



PEFA

Public Expenditure and Financial Accountability

Federal Democratic Republic of Ethiopia (Oromia National Regional State)



Performance Assessment Report

Final Report

November 09, 2019

Funded by



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Public Expenditure and Financial Accountability (PEFA) Assessment

Federal Democratic Republic of Ethiopia
(Oromia Regional State Government)

Final Report - November 9, 2019

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

PEFA Secretariat
November 15, 2019

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Acronyms and abbreviations

AFROSAI-E	African Organization of English-Speaking Supreme Audit Institutions
BCC	Budget Call Circular
BI	Budget Institution
BoE	Bureau of Education
BoH	Bureau of Health
BoFED	Bureau of Finance and Economic Development
CBE	Commercial Bank of Ethiopia
COFOG	Classification of Functions of Government
DFID	U.K. Department for International Development
EC	Ethiopian Calendar
EU	European Union
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
EPSA	Ethiopian Pharmaceuticals Supply Agency
ERCA	Ethiopia Revenue and Customs Authority
ESDP V	Educational Sector Development Plan 5
FTA	Financial Transparency and Accountability
GC	Gregorian Calendar
GDP	Gross Domestic Product
GEWE	Gender Equality and Women Empowerment
GFS	Government Finance Statistics
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>
GRB	Gender-responsive Budgeting
GRN	Goods Received Note
GRPFM	Gender-responsive Public Financial Management
GTP	Growth and Transformation Plan
HLG	Higher-level Government
HR	Human Resource(s)
ICB	International Competitive Bidding
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPPIA	International Standards for the Professional Practice of Internal Auditing
ISSAI	International Standard for Supreme Audit Institutions
IT	Information Technology
KPI	Key Performance Indicators
MDAs	Ministries, Departments, and Agencies
MDTF	Multiple Donor Trust Funds
MEFF	Macroeconomic and Fiscal Framework
MoF	Ministry of Finance
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia (Central Bank)
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
NA	Not Applicable
ODA	Official Development Assistance
ORA	Oromia Revenue Authority

ORAG	Office of Regional Auditor General
OT	Oversight Team
PAC	Public Accounts Committee
PHCU	Primary Health Care Unit
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIM	Public Investment Management
PIP	Public Investment Program
PPP	Public-Private Partnership
PPPDS	Public Procurement and Property Disposal Service
SDG	Sustainable Development Goal
SIGTAS	Standard Integrated Government Tax Administration System
SNNPR	Southern Nations Nationalities and Peoples Region
SoE	State-Owned Enterprises
TVET	Technical and Vocational Education and Training
TIN	Taxpayer Identification Number
TSA	Treasury Single Account
UNICEF	United Nations Children's Fund
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
VAT	Value Added Tax

Fiscal year

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

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

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

Currency unit = Ethiopian Birr (ETB)

US\$1 = ETB 28.60 (as of February 16, 2019)

Executive summary

1. The objective of the Public Expenditure and Financial Accountability (PEFA) assessment is to review the current performance of the public financial management (PFM) systems, processes, and institutions of the Oromia regional government since the last assessment in 2015. The assessment is aimed at assisting the government in identifying PFM weaknesses that may inhibit effective delivery of services to its citizens and the realization of its development objectives in general. Furthermore, the findings of the PEFA assessment will assist the government to develop a PFM reform strategy and provide the basis for a coherent PFM reform program that can be supported by development partners as well as through the government's own initiatives.
2. The Oromia assessment covered regional government budgeted units, extra-budgetary units, the Office of Regional Auditor General (ORAG), the regional council, and public enterprises. The team was unable to meet the Oromia Chamber of Commerce, as the relevant officials were not available. Annexes 3A and 3B provide a comprehensive list of information used and people met (interviewed), respectively, during the assessment. There were no other related surveys consulted or used in drafting this report.
3. The fiscal years for the assessments are Ethiopian calendar (EC) 2008, 2009, 2010 (Gregorian calendar [GC] FY2015/2016, 2016/2017, 2017/2018). The period covered for each of the 94 dimensions (summarized into 31 performance indicators [PIs]) depends on the dimension and is in accordance with the PEFA measurement framework. Some dimensions were assessed at the time of assessment (March 2019 was the cut-off date). Other dimensions were assessed at the relevant time period, which is the last completed fiscal year, FY2017/2018, or FY2018/2019 for the last budget submitted to parliament.
4. The assessment shows the current state of PFM performance of the region at the time of the fieldwork (March 2019 was the cut-off date).
5. The assessment management framework, oversight, and quality assurance are summarized in Box 1.1. The assessment was funded by the World Bank, Irish Aid, U.K. Department for International Development, European Union, United Nations Children's Fund, and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It was managed by the World Bank.

Impact of PFM systems on the main budgetary and fiscal outcomes

PFM strengths

6. The PFM laws (proclamations) for the regional government are derived directly from the federal government structure; these proclamations are quite strong for providing a solid basis for strengthening both PFM institutions and activities. For instance, the laws clearly provide for segregation of duties, the financial administration practices, financial accounting and reporting structure, and the external oversight functions of the regional supreme audit institution and the regional council on external audit scrutiny and budget reviews, respectively. The enactment of laws alone does not guarantee strong PFM systems; this should be supported by strong political and public service systems. Leaders at the regional government level have shown such commitments to ensuring improvement in PFM systems, a prerequisite for improved service delivery.
7. Other PFM performances that have been identified as strong areas with positive impact on the three budgetary outcomes include the preparation of a credible budget at the aggregate level for both revenues and expenditures, indicating commitment for fiscal discipline. Budget classification is good; this allows citizens to see how much has been committed to improving their socioeconomic

status. Another strength is that there are no revenues and expenditures from extra-budgetary units outside regional government financial reports and budgets. Reliable and timely information on allocation to service delivery units is a key element for efficient service delivery; while this is relatively good, delays in actual transfers negatively affect payment for goods and services, thereby affecting primary service delivery. The internal control framework has been strengthened by the revision of most PFM proclamations (procurement, budget, and cash management); the enforcement of rules and regulations has reduced (even though some still exist) the incidence of waste of public resources, so that scarce resources are strategically allocated to the right sectors for economic prosperity.

PFM weaknesses

Budget reliability

8. The main weakness is expenditure composition outturn by economic classification, with variances above 15 percent in two of the three years (PI-2.2 with a score of D). While aggregate expenditure and revenue budgets are credible, the continuous reallocation of the approved budget both at the functional and economic levels defeats the purpose of original government policy. This means that planned service delivery activities will no longer receive the necessary funding and/or resources will no longer be strategically allocated, thereby negatively affecting the quality of primary service delivery. Furthermore, there are significant deviations referencing earmarked grants (Sustainable Development Goal [SDG]) with variances between 15 percent and 40 percent (HLG¹-1.2). While this does not affect the overall regional government revenue budget, resource allocation for earmarked programs is affected, resulting in deficiencies in planned service delivery funded by SDGs.

Transparency of fiscal data

9. The current year's budget (either the revised budget or the estimated outturn) is presented in the same format as the budget proposal but previous year's outturns at both aggregate and detailed levels are not part of the budget documentation, which does not facilitate budget analysis and comparison (PI-5). Also, public access to fiscal information is poor; most information is not published, and if published at all, it is late (PI-9). Information on resources (cash and kind) received by primary schools and health care facilities is available but not published (PI-8).

Asset and public investment management and fiscal risk monitoring and reporting

10. At present, the government has limited information on total fiscal risks (PI-10). One major risk is in the housing sector, with the provision of housing for its citizens; funding for the housing projects is done through the issuance of bonds to the Commercial Bank of Ethiopia, which is guaranteed by the Oromia regional government. The total outstanding bond loan is unknown. This has a negative implication on strategic allocation of resources as the government will have to divert funds to pay for unplanned losses where necessary.

Budget preparation and approval process

11. Clear rules exist for in-year budget amendments by the executive and are adhered to. That said, they allow for extensive administrative allocations. Three supplementary budgets have been approved in each of the last completed fiscal years, but with ex post approval except that of FY2015/2016 (EFY 2008) (PI-18.4). This has a negative implication on fiscal discipline as it allows the government to spend above its budget.

¹ HLG = Higher-level government.

Revenue administration and accounting and expenditure arrears

12. Three key PFM performances have been identified as weak areas:

- **The frequency of transfer of revenues (taxes) from the Oromia Revenue Authority (ORA) to the Treasury, done once a month (PI-20.2).** The impact of this is that the government may be lacking the needed resources to pay for goods and services on time, thereby affecting the quality of service delivery.
- **Stock of revenue arrears is high (PI-19.4).** Poor tax collection affects the government's overall resources needed to fund its budget, also negatively affecting service delivery.
- **Stock of expenditure arrears (excluding retentions) is also high (PI-22.1).** Huge expenditure arrears negatively affect budget credibility, a prerequisite for fiscal discipline. Where suppliers of goods and services become aware of payment delays from the government, they intend to increase the prices of their supplies to compensate for these payment delays. This, therefore, increases the unit cost of primary service delivery.

Procurement management

13. A fundamental weakness observed relates to procurement management; while each budgetary unit prepares an annual procurement plan, these plans are not submitted to the procurement regulatory authority at Bureau of Finance and Economic Development (BoFED). To this end, there are no database and/or statistics on actual procurement either by open competition, restricted tender, sole sourcing, or request for quotation. This is compounded by the fact that the procurement complaints mechanism is less independent, with a majority of members involved in actual procurement activities. Very little procurement information is available to the public; significant elements not available to the public include contract awards, government procurement plans, and data on resolution of procurement complaints (PI-24). The poor procurement management framework affects efficient service delivery.

Accounting and reporting

14. The annual financial statements are comparable with approved budgets and contain information on revenue, expenditure, some liabilities, and some financial assets; however, significant financial disclosures such as guarantees and contingent liabilities are omitted (PI-29).

External audit and scrutiny

15. PI-30 shows that external audit coverage is quite low, currently at 63 percent by value mainly due to both financial and human capacity constraints; therefore, presently, the Office of Regional Auditor General (ORAG) does not cover state-owned enterprises (SoEs). This means that the fiscal risks posed by these SoEs are unknown. Consequently, the regional government may have to fund the activities of these SoEs using scarce resources (poor resource allocation) at the expense of primary service delivery sectors such as education and health.

Performance changes since last assessment in 2015

16. According to the guidance issued by the PEFA Secretariat in October 2016, only 14 dimensions are directly comparable with the 2011 PEFA framework which was used in the last regional assessment in 2015. Table 0.1 shows changes in scores since 2015 assessment; only 1 has improved with 5 deteriorations and 23 unchanged. 3 were not directly comparable. As shown in Table 0.2, there has

been no improvement since 2015 referencing these 14 directly comparable dimensions. Three dimensions have deteriorated (PI-11.1, PI-16.1, and PI-27.4 from the 2011 framework which correspond to PI-17.1, PI-21.2, and PI-18.4 from the 2016 framework respectively). Two dimensions (PI-11.2 and PI-18.4 from the 2011 framework which correspond to PI-17.2 and PI-23.4 from the 2016 framework respectively) appear to be overrated; therefore, no real change. Nine dimensions have remained unchanged.

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

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

Table 0.2: Changes in the ratings for directly comparable dimensions since 2015 assessment

Old indicator/ dimension (2015)		New indicator/ dimension (2018)		2015 score	2018 score	Performance change since 2015
2.2	The average amount of expenditure actually charged to the contingency vote over the last three years	2.3	Expenditure from contingency reserves	A	A	
5	Classification of the budget	4	Budget classification	B	B	
17.1	Quality of debt data recording and reporting	13.1	Reporting of debt and guarantees	NA	D	
11.1	Existence of and adherence to a fixed budget calendar	17.1	Budget calendar	C	D	
11.2	Guidance on the preparation of budget submission	17.2	Guidance on budget preparation	A	B	
27.1	Scope of the legislature's scrutiny	18.1	Scope of budget scrutiny	B	B	
27.4	Rules for in-year amendments to the budget without ex ante approval by the legislature	18.4	Rules for budget adjustments by the executive	B	C	
17.2	Extent of consolidation of the government's cash balances	21.1	Consolidation of cash balances	C	C	
16.1	Extent to which cash flows are forecasted and monitored	21.2	Cash forecasting and monitoring	A	B	
16.2	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	21.3	Information on commitment ceilings	C	C	
16.3	Frequency and transparency of adjustments to budget	21.4	Significance of in-year budget adjustments	C	C	

Old indicator/ dimension (2015)		New indicator/ dimension (2018)		2015 score	2018 score	Performance change since 2015
	allocations above the level of management of MDAs					
18.3	Internal controls of changes to personnel records and the payroll	23.3	Internal control of payroll	A	A	
18.4	Existence of payroll audits to identify control weaknesses and/or ghost workers	23.4	Payroll audit	B	C	
20.1	Effectiveness of expenditure commitment controls	25.2	Effectiveness of expenditure commitment controls	B	B	

Legend			
Improved	Slipped	No change	Overrated

Note: MDAs = Ministries, Departments, and Agencies,

17. Tables 0.3 and 0.4 show analysis of changes in scores since 2015 based on the 2011 PEFA framework. Overall, there has been no improvement. Pls with 'A' scores have improved from 1 to 2; 'B' scores have deteriorated from 14 to 7; 'C' scores have improved from 11 to 16; and 'D' scores have improved from 4 to 3. From a dimensional perspective, 'A' scores have deteriorated from 21 to 17; 'B' scores have deteriorated from 27 to 23; 'C' scores have improved from 20 to 23; and 'D' scores have deteriorated from 6 to 10.

