized within the Office of the Accountant-General. Reporting to the Financial Secretary of the Ministry of Finance is done on a quarterly basis immediately and on demand. This will remain appropriate until each ministry has staff with well trained numbers of accountants and internal audit personnel who could accurately provide reports to the Ministry of Finance and AGD.

Notes:

- Data from the reports are re-entered centrally to compile higher-level fiscal reports.
- The reporting omits subvented agencies using bank accounts held outside the central bank as well as projects and programs with external funding.

**Indicator 13 ~ Regular fiscal reports track poverty reducing spending**

- Q13. What in-year reports are published for tracking budget expenditure by function?
- a. Good-quality functional classification or virtual poverty fund is presented.
  - b. Functional or virtual poverty fund presentation is made in the in-year reports,  
but there are quality concerns with its compilation.
  - c. There is no routine expenditure tracking on a functional basis.

*Agreed answer C: Poverty reducing spending is reflected in the ex-poste budget reports but not in the standard within year reports.*

**Explanation:** In-year budget reports are generated centrally by the Accountant General but none of the standard reports focus exclusively on poverty reducing expenditures. Reports on poverty reducing spending are produced on an *ex-poste* basis and shared with the Bretton-Woods institutions as part of their obligations under HIPC.

The quality of the reports will need improvement: they accurately capture all spending from domestic and HIPC resources but omit spending financed from external loans and grants.

The reports have not been made public to date, though the authorities have indicated the intention to have them gazetted half yearly from now on.

Note: if in-year reporting was mandated by the authorities, the FMS could easily produce them.

*Agreed measures:* In the short-run, the Accountant-General's Department could produce within year reports on anti-poverty expenditures by using MS ACCESS and the appropriate field codes. This will be done with the planned IFMIS after the current FMS is replaced and the new Chart of Accounts is adopted.

**Indicator 14 ~Transactions are recorded in the accounts in a timely fashion**

- Q14. What is the longest period between the end of the fiscal year and the routine booking of transactions ?
- a. Within two months – *Benchmark*.
  - b. Between two months and six months.
  - c. Other.

*Agreed answer A: Routine transactions are entered into the main accounting system(s) within **two** months after the end of the fiscal year. **This benchmark has been met.***

**Explanation:** The Office of the Accountant-General signs cheques for transactions as soon as they are authorized, provided that resources are available. Thus, closure of accounts occurs on the last day of the financial year because the Government is operating on a cash basis. Cheques may not be back-dated to a previous year.

### Indicator 15 ~ Timeliness of audited financial information

- Q15. How soon after the end of the relevant year is the audit report on the annual accounts (either short form audit report accompanying the final accounts or as part of *loi de reglement*) presented to the public and/or the legislature?
- a. Within six months
  - b. Between six months and one year - Benchmark
  - c. Other

*Agreed answer C: As of now audit reports for the annual accounts are presented to Parliament with lags in excess of two years due to capacity constraints and the civil war.*

**Explanation:** The most recent audit report for the annual accounts was for the year 2000 and was presented to Parliament in early 2003. For the 2003 Accounts and onwards, the Office of the Auditor-General intends that the delay will be shortened to within six months. The accounts for 2001 are expected to be published in early February 2004.

In principle, the Office of the Auditor General (OAG) is mandated to audit of all financial aspects of government activities. Section 119 of the 1991 Constitution provides for the appointment of the Auditor General by the President of the Republic subject to the approval of Parliament. Furthermore, the Audit Services Act provides for establishment of a Board to appoint members of the audit service, and to advise the Auditor-General in the administration of the audit service. Audits of public and state-owned institutions are undertaken either directly or through private auditors who are appointed by the OAG.

Despite the statutory role given the OAG, its actual influence over public accountability is extremely circumscribed. There appears to be no legal mandate by which the OAG is assured of obtaining the annual public accounts from the government. Although Section 56 of the Budget Act explicitly states that the public accounts are to be submitted to the OAG within three months from the end of the fiscal year, the 1996 Decree has essentially negated this. In one section, the 96 Decree purports to extended the time period from three months to six.<sup>11</sup> But in another section, it effectively repeals the requirement for submission altogether.<sup>12</sup>

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<sup>11</sup> Section 15 of the 96 Decree repeals Section 56 (2) of the Budget Act: Section 56 (2) of the Budget Act provided for the copies of the annual statement of public accounts at the same date (originally within 3 months) be sent to the Auditor-General and to the Chairman of the Public Accounts Committee in Parliament.

<sup>12</sup> The review did not find any other provisions of the 1996 Decree or other legislation replacing provisions of sub-section 56 (2), thus requiring the Accountant-General to submit the annual public accounts to the Auditor-General or the Parliament, irrespective of any specific deadline. The only requirement for submission of any report currently seems to be for that of the statement of excess expenditure. Repeal

(continued)

Though public accounts continue to be sent to the OAG for audit, there is no legal requirement for this.