Table 0.3: Comparison of PEFA scores by indicator (according to 2011 methodology)

Key PFM Pls	2015 scores					2018 scores					Total indicators
	A	B/B+	C/C+	D/D+	NR/NA	A	B/B+	C/C+	D/D+	NR/NA	
Credibility of the budget (plus HLG)	0	4	0	1	0	0	1	3	1	0	5
Comprehensiveness and transparency	0	2	3	1	0	1	1	3	0	1	6
Policy-based budgeting	0	1	0	0	1	0	0	2	0	0	2
Predictability and control in budget execution	1	3	4	1	0	1	2	4	2	0	9
Accounting, recording, and reporting	0	2	2	0	0	0	2	2	0	0	4
External scrutiny and audit	0	2	1	0	0	0	1	2	0	0	3
Donor practices	0	0	1	1	1	0	0	0	0	3	3
Total	1	14	11	4	2	2	7	16	3	4	32

Table 0.4: Comparison of PEFA scores by dimension (according to 2011 methodology)

Key PFM PIs	2015 scores					2018 scores					Total indicators
	A	B/ B+	C/ C+	D/ D+	NR/NA	A	B/ B+	C/ C+	D/ D+	NR/NA	
Credibility of the budget (plus HLG)	4	4	0	1	0	4	1	3	1	0	9
Comprehensiveness and transparency	2	4	3	1	0	4	2	3	1	0	10
Policy-based budgeting	1	0	4	0	2	0	2	3	1	1	7
Predictability and control in budget execution	9	10	6	3	1	4	10	8	7	0	29
Accounting, recording, and reporting	1	5	3	0	0	2	4	3	0	0	9
External scrutiny and audit	4	4	2	0	0	3	4	3	0	0	10
Donor practices	0	0	2	1	2	0	0	0	0	5	5
Total	21	27	20	6	5	17	23	23	10	6	79

Annex 4 provides a detailed analysis of changes in performance since the 2015 assessment according to the 2011 PEFA methodology.

Fiscal discipline

18. There is deterioration in the transfers from higher level of government (HLG-1) to the regional government (B+ in 2015 to D+ in 2018) mainly due to deviations in SDGs. Though this did not significantly affect the overall revenue budget credibility, it negatively affected the credibility of the earmarked budget. While there has not been a change in aggregate expenditure outturn (B score for both 2015 and 2018), revenue budget at the aggregate level has seen an improvement from D in 2015 to C in 2018, implying a more credible revenue budget. Also, the government has tightened the monitoring and reporting framework of expenditure arrears, resulting in performance improvement (PI-4.2 from B in 2015 to A score in 2018); however, the actual stock of expenditure arrears (PI-4.1) has increased sharply from below 2 percent of total government expenditure in 2015 to more than 10 percent in two of the last three completed fiscal years, raising budget credibility issues.

Strategic allocation of resources

19. Strategic allocation of resources has been negatively affected by the poor performance in expenditure composition variance (PI-2.1 from B in 2015 to C in 2018) and the rules for budget adjustment by the executive, where the government spends above its original budget before seeking legislative approval (ex post approval) through a supplementary budget (PI-27.4 from B in 2015 to C in 2018). While a clear and fixed budget calendar exists, all budget institutions (BIs²) failed to adhere to deadlines for budget preparation and submission mainly because they did not receive budget call circulars from BoFED on time, which will allow sufficient period for budget preparation. This could lead to weak links between budgets and plans as BIs will be in a rush to formulate and prepare their budgets.

² Ministries, agencies, institutions, and other budgetary units.

Efficient service delivery

20. Transfers from higher level of government (HLG-1) has deteriorated from an overall score of B+ in 2015 to D+ in 2018 mainly as a result of significant deviations of earmarked grants (SDG) between budgets and outturns. PI-2.1, which assesses the extent of expenditure composition variance, has also deteriorated with a score of C in 2018 against B in 2015. These slippages have negatively affected service delivery outcomes in the sense that required resources may not be available to deliver on planned service delivery activities. Also, the reallocation of budgets to other votes meant that planned service delivery initiatives will have to be suspended or discontinued entirely. Furthermore, there was a sharp deterioration of collection of revenue arrears (A score in 2015 to D score in 2018) with a collection ratio of 21.3 percent in 2018 compared to about 90 percent in 2015, in addition to revenue arrears currently at 12.5 percent in 2018 compared to below 2 percent in 2015. Poor tax collection ratio and huge revenue arrears meant limited resources to pay suppliers of goods and services, thereby negatively affecting efficient service delivery.

Overview of ongoing and planned PFM reforms and main weaknesses identified

21. The regional government's PFM reform strategy largely depends on the federal government's policy direction; there is no specific strategy for the region. That said, the regional government has, therefore, decided to adopt the federal government's PFM reform strategy 2018–2022 which is anchored on Pillar 2.6 - fiscal policy of the federal government's Growth and Transformation Plan (GTP) II.

22. Regional officers from BoFED have been trained on the Integrated Financial Management Information System in 2018, even though the financial management software is yet to be rolled out to the regional administration. Additionally, periodic training and capacity-building programs have been conducted for regional, zones, and woreda PFM officials, especially in the area of accounting and financial reporting, procurement management, asset management, planning and budgeting, and cash and treasury management, among others, with support from development partners. Also, the regional government is improving the professional and academic qualifications of its workforce in collaboration with the Oromia Regional University. Furthermore, the regional administration has adopted the federal benchmarking framework which is aimed at rating the woredas; additional training is then provided for weaker woredas. Public Accounts Committee and finance committee members at the woreda levels have also been trained on the review of external audit reports and budget scrutiny, respectively.

Table 0.5: Overall summary of PFM performance scores 2018

PFM PI		Scoring method	Dimension ratings				Overall rating
			i	ii	iii	iv	
HLG-1: Transfers from a higher-level government							
HLG-1	Transfers from a higher-level government	M1	A	D	A		D+
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	C	D	A		D+
PI-3	Revenue outturn	M2	B	B			B
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	D				D
PI-6	Regional government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	A	C			B
PI-8	Performance information for service delivery	M2	D	D	B	C	D+

PFM PI		Scoring method	Dimension ratings				Overall rating
			i	ii	iii	iv	
PI-9	Public access to fiscal information	M1	D				D
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	D	D		D+
PI-11	Public investment management	M2	C	C	D	C	D+
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	D	D	D		D
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	B	C		B
PI-15	Fiscal strategy	M2	D	D	NA		D
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	C	NA	D+
PI-17	Budget preparation process	M2	D	B	D		D+
PI-18	Legislative scrutiny of budgets	M1	B	C	C	C	C+
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	B	C	C	D	C
PI-20	Accounting for revenue	M1	B	D	C		D+
PI-21	Predictability of in-year resource allocation	M2	C	B	C	C	C+
PI-22	Expenditure arrears	M1	D	A			D+
PI-23	Payroll controls	M1	B	A	A	C	C+
PI-24	Procurement	M2	D	D*	D	D	D
PI-25	Internal controls on non-salary expenditure	M2	A	B	B		B+
PI-26	Internal audit	M1	B	C	B	C	C+
Pillar VI. Accounting and reporting							
PI-27	Financial data integrity	M2	B	NA	A	B	B+
PI-28	In-year budget reports	M1	A	B	C		C+
PI-29	Annual financial reports	M1	C	B	C		C+
Pillar VII. External scrutiny and audit							
PI-30	External audit	M1	C	C	C	D	D+
PI-31	Legislative scrutiny of audit reports	M2	A	C	A	D	B

1. Introduction

1.1 Background

1. On August 6, 2018,³ development partners received an official request from the Ministry of Finance (MoF) to conduct Public Expenditure and Financial Accountability (PEFA) assessments for the federal government and selected regional governments, including the Oromia regional government, to track progress over time. The request was granted by development partners. The regional state of Oromia has conducted three PEFA assessments: 2007, 2010, and 2015. The current assessment is based on the 2016 PEFA framework and applied the guidance for tracking performance change. Also, the supplementary guidance for subnational government assessment issued in December 2016 was used.

1.2 Rationale and purpose

Overall objectives

2. The objective of the PEFA assessment is to review the current performance of the public financial management (PFM) systems, processes, and institutions of the Oromia regional government since the 2015 assessment and assist the government in identifying PFM weaknesses that may inhibit effective service delivery to its citizens.

Specific objectives

3. The findings of the PEFA assessment are aimed at assisting the government in refining the PFM reform strategy that it has already developed and providing the basis for a coherent PFM reform program that can be supported by development partners as well as through the government's own initiatives.

1.3 Assessment management, oversight, and quality assurance

4. The assessment management framework, oversight, and quality assurance are summarized in Box 1.1. The assessment was funded by the World Bank, Irish Aid, U.K. Department for International Development (DFID), European Union (EU), United Nations Children's Fund (UNICEF), and United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It was managed by the World Bank. The Task Team Leader was Rafika Chaouali (Lead Financial Management Specialist, Governance, World Bank) and Meron Tadesse Techane (Senior Financial Managements Specialist, Governance, The World Bank) provided overall and continued guidance. Finot Getachew Wondimagegnehu and Abiy Demissie Belay of the World Bank also provided administrative and technical support to the assessment team. Special thanks to Tafesse Freminatos for organizing the field mission as well as Elena Morachiello and Getnet Haile for their contributions toward quality assurance and the drafting of annexes on gender-responsive budgeting (GRB) and service delivery.

5. A federal government PEFA task force was set up to monitor the assessments and provide guidance throughout the process. The task force is led by the MoF Expenditure Management and Control Program (EMCP), which is responsible for government PFM reforms and strategy, and comprises a focused group of high-level representatives such as the Channel One Programmes Coordination Directorate, central accounts of the government, Budgeting and Gender Directorates of the MoF, the Office of Auditor General, Ethiopia Revenue and Customs Authority (ERCA), now Ministry of Revenue, the Public Accounts Committee (PAC), and selected key line ministries (education and

³ MoF letter reference number G/E/113/930.

health). Key donors of the task force include the World Bank, DFID, EU, Irish Aid, UNICEF, and UN Women. A focal person, Mr. Tesfaye Gemechu, Channel 1 Coordinator of Oromia BoFED, was responsible for arranging and coordinating meetings and data gathering. Also, Mr. Tesfaye Chemed, Deputy Head of Oromia BoFED, was responsible for overall assessment implementation.

PEFA Check

6. The quality assurance framework has been reinforced as of January 1, 2018 (see PEFA Secretariat Note: *PEFA Check: Quality endorsement of PEFA assessments from January 1, 2018*, www.pefa.org). The quality assurance process of this report is shown in Box 1.1. The first draft report was submitted for peer review on September 2, 2019.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization	
<ul style="list-style-type: none"> Oversight Team (OT) - See table below. Assessment Manager: Demissu Lemma Wondemgezahu, Director MoF EMCP Assessment Team Leader: Charles Komla Hegbor Assessment Team Member: Samuel Gebremedhin Oromia Regional Government Deputy Head of BoFED PEFA Secretariat Peer Reviewers (World Bank, EU, DFID, Irish Aid) 	
Composition of the OT	Members of the OT
Chairperson	<ul style="list-style-type: none"> State Minister, MoF
Ministry of Finance and Economic Development	<ul style="list-style-type: none"> Budget Director Director, EMCP Director, Treasury Director, Budget Director, Debt Management Director, Inspection Directorate
Oromia Bureau of Finance and Economic Development	<ul style="list-style-type: none"> Deputy Head of BoFED Budget Director Channel 1 Coordinator Director, Treasury Director, Finance and Accounts Director, Inspection Directorate Director, Public Procurement
Oromia Regional Auditor General	<ul style="list-style-type: none"> Oromia Auditor General
Oromia Revenue Authority (ORA)	<ul style="list-style-type: none"> Deputy Director General
Oromia Regional Council	<ul style="list-style-type: none"> Chairpersons of PAC and finance committee
Federal Public Procurement Authority	<ul style="list-style-type: none"> Director General
Development Partners	<ul style="list-style-type: none"> World Bank EU DFID Irish Aid UN Women UNICEF
Review of concept note and/or terms of reference	
<ul style="list-style-type: none"> Date of reviewed draft concept note by the PEFA Secretariat: November 13, 2018 	

- **Other invited reviewers (names) who submitted written comments:** Eric Brintet (Lead Financial Management Specialist, GGOLF, World Bank); Emmanuel Cuvillier (Sr. Public Sector Specialist, GGOMN, Word Bank); Clara Molera Gui (Governance, Delegation of the European Union to the EU); Misrak Tamiru (Women’s Economic Empowerment [WEE] Program Specialist, UN Women); and reviewers from the PEFA Secretariat.
- Federal Government of Ethiopia

Review of the assessment report

- Peer reviewers (names and institutions): Holy Tiana Rame (PEFA Secretariat); Jonathan Atkinson (DFID); Clara Molera Gui (Governance, Delegation of the European Union to the EU); Meron Gezahegn (Irish Aid); Enat Shiferaw (UNWomen) and World Bank staff.
- Federal Government of Ethiopia
- Oromia Regional Government
- PEFA Secretariat's review - (dates of reviews): First draft report on September 23, 2019; final review on November 9, 2019

1.4 Assessment methodology

7. The 2016 PEFA methodology was applied. There are seven key pillars: (i) budget reliability, (ii) transparency of public finances, (iii) management of assets and liabilities, (iv) policy-based fiscal strategy and budgeting, (v) predictability and control in budget execution, (vi) accounting and reporting, and (vii) external scrutiny and audit. In addition to the 2016 framework, the supplementary guidance for subnational PEFA assessment issued by the PEFA Secretariat in December 2016 was used.