The OAG's relatively weak authority to obtain public accounts is compounded by other institutional weaknesses. Reconciliation of banking and fiscal accounting data is a critical step for assessing the accuracy and reliability of public accounts. However, whatever reconciliation that may be performed by the Office of the Accountant-General is not routinely made available to the OAG. This in itself, would call into question the ability of the OAG to issue a statement on the reliability of the public accounts information. Lastly, whatever reports the OAG does produce and submits to Parliament are destined to have limited impact due to the very weak role assigned to Parliament under the 1996 Decree.

*Agreed measures:* To increase the timeliness of, and the quality of, the reports from the Office of the Auditor-General, it will be necessary to train and employ more staff.

To improve the ability of the Office of the Auditor-General, it will necessary to over-turn the 1996 Decree that obscures the obligation of Government to supply public accounts to the Auditor-General.

To improve the oversight function of the Public Accounts Committee in Parliament, it will be necessary to over-turn the 1996 Decree that weakens the role of Parliament.

To make Audit Report reports more timely, it will be necessary to first improve the timeliness of the fiscal/bank reconciliations and thus the completion of public accounts from the Office of the Accountant-General.

## VI. PROCUREMENT

### Indicator 16 ~ Efficiency and effectiveness of the public procurement system

- Q16. To what degree does the public procurement system provide for efficient and effective use of public funds?
- a. The public procurement system is based on clear, consistent rules that promote competition and value for money, and within a governance environment with sufficient controls to provide for enforcement and accountability –
- Benchmark.*
- b. The system, while promoting competition and value for money, operates in a weak governance environment that lacks effective controls, does not enforce rules, has poor accountability structures and fails to measure and report on procurement performance.
- c. The procurement system has unclear rules and weak enforcement, enabling inefficient use of public funds and contributing to a lack of transparency and accountability.

*Agreed answer C. In 2003, the Central Tender Board was replaced by a Steering Committee chaired from the Office of the Vice President. This committee operated in 2003 without benefit of a specific legal mandate and without benefit of improved guidelines and procedures. A strong reform effort led by IAPSO and funded by the UNDP and World Bank is now under way.*

**Explanation:** As a result of dissatisfaction with the operations of the Central Tender Board, the Cabinet dissolved the CTB and appointed a Steering Committee. The CTB was dissolved on April 22, 2003 without any gazette publication but by a circular (to all Ministries) from the Office of the Vice-President. The circular established a Public Procurement Reforms Steering Committee (PPRSC) and instructed all Ministries to cease forthwith from awarding contracts either by themselves or through CTB and to hand over all pending procurement contracts to the PPRSC. Established guidelines and procedures used by the original CTB were retained – as were most staff.

The Annual public procurement expenditure from the Government's general account is estimated to be US\$ 160 million of which US\$ 54 million is by Donors and US\$

106 million is by Government resources of which only US\$ 26.3 million (20%) goes through CTB procedure.

Between January and April 2003, the original CTB awarded contracts estimated to cost Leone 15,83 million (US\$ 6.3 million). During the period from April 2003 to January 2004, a Task Force within the new PPRSC has awarded about 225 contracts estimated to cost Leones 48.0 billion (US\$ 20.0 million). About 80% of the contracts, ranging from US\$ 6,000 to US\$ 2.2 million, were awarded on basis of limited tender, 10% by open tender, and 10% by sole source procurement methods. Some contracts were split and awarded to two or more firms, while in some cases contracts were awarded by extending contracts that had been awarded by CTB in the year 2002. Thus, for the entire year 2003, the Government awarded contracts worth a total of US\$ 26.3 million following the above procedures. This figure does not include contracts by parastatal organizations and state owned enterprises.

The reform program with technical assistance provided by IAPSO and the World Bank was initiated in October 2002. The reforms are being prepared in two phases. Phase one includes:

- An analysis of spending.
- Possible outsourcing of procurement services.
- Procurement training
- A procurement audit in collaboration with Auditor General.
- Preparation of interim procurement regulations; to be completed tentatively by March 30 2004.
- A detailed situational analysis of the public procurement systems and practices in Sierra Leone.
- Creation of a Public Procurement Policy.
- Draft procurement law including recommendations for revising provisions in other laws that would be inconsistent with the new procurement law.
- Creation of standard tender documents.
- Creation of a post-enactment Implementation Plan.

Phase two includes implementation of the Implementation Plan. This phase would start as soon as the procurement bill is enacted and would be financed by the Institutional Reform and Capacity Building Project under preparation.

Note: The last CPAR for Sierra Leone was written in 1985.

*Agreed measures:* A reform program is underway that should establish transparency and accountability in a competitive tendering system through changes in legislation, regulations and training.