8. Meetings were held with key government officials and agencies as well as development partners (refer to list of people met in Annex 3B). The assessment reviewed and analyzed official government data (refer to Annex 3A for full list of documents consulted). As required by the PEFA guidelines on tracking performance changes, the 2011 framework was used to ascertain PFM progress since the last assessment in 2015. The results of this analysis are reported in Annex 4.

Assessment coverage and timing

9. Annex 3B provides a detailed list of institutions met during the assessment. Annex 3A also outlines a detailed list of information used for this assessment. There were no other surveys consulted in drafting this report. The Oromia regional government PEFA assessment covered regional bureaus (specifically BoFED, Bureau of Education [BoE], Bureau of Health [BoH], Bureau of Agriculture, and Bureau of Urban Housing Development), extra-budgetary units,⁴ public enterprises (in so far as they affect regional government fiscal risk), the Regional Auditor General, and the regional council. The fiscal years for the assessments are Ethiopian calendar (EC) 2008, 2009, 2010 (Gregorian calendar [GC] FY2015/2016, 2016/2017, 2017/2018). The last budget submitted to the regional council is the EC 2011 budget (Gregorian FY2018/2019 budget).

⁴ Extra-budgetary units are separate units that operate under the authority or control of a central government (or in the case of a subnational government assessment, the state or local government). They may have their own revenue sources, which may be supplemented by grants (transfers) from the general budget or from other sources. Even though their budgets may be subject to approval by the legislature, extra-budgetary units have discretion over the volume and composition of their spending. Such entities may be established to carry out specific government functions, such as road construction or the nonmarket production of health or education services. Budgetary arrangements vary widely across countries, and various terms are used to describe these entities, but they are often referred to as ‘extra-budgetary funds’ or ‘decentralized agencies’ (Government Finance Statistics [GFS], IMF Manual 2014, chapter 2, section 2.82).

Fieldwork

10. The fieldwork began on March 4, 2019, with a kickoff meeting held at BoFED with the regional government team. An exit meeting was held on March 15, 2019, to brief the regional team on the preliminary findings. The cut-off date for this assessment was end of March 2019. Before the fieldwork, a PEFA training conference was held for two days with a total of 115 participants, of which 5 were from Southern Nations Nationalities and Peoples Region (SNNPR), 4 from Harari Region, 8 from Somali Region, 3 from Gambella Region, 7 from Amhara Region, 5 from Tigray Region, 4 from Afar Region, and 3 from Benishangul-Gumuz Region. The remaining participants came from Oromia Region, the City of Addis Ababa, the federal government, DFID, EU, Irish Aid, UNICEF, UN Women, and the World Bank.

11. On December 6, 2018, a meeting was organized between officials from the PEFA Secretariat, the assessment team, and key stakeholders in the service delivery sector (education and health) and GRB to discuss the methodology for the inclusion of some selected indicators as pilots. To this end, additional meetings were held from March 18 to 22, 2019, with Oromia BoFED, BoEs, and BoHs to gather more data on service delivery and GRB. The team visited one primary school and one health care center in one woreda.

Pilots: GRB and service delivery

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

The gender module

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

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

15. The PEFA gender module was designed by the PEFA Secretariat as a response to requests that have been received from groups and individuals involved in PFM and GRB reforms. A process of public consultation carried out to assess the new PEFA framework identified gender responsiveness as a gap in existing PFM diagnostic tools that needed to be addressed. Stakeholders felt that PEFA was the appropriate tool for collecting information on countries' GRB practices given its position as the most widely used framework for assessing PFM performance.

16. The PEFA gender module builds on the work of other relevant stakeholders involved in GRB. This includes UN Women which has devoted significant resources to support gender equality and women's rights through GRB. The country-specific results of the PEFA gender module are intended to be complementary and linked to the collection of information, anchored by UN Women, on GRB as part of Sustainable Development Goal (SDG) indicator 5.c.1. The indicator links the policy and legal requirements for gender equality with the resources allocated for their implementation. The PEFA gender module also builds on the work of numerous individuals involved in GRB in recent decades as

well as institutions that aim to promote its importance. These include, among others, the Organisation for Economic Development and Co-operation's analysis of GRB practices in its countries and the IMF's Fiscal Affairs Department's analysis of practices in G7 countries. More information is provided in the PEFA Secretariat Note, *PEFA Gender Module: Draft for Public Consultation*, available on the PEFA Secretariat website.

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

Table 1.1: Pillars for gender disaggregated information

No.	Pillar	Disaggregation of data required
1	Under Pillar II Transparency of public finances, Indicator 9 Public access to fiscal information	Segregated data reports from the Financial Transparency and Accountability (FTA) on access to information to women Information, if any, on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed
2	Under Pillar IV Policy-based fiscal strategy and budgeting, Indicator 15.2 Fiscal strategy adoption and Indicator 17.2 Guidance on budget preparation	Does published fiscal strategy include quantitative fiscal goals and qualitative objectives from Gender Equality and Women Empowerment (GEWE)? Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting? Does the guidance on budget preparation request for breakdown of outputs/activities and their budgets by gender and to what extent that is complied with? Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives instructions from the MoF? Do implementing entities prepare their annual action plan and budget report as per the guidance provided on gender segregation? Integrated and reflected gender equality and equity government commitments on a budget speech.
3	Under the same pillar (that is, Pillar IV), Indicator 18 Legislative scrutiny of budgets and dimension 18.1 Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender? To what extent are women, children, and youth standing committees in parliaments and regional councils involved in analyzing the budget from a gender perspective? To what extent are their feedbacks considered in revision of draft plans and budget?
4	Under Pillar VII, External scrutiny and audit, Indicator 30 External audit and dimension 30.1 Audit coverage and standards	Are gender-based performance audits conducted? If yes, for which sectors was it conducted and how were the findings used to strengthen programs of sectors?

Service delivery

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

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

Table 1.2: Service delivery indicators

Ethiopia PEFA Addis City Assessment 2018	
Module for service delivery in health and education	
Indicator	
HLG⁵ - Transfer from higher-level government	
Pillar I: Budget reliability	
PI-1 Aggregate expenditure outturn	
PI-2. Expenditure composition outturn	
Pillar II: Transparency of public finances	
PI-6 Regional government operations outside financial reports	
PI-7 Transfers to subnational governments	
PI-8 Performance information for service delivery	
PI-9 Public access to fiscal information	
Pillar III: Management of assets and liabilities	
PI-11 Public investment management	
PI-12.2 Public asset management	
Pillar IV: Policy-based fiscal strategy and budgeting	
PI-16.2 and PI-16.3 Medium-term perspective in expenditure budgeting	
PI-17 Budget preparation process	
Pillar V: Predictability and control in budget execution	
PI-21.3 Predictability of in-year resource allocation	
PI-22 Expenditure arrears	
PI-23.4 Payroll controls	
PI-24.1 and 24.2 Procurement	
PI-25 Internal control on non-salary expenditure	
PI-26 Internal audit	
Pillar VI: Accounting and reporting	
PI-29 Annual financial reports	
Pillar VII: External scrutiny and audit	
PI-30 External audit	

⁵ HLG = Higher-level government.

2. Regional government background information

2.1 Regional government economic situation

20. The following paragraphs outline the country and regional economic context with key fiscal performance indicators.

Country economic situation

21. Ethiopia is a rapidly changing country with a total population of 94.351 million, growing at 2.32 percent per year (estimate of FY2017/2018) and the second most populous country in Sub-Saharan Africa. Ethiopia is a landlocked country and has an area of 1.1 million square kilometres. The country's democracy has set up a federal structure devolving powers and mandates to regional states.

22. Ethiopia has registered an annual average growth rate of 10.1 percent in the first Growth and Transformation Plan (GTP I) period FY2010/2011–2014/2015. The double-digit economic growth averaging 10.5 percent, observed for the last 15 years, was not only high and sustainable but inclusive with a significant decline in poverty incidence from 44.2 percent in FY2000/2001 to 23.5 percent in FY2016/2017. The trend of GTP I has continued in the GTP II period (FY2015/2016–FY2019/2020) despite slow global financial and economic development resulting in low commodity prices and demand as well as the impact of 'El Nino' induced drought and political instability slowing down the economy. In this regard, the economy continued to register impressive growth during the first two years of GTP II (FY2015/2016–FY2016/2017).

23. The prudent fiscal policy pursued by the government stands out among the critical policy and strategy anchors that contributed to the country's impressive economic growth. Although most of the macroeconomic and sectoral developments accounted for the sustainable and inclusive growth realized over the past decade, some vital economic dynamics such as inflation, domestic revenue mobilization, and export performance were not supportive.

24. The strong economic growth during the past years would hint at a further reduction in poverty. Life expectancy rose from 52 to 65 years as per the data provided by the government for FY2015/2016 and there were sizable improvements in many of the human development indicators. Fertility rates have fallen while the expectancy has continued to rise. The current fertility rate of 4.6 children per woman is down from approximately 7 children per woman; population growth rates are down from 3.1 percent to 2.5 percent in the current period and are projected to reach 1.3 percent by FY2045–2050 (World Bank 2017, the World Bank country partnership framework for Ethiopia 2018–2022).

25. In FY2016/2017, gross domestic product (GDP) at current prices had reached ETB 1,807 trillion, registering an annual growth rate of 17.2 percent. As a result, per capital income reached US\$863 up from US\$801 in FY2015/2016, indicating that Ethiopia's vision of becoming a lower-middle-income country by FY2025 targeted at US\$1,025 is within reach.

26. With regard to external debt, to augment available domestic financing options, the government opted to finance its fiscal deficit from external sources on concessional terms. In particular, the Government of Ethiopia finances its budget by assessing external loans on concessional terms. As a rule of thumb, non-concessional loans cannot be used to finance budgetary activities. On the other hand, external non-concessional loans are used to finance projects that are run by state-owned enterprises (SoEs).

27. Recognizing the impact of the debt burden on future generation and responsibility of each citizen, every loan is subject to the approval and oversight of the Ethiopian Peoples' Representative Council (Parliament). Each loan is realized through efficient and effective project preparation and oversight implementation and a monitoring and evaluation mechanism.

28. According to the official data, the federal government's fiscal deficit has shown an increasing trend, which is demonstrated by an increase to 3.3 percent of GDP in FY2016/2017 from 2.3 percent of GDP in FY2015/2016. Revenue decreased as a percentage of GDP mainly due to the slow pace of tax reforms. The federal government's fiscal deficit was financed through external—mainly concessional—financing and domestic financing with large repayments of cash balances and residuals. The 2018 IMF Debt Sustainability Analysis maintained that Ethiopia remains at 'high risk' of external debt distress, as was the case in the 2017 assessment

Regional government economic situation

29. Oromia is one of the nine regions and two city administrations making up the Federal Democratic Republic of Ethiopia. It is the largest and most populous region with a land area of 286,612 square kilometres and an estimated population of 40 million. The capital city is Addis Ababa, which is also the capital city of Ethiopia. It is divided into 21 zones and 336 woredas and city administrations. It stretches across central Ethiopia and shares boundaries with Kenya and South Sudan and with all the other regional states except Tigray. Over 90 percent of the people of Oromia live in rural areas, and agriculture has remained the source of livelihood for the overwhelming majority of the people. Poverty levels are still high as more than half the regional population live below the poverty line

30. The economic development of the region is driven by GTP II (FY2016/2017–FY2020/2021), which is the subset of the national GTP II, and a continuation of GTP I (FY2011/2012–FY2015/2016) and previous development plans being implemented for the last two decades with the objective of laying a strong foundation toward the realization of the region's vision of becoming a beginner middle-income state in the world within the next 10 years, bringing about fast, broad-based, and sustainable economic growth. Other sectors such as education and health also prepare five-year strategic plans that are aligned with the GTP.

31. The region continued to register strong economic growth though the growth has slowed down in the last three years. The economy has grown on average 10.5 percent between 2004/2005 and 2014/2015 but decreased to 9.8 percent between 2015/2016 and 2017/2018. Following the economic development, the GDP per capita income has scaled up from ETB 4,345 (US\$337) in 2010/2011 to ETB 12,376 (US\$700) in 2015/2016. The contribution of agriculture to GDP has shown a continuous decrease in the last few years and reached 47.7 percent in 2017/2018 from 51 percent in 2015/2016, while the contribution of the industry and service sectors increased to reach 18.2 percent and 34.1 percent in 2017/2018 from 15.2 percent and 33.8 percent in 2015/2016, respectively.

Table 2.1: Share of sectors for GDP (%)

Sector	2015/2016	2016/2017	2017/2018	Average
Agriculture	51.0	49.7	47.7	49.5
Industry	15.2	14.9	18.2	16.1
Service	33.8	35.4	34.1	34.4
Total	100.0	100.0	100.00	100.0

Source: Oromia Planning Commission.

32. The region's investment rate has shown an increase from 15.4 percent income in 2015/2016 to 19.8 percent in 2017/2018, and savings has also increased from 26.7 percent of GDP to 29 percent in 2017/2018.

2.2 Fiscal and budgetary trends

33. The economy has grown on average 10.5 percent between 2004/2005 and 2014/2015 but decreased to 9.8 percent between 2015/2016 and 2017/2018. This growth has contributed to reduction in poverty significantly, but the share of people living below the poverty line is more than half the regional population. The revenue collection capacity of the region has shown continuous improvement for the past three years; however, the share of own revenue remains constant because the grant from the federal government has also been increasing at the same time. The region's revenue is mainly generated from the subsidy from the federal government. From the total revenue for the years 2015/2016 to 2017/2018, on average 74 percent was subsidy (grants) from the federal government, 22 percent was tax revenue, and the remaining 4 percent was other revenues.

Table 2.2: Aggregate fiscal data (ETB, millions)

Indicator	2015/2016	2016/2017	2017/2018
Total revenue	38,725	46,465	55,792
Own revenue	11,274	11,378	14,159
Grants	27,450	35,087	41,633
Total expenditure	38,736	47,038	49,542
Aggregate surplus (deficit)	(11)	(573)	6,250

Source: Oromia BoFED.

34. A significant part of the budget is allocated to pro-poor sectors such as health, education, agriculture, water, and road. General functions such as justice and security and general services also constitute a large part of the budget indicating that administrative costs are high. The allocation of the expenditure for the past three years is shown in Table 2.3.

Table 2.3: Budget allocation by function as a percentage of total expenditure

Functions	2015/2016	2016/2017	2017/2018
Organs of the government	5.0	6.0	5
Justice and security	9.0	10.0	11
General services	8.5	8.0	10
Agriculture and natural resources	8.5	8.0	9
Water, mineral, and energy resources	8.5	8.0	7
Trade, transport, and investment	4.5	6.0	4
Urban land management	14.0	10.0	9
Education and training	25.0	30.0	30
Youth and sport, culture and tourism, and social affairs	2.0	2.0	2
Health Office	14.0	12.0	12
Relief and control	1.0	0	1
Total	100.0	100.0	100

Source: Oromia BoFED.

35. A large part of the budget is allocated to personnel services and this has shown an increase from 47 percent in 2015/2016 to 64 percent in 2017/2018 as shown in Table 2.4. Fixed assets and construction and goods and services also constitute a large part of the budget, but their share has shown a decrease between 2015/2016 and 2017/2018.

Table 2.4: Budget allocation by economic classification (%)

Economic classification	2015/2016	2016/2017	2017/2018
Personnel services	46	55	63
Goods and services	20	17	16
Fixed assets and construction	30	24	18
Grants, contributions, and subsidies to institutions and enterprises	2	3	1
Government investment	1	0	1
Miscellaneous payments	1	1	1
Total	100.0	100.0	100.0

Source: Oromia BoFED.

2.3 Legal and regulatory arrangements for PFM

Legal and regulatory arrangements for decentralization

36. The Oromia regional government is one of the nine autonomous regions in Ethiopia established by the constitution in 1994. As per the federal government constitution, regional governments that have legislative, executive, and judicial powers and laws that fall into the jurisdiction of the region are enacted by the regional council (Caffee). The region has adopted the first constitution in 1995 and this has been amended in 2002. Members of the regional council are directly elected by the people and the highest executive organ is the regional cabinet (Council of Ministers) headed by the regional president. All proclamations are approved by the regional council and regulations by the regional cabinet. The respective bureaus also issue internal directives.

37. The public financial administration of the region is mainly governed by Proclamation No. 15/2010, Proclamation to Re-establish the Financial Administration of Oromia National Regional State and Proclamation No. 209/2018, A Proclamation Provided to Amend the Financial Administration of Oromia National State Proclamation No.156/2010. These proclamations define the following:

- The responsibilities of BoFED and regional sector bureaus with respect to collection of public money
- Forecasting and budget preparation process and documentation
- Disbursement of public money
- Cash management
- Debt management
- Financial reporting
- Internal audit

38. Proclamation No. 157/2010 establishes the region's procurement and property administration. It defines the powers and functions of different organs involved in procurement and property administration, the basic procurement methods and procedures, types of procurements and conditions and procedures for each type, disposal procedures, public property administration procedures, and appeal procedures.

39. The regional government's revenue collection mandate is determined in Proclamation No. 175/2012, A Proclamation to Provide for the Establishment of Oromia National Regional State Revenue Authority. This proclamation sets out the powers and duties of the authority. There are additional proclamations, regulations, and directives adopted by the region with respect to the

different taxes enacted by the region such as income tax, value added tax (VAT), turnover tax, and excise tax.

40. External audit of the region is performed by the independent Regional Auditor General Office which was re-established with Proclamation No. 154/2010: Proclamation to Re-establish the Office of Oromia National Regional State Auditor General. This proclamation defines the power and duties of the Auditor General, the procedures for appointment and removal of the Auditor General, budget approval procedures of the office, duty to provide information, and so on. The Oromia Ethics and Anti-Corruption Commission was established with Proclamation No. 71/2003. The proclamation sets out the power and duties of the commission, procedures for appointment and removal of the commissioner, establishment of advisory board, the police and prosecution power of the commission, the duty to cooperate, and so on. Table 2.5 outlines the regional government structure.

Table 2.5: Overview of Oromia regional government structure

Government level	Corporate body (Y/N)	Own political leadership (Y/N)	Approves own budget (Y/N)	Number of jurisdictions	Average population	Percentage of public expenditure	Percentage of public revenue	Percentage funded by transfers
Regional	Y	Y	Y	1	40 million	13.5%	17.5%	74%
Woreda	N	Y	Y	336	No data	No data	No data	No data

41. The sections below also describe the legal and regulatory arrangements for decentralization.

- All financial management and tax proclamations of the federal government define the regional government's PFM structure; these are the following:
 - Proclamation on the Definition of Power and Duties of the Executive Organs (04/1995)
 - Proclamation Establishing the Office of the Federal Auditor General No. 68/1997
 - Proclamation on the Establishment of Ethics and Anti-corruption Commission (235-2001)
 - Financial Administration Proclamation No 648/2009, August 6, 2009
 - Procurement and Property Administration Proclamation No. 649/2009, September 9, 2009
 - Proclamation No. 883/2015 Revised Federal Ethics and Anti-Corruption
 - Proclamation No. 970 /2016 Federal Government of Ethiopia Financial Administration (Amendment) Proclamation
 - Proclamation No.979/2016 Federal Income Tax Proclamation.
- There are two tiers of governments under the regional government: (a) zones and (b) woredas. There are 21 zones and 336 woredas/cities (290 rural and 46 urban). Zones are part of the regional government while woredas and cities are part of the subnational governments. Together, they serve approximately 40 million Ethiopians.

- The Oromia Regional National State was established by the Constitution of EFY 1994 (GC 2001).
- The Oromia Region is the biggest in Ethiopia with more than a third of the total population (approximately 40 million). The region receives 34.46 percent (the largest share) of total federal grants to regional governments. It is the largest region in terms of own revenue generation, but second after the city of Addis Ababa.

42. The main functional responsibilities of the Oromia regional government are as follows:

- Zones are branches of the regional government and only supervise woredas/city administration; woredas and city administration are important in terms of primary service delivery. The Oromia regional government delegates its primary service delivery responsibilities to city administration and woredas.
- The functions and responsibilities of zones and woredas/city administration are defined in Article 6 of the financial management Proclamation No. 156/2010; these responsibilities are delegated.

Legal and regulatory arrangements for PFM

Oromia budgetary systems

- To a large extent, federal government laws guide Oromia budget processes; for instance, actual subsidies to zones and woredas are heavily dependent on actual transfers from the federal government.
- The Oromia regional government has two main treasury accounts; these are at the National Bank of Ethiopia (NBE). With the approval of the regional finance bureau, most budget entities maintain own revenue accounts with the Commercial Bank of Ethiopia (CBE).
- The Oromia regional government prepares its own budget. The budget is approved by the regional council without federal government interference.
- The Oromia regional government maintains its treasury bank accounts with the NBE.
- The Oromia regional government has a separate (and independent) public procurement authority; it is governed by Proclamation No. 157/2010 GC (or 157/2002 EC).
- The Oromia regional government cannot borrow directly; all borrowings must be approved by the federal government. In most cases, loans are on lent from the federal government.

Oromia institutional (political and administrative) structures

- The Oromia regional government has a regional government independent of the federal government legislature; it approves its budgets and enacts laws and regulations for the region, but these laws must be in tandem with the federal government laws.
- The Oromia regional government has the power to appoint its own executives, budget officers, accounts, and treasury officers. The hiring and appointments are in accordance with regional civil service rules and salary structure, which is independent of federal government administration.

- The budget and financial management processes are adopted from federal government systems.

PFM functions

- Payment - The regional government commits and pays for its expenditure without federal government interference.
- Revenue administration - The regional government raises its own revenues in line with regional government revenue laws.
- Performance arrangements for service delivery involving the subnational government - BoFED transfers funds to woredas for service delivery in accordance with regional government policy.
- Monitoring of public corporations - The regional government has a duty to monitor public corporations; the performance of this function is weak.
- Monitoring of lower tiers of subnational governments - The regional government monitors woredas/city administration through zones;⁶ it receives timely annual financial reports but these are not published.
- Public investment - Public investment management (PIM) is managed by the regional government BoFED in collaboration with the regional planning commission. It uses internal guidelines for the Public Investment Program (FPIP).
- Management, monitoring, and recording of assets - The management, monitoring, and recording of fixed assets is decentralized, with each budgetary unit and extra-budgetary unit responsible for managing and safeguarding its assets. Disposal of fixed assets is done mostly centrally, through the Public Procurement and Property Disposal Service (PPPDS).
- Debt management - Article 39 of Proclamation No. 156/2010 (as amended by Proclamation No. 209/2018) grants the authority for the regional government to borrow domestically.
- Internal control – The internal control processes for the various functions are included in the different manuals such as Financial Manual, Procurement Manual, and Government-Owned Fixed Assets Management Manual and directives.
- Cash monitoring and forecasting - Cash forecasting is done annually and updated quarterly.
- Payroll - Payroll is decentralized, with each budgetary unit managing its own payroll.
- Procurement - Public procurement is by the government by public procurement Proclamation No. 157/2010. Each unit prepares procurement plans but these are not published. Data on procurement are available but may not be complete and accurate.
- Internal audit - Each budgetary unit has an internal audit unit; it prepares annual internal audit plan. It also prepares quarterly internal audit reports, but conformity to international standards is low.
- Financial reporting - Annual financial reports are prepared and submitted to ORAG for audit.

⁶ Zones are branches of the regional government.

2.4 Institutional arrangements for PFM

Structure of the public sector

43. Tables 2.6, 2.7, and 2.8 outline the structure of the public sector and regional government operations.

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

2017/2018	Public sector				
	Government subsector		Social security funds	Public corporation subsector	
	Budgetary Unit	Extra-budgetary Units		Nonfinancial public corporations	Financial public corporation
Subnational government (Oromia)	1	1	0	9	0
1st tier subnational (woreda)	336	0	0	0	0
3rd tier subnational (kebele)	0	0	0	0	0

Table 2.7: Financial structure of the regional government—budget estimates ETB)

2017/2018	Central government			
	Budgetary unit	Extra-budgetary Units	Social security funds	Total aggregated
Revenue	50,791,700,000.00	195,575,870.00	NA	50,987,275,870.00
Expenditure	55,809,000,000.00	195,575,870.00	NA	56,004,575,870.00

Source: BoFED 2017/2018 budget.

Table 2.8: Financial structure of the central government— actual expenditure ETB)

2017/2018	Central government			
	Budgetary unit	Extra-budgetary Units	Social security funds	Total aggregated
Revenue	55,791,500,000.00	195,575,870.00	NA	55,987,075,870
Expenditure	49,542,000,000.00	168,110,560.00	NA	49,710,110,560.00
Transfers to (-) and from (+) other units of general government	-25,858,367,180.00	0.00	NA	-25,858,367,180.00
Liabilities	6,490,057,742.00	No data	NA	6,490,057,742.00
Financial assets (cash + cash equivalent)	8,240,561,110.00	No data	NA	8,240,561,110.00
Non-financial assets	No data	No data	NA	No data

Source: BoFED 2017/2018 budget and consolidated annual accounts.

Institutional responsibilities for PFM

44. The Oromia BoFED was established in 1994 according to Proclamation No. 127/1994. It is responsible for preparing the annual budget and spearheading its execution during the year. It has 11 subfunctions (or organizational structures) that support the PFM institutional framework. BoFED is headed by the bureau head who is responsible for coordinating and authorizing all the financial transactions of the region at the macro level. The head of Budget Directorate coordinates and consolidates sector bureau budgets. It has the Treasury and Accounts Directorates for financial accounting and reporting and the Inspection Directorate for coordinating and supervising all internal audit functions of the regional sector bureaus and woreda offices. Until 2017, the planning commission was a directorate under BoFED; it has now been made autonomous. It is responsible for planning and reporting on the regional socioeconomic developmental goals

2.5 Other important features of PFM and its operating environment

45. There are 52 regional bureaus, 21 zones, and 336 woredas/city administration. Zones are branches of the regional government. Out of the 336 woredas, 290 are rural, 27 are medium, and the remaining 19 are urban towns. Of the total of 336 woredas, 12 are self-financing; therefore, they do not receive subsidies from the regional government. Below the woredas are the kebeles which are not budget institutions (BIs). The woredas/city administration have legal status to prepare and approve their budgets, execute the same, and report to the regional finance bureau (BoFED) as well as their own councils, while zones are part of the regional government structure. All regional, zonal, and woreda finance offices are using Integrated Budget and Expenditures (IBEX) for budget management and financial reporting. While all regional bureaus have direct online connectivity, some woredas do not, but they use a stand-alone IBEX for budget management and financial reporting.

46. Each woreda submits monthly in-year budget execution reports to its respective zone; the zones consolidate and send quarterly reports to BoFED. Regional sector bureaus submit monthly accounts to BoFED. Each BI operates a zero-balance bank account ('Z' account), a budget bank account ('B' account), and aid account ('A' account). The 'Z' account has a Treasury Single Account (TSA) structure that allows outstanding balances to be swept into the main treasury bank account held at the NBE. Both personnel/payroll and procurement systems are decentralized; each budget entity is responsible for recruiting and paying its own staff in accordance with the regional civil service salary structure. While procurement management is decentralized, each unit is mandated to report to the regional public procurement authority on both planned and actual procurement. The region has its own revenue authority known as ORA; it is responsible for administering and collecting all regional taxes. There is also ORAG, responsible for external audit of all budget entities, extra-budgetary units, and SoEs.

3. Assessment of PFM performance

HLG-1 Transfers from a higher-level government

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
HLG-1 Transfers from a higher-level government	D+	Scoring method M1
HLG-1.1 Outturn of transfer from higher-level government	A	Transfers were more than 95% compared to original budget in two of the last three completed fiscal years. Deviations between original budget and actual

		transfer were 17.5%, -1.1%, and 0.2% in 2015/2016, 2016/2017, and 2017/2018, respectively.
HLG-1.2 Earmarked grants outturn	D	Transfers of earmarked grants deviated by more than 10% in all three years under review. Actual deviations were 21.8% in 2015/2016, 40% in 2016/2017, and 15% in 2017/2018.
HLG-1.3 Timeliness of transfer from higher-level government	A	Actual disbursements of both recurrent and capital grants have been evenly spread within each of the last three years under review. These disbursements were done monthly.

HLG-1.1 Outturn of transfer from higher-level government

47. Table 3.1 shows the analysis of federal government transfers to the Oromia regional government. The highest deviation (17.5 percent) occurred in 2015/2016, mainly due to macroeconomic challenges in the country, which affected federal government fiscals. The outturns improved significantly in both 2016/2017 and 2017/2018 with variances of -1.1 percent and 0.2 percent, respectively. The analysis also shows that the federal government exceeded its budget in terms of transfers to the regional government by 1.1 percent in 2016/2017. This performance had a positive impact on the regional government's overall total revenues (refer to PI-3 with a score of B), reflecting a credible revenue budget.

Table 3.1: Outturn of transfer from the federal government

	2015/2016	2016/2017	2017/2018
Original budget	28,681,650,000.00	32,405,989,849.75	39,791,676,627.88
Actual transfer	23,660,338,125.00	32,750,819,994.00	39,703,161,873.00
% outturn	82.5	101.1	99.8
% deviation	17.5	-1.1	0.2

Dimension score = A

HLG-1.2 Earmarked grants outturn

48. Deviations in relation to earmarked grants were much higher than expected. As shown in Table 3.2, deviations in all three years were above 10 percent, at 21.8 percent in 2015/2016, 40 percent in 2016/2017, and 15 percent in 2017/2018. Officials have indicated that these high deviations might have been caused by the inability of the federal government to achieve set targets for development partner grants, which are triggers for actual release. Nonetheless, these deviations had little impact on overall federal government subsidies to the regional government, as shown in HLG-1.1. Nevertheless, deviations in earmarked grants could have negative implication on service delivery as the required resources for planned activities may not be available.

Table 3.2: Outturn of transfer from earmarked grants

	2015/2016	2016/2017	2017/2018
Original budget	4,667,500,000.00	3,894,000,000.00	2,271,500,000.00
Actual transfer	3,651,103,050.00	2,336,400,000.00	1,929,760,084.65
% outturn	78.2	60.0	85.0
% deviation	21.8	40.0	15.0

Dimension score = D

HLG-1.3 Timeliness of transfer from higher-level government

49. Available evidence obtained from BoFED shows an even disbursement of actual transfers from the federal government over the last three completed fiscal years, FY2015/2016, 2016/2017, and 2017/2018. The disbursements are categorized into recurrent (account code 1601) and capital (account code 1602). For 2015/2016, actual recurrent disbursements were between ETB 1.2 billion and ETB 1.3 billion over the 12-month period; capital disbursements were between ETB 690 million and ETB 720 million. The trend for 2016/2017 and 2017/2018 was similar, at ETB 1.7 billion and ETB 1.8 billion for recurrent and ETB 650 million and ETB 721 million for capital budget, respectively. These disbursements were done monthly.

Dimension score = A

PILLAR I. Budget reliability

PI-1 Aggregate expenditure outturn

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-1 Aggregate expenditure outturn	B	Scoring method M1
		Aggregate expenditure outturn was between 90% and 110% in two of the last three years (90.2% in 2015/2016, 101.3% in 2016/2017, and 88.8% in 2017/2018).

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

51. As shown in Table 3.3, aggregate expenditure is fairly reliable with the biggest deviations occurring in 2017/2018 where the outturn was 88.8 percent and in 2015/2016 where the outturn was 90.2 percent. In 2016/2017, the outturn stood at 101.3 percent. The detailed calculations upon which the table is based are reported in Annex 5. As a reliable budget is a key factor to efficient service delivery, the current performance could have positive impact on primary service delivery, but other factors such as budget reallocations across votes (BIs) and within votes and the timeliness of release of actual funds for payment of expenditure are also some of the contributory factors for efficient service delivery.

Table 3.3: Comparison of budgeted expenditure against actual outturn

	2015/2016 (ETB, millions)	2016/2017 (ETB, millions)	2017/2018 (ETB, millions)
Original budget	42,951	46,440	55,809
Actual outturn	38,736	47,038	49,542
Actual outturn %	90.2	101.3	88.8

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

Dimension score = B

PI-2 Expenditure composition outturn*Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-2 Expenditure composition outturn	D+	Scoring method M1
PI-2.1 Expenditure composition outturn by function	C	Expenditure composition variance by function for two of the last three years was less than 15% (actual variances were 9.3% in 2015/2016, 16.6% in 2016/2017, and 12.1% in 2017/2018).
PI-2.2 Expenditure composition outturn by economic type	D	Expenditure composition variance by economic type was more than 15% in two of the last three years (actual variances were 11.3% in 2015/2016, 16.4% in 2016/2017, and 15.5% in 2017/2018).
PI-2.3 Expenditure from contingency reserves	A	Expenditure charged to contingency reserves for the last three years averaged 0.5% of the total expenditure.

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

PI-2.1 Expenditure composition outturn by function

53. The functional resource allocation is reasonable as evidenced in Table 3.5 (and Annex 5 for detailed calculation) but could improve provided the fundamentals of budget planning and formulation are strengthened. The functional composition variances for the last three years were 9.3 percent in 2015/2016, 16.6 percent in 2016/2017, and 12.1 percent in 2017/2018 (excluding contingency and interest). Reallocation of the SDG budget from different sectors to agro-industry projects with the instruction of the MoF is partly attributable to these deviations. The Financial Administration Proclamation of the region stipulates that budget transfers from capital to recurrent budget are not allowed and BoFED is empowered to approve all transfers; however, it can delegate its powers to BIs to make transfers. The delegation of BoFED powers could be abused if care is not taken and could lead to excessive budget reallocations and eventually negative impacts on service delivery as originally intended.

Dimension score = C

PI-2.2 Expenditure composition outturn by economic type

54. The economic classification is compliant with the GFS standard (up to the three digits classification). The economic allocation of resources is much weaker compared with the functional allocation. The composition variances for the last three years were 11.3 percent in 2015/2016, 16.4 percent in 2016/2017, and 15.5 percent in 2017/2018 (excluding contingency and interest) as shown in Table 3.4 (and Annex 5 for detailed calculation). Such large reallocations could negatively affect efficient service delivery since originally budgeted resources could be reassigned to other sectors considered important but not within the original government priorities.

Dimension score = D

PI-2.3 Expenditure from contingency reserves

55. The actual expenditure charged to contingency reserves for the last three years averaged 0.5 percent of total expenditure as shown in Table 3.5. As per the practice of the region, the contingency budget is proclaimed at BoFED only and transfers are made to budget entities based on their request. Article 25 of the Financial Administration Proclamation No. 157/2010 of the region empowers BoFED to approve transfers from the contingency budget to budgetary units based on their request to meet unforeseen expenditures that could not be included in their original budget or when it is ascertained that payments are not effected for goods supplied and services rendered in the previous year; however, the law does not state the limit on contingency vote as a percentage of total expenditure. Nonetheless, the government has consistently adhered to the practice of not spending beyond the approved contingency vote, which reflects a good budget practice.

Dimension score = A

Table 3.4: Result matrix PI-2. Composition variance by economic classification (%)

Year	Total expenditure deviation (Less contingency)	Composition variance by economic classification
2015/2016	90.2	11.3
2016/2017	101.3	16.4
2017/2018	88.8	15.5

Table 3.5: Result matrix PI-2.1 and PI-2.3. Composition variance by functional classification and contingency (%)

Year	For PI-1	For PI-2.1	For PI-2.3
	Total expenditure deviation	Composition variance by function	Contingency share
2015/2016	90.2	9.3	0.5
2016/2017	101.3	16.6	
2017/2018	88.8	12.1	

PI-3 Revenue outturn

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-3 Revenue outturn	B	Scoring method M2
PI-3.1 Aggregate revenue outturn	B	Actual total revenue outturn for at least two of the last three years was between 94% and 112% (actual variances were 92.3% in 2015/2016, 104.6% in 2016/2017, and 109.8% in 2017/2018).
PI-3.2 Revenue composition outturn	B	Revenue composition variance for the three years was less than 10% (actual variances were 6.6% in 2015/2016, 7% in 2016/2017, and 8.7% in 2017/2018).

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

PI-3.1 Aggregate revenue outturn

57. The regional government's revenue is basically composed of domestic tax, subsidy or block grants from the federal government, and other revenues. The biggest source is subsidy from the

federal government, which accounts, on average, for 74 percent of the total regional revenue. Tax revenues account on average for 22 percent and other revenues for 4 percent. The budgeted subsidy from the federal government is fully received by the region. The collection of tax revenue was low at 85 percent of the target in 2015/2016 and has shown an improvement to 102 percent in 2016/2017 and 121 percent in 2017/2018. Other revenues are less predictable where the lowest outturn was at 73 percent in 2016/2017 and the highest at 194 percent in 2017/2018. As evidenced in Table 3.6 (and Annex 5 for detailed calculation), at the aggregate level, the outturn was 92.3 percent in 2015/2016, 104.6 percent in 2016/2017, and 109.8 percent in 2017/2018, resulting in a score of B. A five-year revenue and spending forecast is prepared by the regional planning commission based on the macroeconomic estimates that are prepared by the federal government. The revenue authority has no incentive to underestimate revenues so that when it exceeds its target, it receives bonuses. Therefore, any issues about forecasting are purely of technical capacity.

Dimension score = B

Table 3.6: Comparison of budgeted revenue against actual outturn

	2015/2016 (ETB, millions)	2016/2017 (ETB, millions)	2017/2018 (ETB, millions)
Original budget	41,961.7	44,406.0	50,791.7
Actual outturn	38,724.9	46,464.7	55,791.5
Actual outturn %	92.3	104.6	109.8

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

PI-3.2 Revenue composition outturn

58. The revenue composition outturn has shown a marginal improvement in the review period where the variances were 6.6 percent in 2015/2016, 7 percent in 2016/2017, and 8.7 percent in 2017/2018. Nevertheless, it has been kept below 10 percent, indicating that the revenue composition budget is fairly reliable. The revenue outturn for all categories was low in 2015/2016 while it showed an improvement since then and in 2017/2018 the collection exceeded the target in all categories (refer to Annex 5 for details).

Dimension score = B

PILLAR II. Transparency of public finances

PI-4 Budget classification

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-4 Budget classification	B	Scoring method M1
PI-4.1 Budget and accounts classification is consistent with international standards	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards. This classification is the same as that of the federal government except for some functions, such as defence, that are not applicable at the regional government level.

PI-4.1 Budget and accounts classification is consistent with international standards

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

60. Budget classification is consistent with Classification of Functions of Government (COFOG) and follows GFS 2001; this classification is the same as that of the federal government except for some functions, such as defence, that are not applicable at the regional government level. The chart of accounts for both revenue and expenditure include administrative, economic, and functional classifications. The revenue is classified according to type (tax revenue, nontax revenue, and capital revenue). The expenditure component is divided into recurrent expenditure, capital expenditure financed by the regional government, capital expenditure financed by development partners (grants), and capital expenditure from loans on-lent from the federal government. There are subfunctions and sub agency (sector/regional bureaus, zonal, and woreda) classifications at the budget formulation stage. IBEX is used for budget execution, with the same classification used for budget formulation and preparation, with at least three digits of GFS 2001 standard for economic classification. At present, programme budgeting is yet to be introduced at the regional government level.

Dimension score = B

*PI-5 Budget documentation**Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-5 Budget documentation	D	Scoring method M1
PI-5.1 The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional items	D	Budget documentation does not fulfil at least three basic elements. It fulfils only one basic element (number 3) and one additional element (number 11).

PI-5.1 The comprehensiveness of the information provided in the annual budget documentation is measured against a list of 'basic' and 'additional items

61. This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the executive to the regional council and is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to parliament, that is, FY2018/2019 (EC 2011) budget.

Table 3.7: Budget documentation benchmarks

No.	Budget documentation benchmarks	Availability
Basic elements		
1.	Forecast of the fiscal deficit or surplus (or accrual operating result)	No (the regional government prepares a balanced budget) but any difference between its own revenues and projected expenditure is financed by the federal government as subsidies (transfers/grants)
2.	Previous year's budget outturn, presented in the same format as the budget proposal	No
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes. Budget document submitted to the regional council

No.	Budget documentation benchmarks	Availability
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (refer to PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates	No
Additional elements		
5.	Deficit financing, describing anticipated composition	No, the budget does not describe or include deficit financing
6.	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Partial; only GDP growth rate is applied, as all other assumptions are done by the federal government
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	Not applicable; the regional government is not allowed to borrow
8.	Financial Assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	No
9.	Summary information of fiscal risks including contingent liabilities such as guarantees and contingent obligations embedded in structured financing instruments such as public-private partnership (PPP) contracts	No; this is not made available in any official government document to the legislature
10.	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs	Partially; budget speech
11.	Documentation on the medium-term framework	Yes; this is submitted to the legislature at the time of budget submission
12.	Quantification of tax expenditures	Not applicable at the regional government level; tax exemption is the remit of the federal government

Source: Budget documents EC 2011 (GC 2018/2019).

62. The regional government prepares a balanced budget where the expenditure is capped to the revenue; no deficit is created and hence there is no need to prepare a deficit financing strategy. However, in the event that estimated expenditure is more than revenues, any difference between its own revenues and projected expenditure is financed by the federal government as subsidies (transfers/grants). Estimation of macroeconomic assumptions such as inflation, interest rate, and exchange rate, except for GDP growth, are the mandate of the federal government; however, the regional government applies these when preparing the five-year revenue and spending forecast.

Dimension score = D

PI-6 Regional government operations outside financial reports*Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-6 Regional government operations outside financial reports	A	Scoring method M2
PI-6.1 Expenditure outside financial reports	A	The regional government reports all expenditures received from the federal government road fund in its financial statements. There is no other expenditure from extra-budgetary units outside regional government financial reports
PI-6.2 Revenue outside financial reports	A	There are no unreported extra-budgetary revenues outside regional government financial reports. All revenues from the road fund are proclaimed as part of the regional government budget
PI-6.3 Financial reports of extra-budgetary units	NA	This dimension is not applicable

63. This indicator measures the extent to which government revenue and expenditure are reported outside government financial reports.

Background on sources of funds

64. There are three sources of funds: Channel 1, Channel 2, and Channel 3.

- Channel 1: These funds are mainly from IDA and multiple donor trust funds (MDTF). Most of these funds are proclaimed in the name of the respective sector ministries. A dedicated department called Channel 1 Programmes Coordinating Directorate at the MoF is in charge of cash management, accounting, and reporting. The MoF is responsible for transferring of the budget to regions and implementing federal ministries. Regions also transfer to implementing sector bureaus and woredas. Reports are pooled from woreda to regions and consolidated at the national level. Financial reports are submitted to the entity, which is responsible for managing the resources, in most cases the World Bank. Report submission is often a mandatory requirement for the release of the next tranche.
- Channel 2: These funds are directly received from the donor agencies by the relevant sector bureaus. These are project-oriented funds where ministries are responsible for allocating the fund to implementing entities including regional sector bureaus. Regional sector bureaus then channel the fund to woredas. The sector ministry is responsible for the compilation and submission of the report to the donor. The MoF and regional BoFED do not have a role in receiving and transferring of Channel 2 funds.
- Channel 3: These are donor-funded projects where the donors are fully responsible for the spending. No cash goes to government entities.

PI-6.1 Expenditure outside financial reports

65. There is no expenditure from extra-budgetary units outside regional government's financial reports. The regional government benefits from the Federal Government road fund. For the FY2017/18, the regional government received an amount of ETB195,575,870 from the Federal Government Road Authority. This amount was proclaimed as part of the regional government's budget. Out of this amount, ETB168,110,560 was spent during the same period. This was reported in the regional government's financial statements. The expenditure from the regional government road fund is also reported to the Federal Government Road Authority.

Dimension score = A

PI-6.2 Revenue outside financial reports

66. As indicated under PI-6.1, there are no unreported extra-budgetary revenues outside regional government financial reports. All inflows from the FG Road Authority (road fund) are proclaimed as part of the regional government's budget.

Dimension score = A

PI-6.3 Financial reports of extra-budgetary units

67. This dimension is not applicable

Dimension score = NA

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

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-7 Transfers to subnational governments	B	Scoring method M2
PI-7.1 System for allocating transfers	A	The system of horizontal allocation of grants is transparent and rule based. The grant distribution formula is based on four main criteria: (a) population size of the woreda/city administration - this is also referred to as the number of beneficiaries of services in each woreda/city administration, (b) infrastructure deficit, (c) the per capita (unit) cost approach in terms of services provided in the woreda/city administration, and (d) the revenue-generating potential of the woreda/city administration.
PI-7.2 Timeliness of information on the transfers	C	BoFED notifies woredas/city administration to prepare their budget estimates in June (after June 20, 2017), allowing about two weeks to finalize their budget estimates. Minor adjustments take place after receiving the final ceilings in mid-July but does not exceed 3% of woreda's initial budget estimates.

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

PI-7.1 System for allocating transfers

69. The regional council subcommittee on decentralization is responsible for approving the grant distribution formula for woredas/city administration; this is done after the regional cabinet endorses the formula proposed by the Budget Directorate in collaboration with the planning commission. The system of horizontal allocation of grants is transparent and rule based. The grant distribution formula is based on four main criteria: (a) population size of the woreda/city administration - this is also referred to as the number of beneficiaries of services in each woreda/city administration, (b) infrastructure deficit, (c) the per capita (unit) cost approach in terms of services provided in the woreda/city administration, and (d) the revenue-generating potential of the woreda/city administration - the more revenue generated, the more grant received; this is used as an incentive. Also, actual distribution of grants does not deviate from the approved formula. The utilization of woreda/city administration grants appears to have a more service-oriented focus, with little room to ignore regional government approved annual plans. The woredas/city administration are also aware that failure to deliver on approved plans and/or deviation from original plans could have serious consequences in terms of allocation of future grants; therefore, they are bound to stick to the original plan. Table 3.9 indicates that 100 percent of subsidies to woredas/city administration are in line with the approved distribution formula.

Table 3.9: Grants to woredas/city administration EFY 2010 (GC 2017/2018)

Subsidies to woredas/city administration (ETB)	% in line with approved distribution formula
24.33 billion	100%

Source: BoFED Treasury.

Dimension score = A

PI-7.2 Timeliness of information on the transfers

70. The annual budget calendar issued by the MoF (federal government) provides an indicative ceiling of transfers to subnational governments (regional governments) by February. The regional government received the approved initial ceilings on subsidies from the federal government on June 20, 2017, for FY2017/2018. Based on this initial ceiling which provides clear and sufficient details, woredas/city administration are notified to prepare their budget estimates in June, allowing only about two weeks to finalize their budget estimates. The woredas/city administration use the previous year's approved ceilings to prepare their budgets. The final ceilings are communicated to woredas/city administration after the House of Representatives approves the federal government annual budget early July, providing actual grant allocation to the region. This necessitates minor adjustments to woreda/city administration budgets around mid-July but does not exceed 3 percent of the woreda's initial budget estimates.

Dimension score = C

PI-8 Performance information for service delivery

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-8 Performance information for service delivery	D+	Scoring method M2
PI-8.1 Performance plans for service delivery	D	Both education and health sectors (constituting about 42% of regional government budget) prepare annual action plans out of these medium-term plans, from which the annual budget estimates are prepared. However, both the medium-term strategies and the annual action plans are not published even though they both have a framework for measuring performance indicators on outputs or outcomes. Programme budgeting has not yet been introduced.
PI-8.2 Performance achieved for service delivery	D	The Oromia BoE prepares an annual education abstract that provides information on performance achieved against targets. The BoH also prepares an annual performance report, outlining targets achieved. However, none of these reports are published.
PI-8.3 Resources received by service delivery	B	The regional BoE compiles an annual report on both cash and in-kind resources, but the health sector does not. The EC 2010 (GC 2017/2018) educational statistics abstract report dated September 2018 indicates that a total of ETB 849.9 million was spent on primary education; ETB 72.5 million of this relates to donations in kind.
PI-8.4 Performance evaluation for service delivery	C	The most recent evaluation done in the health sector was dated May 25, 2018; this was a joint evaluation done among the regional BoH, independent consultants, and development partners; however, there is no evidence of publication of the evaluation report. Also, there is no evidence on education sector evaluation.

71. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information about resources received by service delivery units is collected and recorded.

PI-8.1 Performance plans for service delivery

72. Both the education and health sectors prepare medium-term (five years) strategic plans—'Educational Sector Development Plan 5 (ESDP V)' and the 'Health Sector Growth and Transformation Plan II', respectively. Both sectors prepare annual action plans out of these medium-term plans, from which the annual budget estimates are prepared. However, both the medium-term strategies and the annual action plans of the education and health sectors (these two sectors have a framework for performance indicators that measure outputs or outcomes) which constitute about 42 percent of the entire regional government expenditure are not published. The remaining 58 percent of regional government expenditure on other sectors have no framework of performance indicators. Programme

budgeting has not yet been introduced. Nonetheless, annual action plans outline activities to be performed with key performance indicators.

73. For instance, the educational sector annual action plan for EFY 2011 (FY 2018/2019) projects to increase gross school enrolment from the current rate of 53.2 percent in EFY 2010 (FY 2017/2018) to 63.3 percent in EC 2011; this will be done through increasing access to primary schools (construction of new schools) and community engagement on the need to go to school. The health sector annual plan for EC 2011 projects to increase the tuberculosis detection rate from the current 63 percent in EC 2010 to 87 percent by the end of EC 2011 and also to improve/increase the tuberculosis cure rate from 84 percent to 90 percent by the end of EC 2011.

Dimension score = D

PI-8.2 Performance achieved for service delivery

74. The Oromia BoE prepares an annual education abstract that provides information on performance achieved against targets. The BoH also prepares an annual performance report, outlining targets achieved. However, none of these reports are published. That said, the two sectors (constituting about 42 percent of government expenditure) organize forums to engage citizens and all stakeholders on achievements made in the sectors, challenges encountered, and proposed plans to mitigate the previous year's challenges and improve service delivery, going forward. The remaining sectors which represent 58 percent by value of government expenditure do not publish any information on performance achieved. In the education sector, the EC 2010 (GC 2017/2018) performance report shows that the gross school enrolment rate achieved was 41 percent against a target of 53.2 percent. The annual performance report of the education sector also shows that the tuberculosis detection rate achieved was 65 percent against a target of 63 percent, showing an improvement by 200 basis points; the tuberculosis treatment rate was also impressive, at 91 percent against a target of 84 percent.

Dimension score = D

PI-8.3 Resources received by service delivery

75. Information on resources received by woreda clinics and primary schools is available, captured by each woreda. Cash resources are routinely reported using IBEX deployed at the woreda level, with information on each school and health care facility; this information is aggregated at the zonal level and reported to the regional education and health bureaus every quarter. Resources received in kind are properly documented at the woreda level, through the use of a Goods Received Note (GRN) referred to as 'Model 92'. The stores at woredas distribute resources in kind using the Stores Issue Voucher known as 'Model 22'. The primary service delivery units (primary schools and clinics) receive supplies and issue a GRN to the woreda sector offices using 'Model 19'. Woreda sector offices submit monthly reports to the zones and then zones submit quarterly reports to regional bureaus on resources received in kind and in cash; these reports are posted on woreda finance office notice boards as well as schools' and clinics' notice boards.

76. The regional BoE compiles an annual report on both cash and in-kind resources (and has been doing this over the last three completed fiscal years), but the health sector does not. The EC 2010 (GC 2017/2018) educational statistics abstract report dated September 2018 indicates that a total of ETB 849.9 million was spent on primary education; of this, ETB 72.5 million came from the community as contribution in kind (materials for school construction and supplies of other educational materials).

Dimension score = B

PI-8.4 Performance evaluation for service delivery

77. Available evidence over the last three completed fiscal years indicates that both the health and education sectors conducted annual performance evaluation to ascertain the efficiency and effectiveness of service delivery programs. The most recent evaluation done in the health sector (which represents 25.2 percent⁷ by value) was dated May 25, 2018. This was a joint evaluation done between the regional BoH, independent consultants, and development partners; evaluation team members included officials from DFID; federal MoH; UNICEF; Food, Medicine and Health care Administration and Control Authority (federal regulatory body for foods and drugs), and the Ethiopian Pharmaceuticals Supply Agency (EPSA) (formerly Pharmaceutical Fund Supply Agency). The health evaluation report shows improvement in maternal and child health, improvement in underweight and malnutrition screening at all health facilities, decrease in the prevalence of communicable diseases, and improved preparedness for emergency cases. That said, there is no evidence that this report has been published. Officials of the education sector also confirmed that such evaluations are done, but there is no evidence to support their claim.

Dimension score = C

PI-9 Public access to fiscal information

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-9 Public access to fiscal information	D	Scoring method M1
PI-9.1 The comprehensiveness of fiscal information available to the public	D	The regional government only makes available one out of the four basic elements; also, none of the additional elements are made public.

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

Table 3.10: Public access to fiscal information

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of availability)
Basic elements			
1.	Annual executive budget proposal documentation: A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	No	Budget proposals are not made public.
2.	Enacted budget: The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Yes	The enacted budget is published in the Magalga Oromia (website: oromiabofed.gov.et). For the 2018/2019 budget, the gazette was published on July 13, 2018 (EC 2011).
3.	In-year budget execution reports: The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27.	No	BoFED prepares consolidated quarterly in-year budget execution reports but these are not published.

⁷ Health budget ETB 15.9 billion of total regional budget of ETB 63 billion.

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of availability)
4.	Annual budget execution report: The report is made available to the public within six months of the fiscal year's end.	No	BoFED prepares consolidated annual financial statements but these are not published or made available to the public through other medium.
5.	Audited annual financial report, incorporating or accompanied by the external auditor's report: The report(s) are made available to the public within 12 months of the fiscal year's end.	No	The website of ORAG is not functional. BoFED also does not publish its annual financial audit reports.
Additional elements			
6.	Pre-budget statement: The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	No	There is no pre-budget statement.
7.	Other external audit reports: All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	No	The website of ORAG is not functional. BoFED also does not publish any performance audit reports as well as its annual financial audit reports.
8.	Summary of the budget proposal: A clear, simple summary of the executive's budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a 'citizens' budget', and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	No	There is no citizen's budget; also, summaries of both the executive budget proposal and the enacted budget are not made public. It is only the full budget that is published.
9.	Macroeconomic forecasts: The forecasts as assessed in PI-14.1 are available within one week of its endorsement.	No	These are prepared; however, they are not made public.

78. As indicated in Table 3.10, the regional government only makes available one out of four basic elements; also, none of the additional elements are made public.

Dimension score = D

Ongoing reforms

79. None.

PILLAR III. Management of assets and liabilities

PI-10 Fiscal risk reporting

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-10 Fiscal risk reporting	D+	Scoring method M2
PI-10.1 Monitoring of public corporations	C	All nine public enterprises submitted their annual financial statements for 2017/18 to BoFED within one month after the end of the year. BoFED does not receive audited financial statements and these reports are also not published.
PI-10.2 Monitoring of subnational governments	D	City administrations and woredas have no borrowing powers; they do not pose fiscal risk to the regional government. All 336 woredas/city administration (through 21 zones) submit annual financial statements to BoFED, timely, within three months after the end of fiscal year. However, these reports are not published; also, the consolidated audit reports are not published.
PI-10.3 Contingent liabilities and other fiscal risks	D	BoFED does not keep records of both explicit and implicit contingent liabilities. Also, there are no records of guaranteed bonds issued to the housing agency.

80. This indicator has three dimensions: dimension 10.1 assesses the level of monitoring of fiscal risk implications of public corporations on central government operations, dimension 10.2 examines fiscal risk posed by subnational governments, and dimension 10.3 measures the level of central government contingent liabilities and other fiscal risks.

PI-10.1 Monitoring of public corporations

81. There are nine public enterprises in the Oromia region. These public enterprises (with 100% regional government ownership) have their own management boards and provide services at market rate. The public enterprises are supervised by the Privatization and Public Enterprises Supervising Authority. All nine public enterprises submitted their un-audited annual financial statements to BoFED within one month after the end of the fiscal year 2017/18. All the nine public enterprises are audited by private audit firms; however, both BoFED and ORAG do not receive copies of the audited financial statements. The audit reports are not published.

Table 10.1 List of public enterprises

Name of public enterprise	Total revenue FY2017/2018	Total expenditure FY2017/2018	Date of submission of FY2017/2018 annual financial statements to BoFED
Oromia water works	524,400,000.00	475,040,000.00	July 31, 2018
Oromia rural road construction	227,600,000.00	272,400,000.00	July 31, 2018
Oromia water works design and control	126,700,000.00	25,300,000.00	July 31, 2018
Oromia urban road construction	315,900,000.00	315,300,000.00	July 31, 2018
Oromia construction enterprise	258,410,000.00	135,020,000.00	July 31, 2018

Name of public enterprise	Total revenue FY2017/2018	Total expenditure FY2017/2018	Date of submission of FY2017/2018 annual financial statements to BoFED
Oromia improved seedlings	207,400,000.00	276,600,000.00	July 31, 2018
Oromia forest and wildlife	562,200,000.00	339,300,000.00	July 31, 2018
Oromia agricultural products marketing	12,280,000.00	8,430,000.00	July 31, 2018
Oromia industrial parks development cooperation	2,412,200,000.00	761,800,000.00	July 31, 2018
Grand total	4,647,090,000.00	2,609,190,000.00	

Dimension score = C

PI-10.2 Monitoring of subnational governments

82. City administrations and woredas have no borrowing powers and therefore do not create fiscal risk for the Oromia regional government. Article 61(3) of the Oromia Financial Administration Proclamation No. 157/2010 requires all BIs including city administrations and woredas to prepare and submit annual financial reports to the regional government (BoFED) within three months after the end of the preceding year. As shown in Table 3.11, all 336 woredas/city administrations (reporting through 21 zones) submitted their 2017/2018 annual financial statements to BoFED within three months after the end of the year; that said, these reports are not published. ORAG has also confirmed that consolidated audit reports are not published due to the non-functioning of the ORAG website. BoFED also does not publish these audit reports.

Table 3.11: Woreda/city administration (through zonal administration) submission of annual financial statements

No.	Name of zone	FY financial statement	Date of submission
1	West Hararge	2017/2018	August 16, 2018
2	Borena	2017/2018	August 16, 2018
3	East Shewa	2017/2018	August 23, 2018
4	North Shewa	2017/2018	August 23, 2018
5	Godina Addaa	2017/2018	August 23, 2018
6	Harargee Bahaa	2017/2018	August 30, 2018
7	Horo Guduru	2017/2018	September 3, 2018
8	Mag Adama	2017/2018	September 3, 2018
9	Shawaa Lixaa	2017/2018	September 7, 2018
10	Baalee	2017/2018	September 11, 2018
11	Bunoo Beddelle	2017/2018	September 14, 2018
12	Arsii Lixaa	2017/2018	September 14, 2018
13	Wallagaa Bahaa	2017/2018	September 15, 2018
14	Wallagaa Lixaa	2017/2018	September 17, 2018
15	Arsii	2017/2018	September 18, 2018
16	Jimmaa	2017/2018	September 18, 2018
17	Gujii	2017/2018	September 23, 2018
18	Gujii Lixaa	2017/2018	September 23, 2018
19	llu Abbaa Bora	2017/2018	September 27, 2018
20	Quellem	2017/2018	September 23, 2018
21	Shiki Lixaa	2017/2018	September 24, 2018

Note: As there are 336 woredas/city administration, the submissions of annual reports were grouped into zones for simplification purposes.

Dimension score = D

PI-10.3 Contingent liabilities and other fiscal risks

83. The regional government does not maintain records of both explicit and implicit contingent liabilities. Also, it does not keep records of guarantees. It is worth noting that the regional government has provided bond guarantees (through the CBE) to the housing agency for the construction of condominiums for its citizens; at present, the total bond liability is unknown. The assessment team tried without success to ascertain the current outstanding loan balance. There are no known PPP arrangements.

Dimension score = D

Ongoing reforms

84. None.

PI-11 Public investment management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
P-11 Public investment management	D+	Scoring method M2
PI-11.1 Economic analysis of investment projects	C	The planning commission has developed an internal guideline for analyzing investment projects; however, this is neither published nor made available to sector bureaus (budgetary institutions) and extra-budgetary units. Institutions use rudimentary methods for project appraisal.
PI-11.2 Investment project selection	C	Project selection for inclusion into the annual budget is largely based on regional government priorities (which include irrigation, health, education, animal grazing, and rural roads), even though some of these projects are selected purely based on the results of feasibility studies conducted.
PI-11.3 Investment project costing	D	At present, the annual budget has no MTEF; the budget only shows cost implication of projects for the current year, with no projections for the forthcoming year. Nonetheless, the Project Appraisal Document provides information of total capital cost together with associated recurrent cost.
PI-11.4 Investment project monitoring	C	The regional sector implementing unit monitors investment projects through physical inspection and periodic (quarterly) financial progress reports. The annual financial statements also report on actual expenditure of the projects; annual physical inspection progress reports are also prepared. There is no publication of either financial or physical progress reports.

85. This indicator assesses the process of economic appraisal, selection, costing, and monitoring of most significant public investment projects by the government. This is a new indicator; it has four dimensions.

Table 3.12: List of major capital investment projects FY2017/2018

Project	Cost (ETB)	Oromia budget (ETB)	% of budget	Economic analysis
Expansion of water supply system	2,497,342,104.00	55,809,286,530.00	4.5	Yes
Development and expansion of irrigation system	762,243,391.00	55,809,286,530.00	1.4	Yes
Road construction	2,828,856,260.00	55,809,286,530.00	5.1	
Housing project - condominiums	2,402,030,965.00	55,809,286,530.00	4.3	
Construction of schools - primary and secondary	824,799,866.00	55,809,286,530.00	1.5	Yes
Construction of health facilities	1,221,625,145.00	55,809,286,530.00	2.2	Yes
Total cost	10,536,897,731.00			
Total with economic analysis	5,306,010,506.00			
% with economic analysis	50.3%			

PI-11.1 Economic analysis of investment projects

86. There is no specific definition referencing ‘major investment project’ as far as the Oromia regional government is concerned. Pages 37 and 84 of the PEFA Framework 2016 and the PEFA Field Guide 2018, respectively, define major investment projects as ‘total investment cost of project amounting for 1 percent or more of total annual budget expenditure’ and these investment projects are ‘among the largest 10 projects (by total investment cost) for each of the 5 largest central government units, measured by the units’ investment project expenditure’. Table 3.12 shows a list of six largest capital investment projects that meet the PEFA definition.

87. The planning commission has developed an internal guideline for analyzing investment projects; however, this is neither published nor made available to sector bureaus (budgetary institutions) and extra-budgetary units. Officials of these institutions say they use rudimentary and non-systematic ways of undertaking economic analysis of investment projects; these methods include (a) a predefined system of siting a school or hospital within a community considering the number of residents and (b) a needs assessment. Before funding these projects, feasibility studies are carried out by each of these institutions and reviewed by the planning commission, but not for majority of these projects, as political considerations also do take precedence.

Dimension score = C

PI-11.2 Investment project selection

88. Project selection (done by the regional cabinet) for inclusion into the annual budget is largely based on regional government priorities, as set and adopted by the regional cabinet (which include irrigation, health, education, animal grazing, and rural roads), even though some of these projects are selected purely based on the results of feasibility studies conducted. Several elements underpin project selection, key among them include, but are not limited to, the following:

- **Desirability.** Projects ought to be in line with the overall government medium-term strategic plan

- **Achievability.** Whether the project can be delivered according to plan considering funding mechanisms and other environmental constraints and challenges
- **Viability.** To consider the cost implications and potential revenue-generating streams, management implications, financial sustainability, and project economic impact

89. The planning commission, which was established in late 2017, is now streamlining the internal project investment management guideline for it to become a standard guiding document for all budget and extra-BIs in terms of project investment management. At present, the selection of projects for inclusion into the budget does not systematically follow the above criteria.

Dimension score = C

PI-11.3 Investment project costing

90. It is considered a good practice for project costing to include both total investment cost and forward-linked recurrent expenditure. As fiscal space is usually limited, a comprehensive cash flow forecasting (costing framework) becomes an important element in decision making for new projects, especially in cases where there are ongoing capital investment projects; this significantly reduces the tendency of uncompleted government projects. At present, the annual budget has no medium-term expenditure framework (MTEF); the budget only shows cost implication of projects for the current year, with no projections for the forthcoming year. Nonetheless, the Project Appraisal Document provides information of total capital cost together with associated recurrent cost.

Dimension score = D

PI-11.4 Investment project monitoring

91. The regional sector implementing unit monitors capital investment projects through physical inspection and periodic (quarterly) financial progress reports. The annual financial statements also report on actual expenditure of the projects. In addition to the annual financial progress reports, annual physical inspection progress reports are also prepared. Going forward, the Monitoring and Evaluation Department of the planning commission will also undertake project evaluation of all capital projects to ensure that outcomes are in line with expected results. The regional sector bureaus (implementing units) do not publish or post project evaluation reports either on the website or notice boards.

Dimension score = C

Ongoing reforms

92. None.

PI-12 Public asset management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-12 Public asset management	D+	Scoring method M2
PI-12.1 Financial asset monitoring	C	BoFED keeps records of investments in public and private entities, but this is not published. The annual

Indicator/Dimension	Score 2018	Justification for 2018 score
		financial statements disclose balances of both cash and bank.
PI-12.2 Nonfinancial asset monitoring	D	The regional government does not maintain a comprehensive and consolidated register of its fixed assets; there are no records of government land, buildings, and natural resources. Presently, management of fixed assets is decentralized at the budgetary unit level. The asset registers maintained by these budgetary units provide information on the age and usage of assets.
PI-12.3 Transparency of asset disposal	C	Article 57 of the Oromia Government Procurement and Property Administration Proclamation No. 157/2010 and Directive No. 1/2009 regulate disposal of fixed asset; there are no clear legal provisions for the disposal of financial assets. Proceeds from the sale of fixed assets and the original cost of assets are disclosed in the financial reports; there is no disclosure of the new owner(s). There was no privatization in 2017/2018.

93. This indicator has three dimensions: dimension 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported, dimension 12.2 examines the extent to which nonfinancial assets (fixed assets) are monitored and reported, and dimension 12.3 measures the level of transparency of asset disposal.

94. The assessment of this indicator covers subnational government budget entities and extra-budgetary units. .

PI-12.1 Financial asset monitoring

95. BoFED has shares in the Cooperative Bank of Oromia valued at ETB 72.188 million as at January 2, 2019, though the shareholder statement does not show the number of shares. However, this information is not disclosed in the annual financial statement nor is it published. The consolidated annual financial statement discloses end-of-year cash and bank balances; the year-end balance for FY2017/2018 stood at ETB 8.2 billion (unaudited). The annual financial statements also show dividend income; the total for 2017/2018 was ETB 65.9 million

Dimension score = C

PI-12.2 Non-Financial asset monitoring

96. Chapter XII of the Oromia Procurement and Property Administration Proclamation No. 157/2010 regulates fixed asset management. Article 54(2) stipulates that all heads of BIs shall record the date, description, quantity, and cost of acquisition and indicate the custody and usage of fixed assets. Also, in existence is a manual on fixed asset management known as 'Government Fixed Assets Management Manual'; it stipulates control and safeguarding of public assets. There is no consolidated fixed asset register. Fixed asset management is decentralized; each budget entity unit maintains a fixed asset register for vehicles, fixtures and fittings, computers, and office equipment, showing both the historical cost of asset, depreciation, and net book value. There are, however, no records of buildings. The asset registers at each budgetary unit provide information on their usage and age as well as the custodian of the asset; the asset user card provides this useful information.

97. At present, there is no record of land and natural resources belonging to the regional government; nonetheless, the cadastre office has begun identification, demarcation, and registration of both rural and urban land with support from DFID and *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Agency for International Cooperation, GIZ). Managers of the cadastre office have indicated that weaknesses such as obsolete land registration equipment and software, in addition to low staff technical capacity could derail the successful implementation of the land administration program.

Dimension score = D

PI-12.3 Transparency of asset disposal

98. Fixed asset disposal is governed by Article 57 of the Oromia Government Procurement and Property Administration Proclamation No. 157/2010 dated April 25, 2010 and Directive No. 1/2009. The law stipulated that each fixed asset valued at ETB 10,000 or above and/or cumulatively valued at ETB 100,000 or above shall be referred to the regional PPPDS for disposal. Below this threshold, the budgetary unit shall dispose (sell or transfer) assets through public auction. The PPPDS advertises in the national newspapers and conducts public auctions, with the highest bidder assuming the right of ownership. Article 57(3) of the same law (Procurement and Property Administration Proclamation No. 157/2010) clearly states that all proceeds from disposal shall be paid to the BoFED Treasury. For FY2017/2018, a total of ETB 36 million was realized as proceeds from fixed assets disposed and paid into the BoFED Treasury; there were no asset transfers. There are no legal provisions on the disposal of financial assets; in 2017/2018, no income was realized from privatization. New owners of fixed assets disposed are not disclosed in the financial reports. The financial reports only disclose information on the original cost of asset and the disposal value.

Dimension score = C

Ongoing reforms

99. No known reforms.

PI-13 Debt management

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-13 Debt management	D	Scoring method M2
PI-13.1 Recording and reporting of debt and guarantees	D	The government has issued guarantees to the housing agency for the construction of condominiums but has failed to keep proper records to that effect. The government has no idea of the total value of guarantees issued to the housing agency.
PI-13.2 Approval of debt and guarantees	D	BoFED is solely responsible for authorizing and approving guarantees. Nonetheless, there are no guidelines, policies, and procedures that guide the issuance of these guarantees.
PI-13.3 Debt management strategy	D	The region doesn't prepare debt management strategy.

100. There are three dimensions under this indicator: dimension 13.1 assesses the integrity and comprehensiveness of reporting federal government debt (both domestic and foreign debts as well

as guarantees), dimension 13.2 measures the legal and regulatory framework governing approval of loans and guarantees, and dimension 13.3 assesses whether the government prepares a medium-term debt strategy.

PI-13.1 Recording and reporting of debt and guarantees

101. Article 39 of Proclamation No. 156/2010 (as amended by Proclamation No. 209/2018) grants the authority for the regional government to borrow domestically. It says that “without prejudice to Articles 42 and 43 of this Proclamation no money shall be borrowed directly, or security issued by or on behalf of the Regional Government without the authorization of the Caffee (Regional Council).” So far, the regional government has not borrowed directly from the domestic market. The government has, however, issued guarantees to the housing agency for the construction of condominiums but has failed to keep proper records to that effect. The government has no idea of the total value of guarantees issued to the housing agency.

Dimension score = D

PI-13.2 Approval of debt and guarantees

102. As stated under PI-13.1, the regional government has borrowing powers but has not exercised these privileges instead providing guarantees to the housing agency to borrow domestically from commercial banks. BoFED is solely responsible for authorizing and approving these guarantees. Nonetheless, there are no guidelines, policies, and procedures that guide the issuance of these guarantees.

Dimension score = D

PI-13.3 Debt management strategy

103. The region doesn’t prepare a debt management strategy.

Dimension score = D

Ongoing reforms

104. No reforms.

PILLAR IV. Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and fiscal forecasting

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-14 Macroeconomic and fiscal forecasting	B	Scoring method M2
PI-14.1 Macroeconomic forecasts	B	Over the last three completed fiscal years, the regional government prepared forecasts of GDP and savings and investment rates; it has no capacity to forecast exchange rate, interest rate, and inflation. The forecasts are reviewed and approved by the

Indicator/Dimension	Score 2018	Justification for 2018 score
		regional cabinet, with an annual update, and sent to the regional council with the underlying assumptions as part of budget documentation for information purpose only.
PI-14.2 Fiscal forecasts	B	The planning commission, over the last three completed fiscal years, prepared the MEFF with forecasts of GDP and savings and investments. The forecast includes aggregate revenues and expenditures and the budget balance. There are no explanations of differences between forecasts and current year's budget as part of budget documentation submitted to the regional council.
PI-14.3 Macro-fiscal sensitivity analysis	C	There is a qualitative evaluation of impact of various scenarios of macro-fiscal forecast; however, this is not included in the annual budget. This has been the case over the last three completed fiscal years.

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

PI-14.1 Macroeconomic forecasts

106. The regional planning commission prepared—over the last three completed fiscal years, FY2015/2016, 2016/2017, and 2017/2018—a macroeconomic and fiscal framework (MEFF) which is part of the medium-term regional strategic plan. Chapter II of the medium-term regional strategic plan (also dubbed GTP II 2016/2017–2020/2021) dated August 2016 contains the MEFF. Also, section 2 of the budget document contains the macro forecast. The framework projects an average growth rate of 11.2 percent and a saving and investment rate of 31.4 percent over the five-year period. It should, however, be noted that the region only has the capacity to forecast GDP and investment rates; other macroeconomic indicators such as inflation, exchange rate, global market price, and interest rate are done by the federal government. The projections cover the budget year and at least the two outer years. The planning commission prepares an annual update of both GDP and investment rates, which is reviewed and approved by the regional cabinet. Both the MEFF and the annual updates of macro projections (GDP and investment rate) plus the underlying assumptions are forwarded to the regional council for information purpose only, as part of budget documentation.

Dimension score = B

PI-14.2 Fiscal forecasts

107. The planning commission prepared—over the last three completed fiscal years, FY2015/2016, 2016/2017, and 2017/2018—a macro-fiscal forecast, with assumptions on GDP and savings and investment rates. The forecast includes aggregate revenues and expenditures and the budget balance; the regional government prepares a balanced budget. Even though it has borrowing powers, it is yet to exercise this mandate. Any difference between its own revenues and projected expenditure is financed by the federal government as subsidies (transfers/grants). It is projected that while the regional government's own revenue will hit ETB 59 billion by 2020/2021 from ETB 32.6 billion in 2017/2018, total expenditure (capital and recurrent) will be at ETB 128.7 billion by the same period, from ETB 76.6 billion. There are, however, no explanations of differences between forecasts and the

current year's budget, as part of budget documentation submitted to the regional council. That said, the underlying assumptions together with the forecasts are submitted to the regional council.

Dimension score = B

PI-14.3 Macro-fiscal sensitivity analysis

108. Over the last three completed fiscal years, FY2015/2016, 2016/2017, and 2017/2018, the macro-fiscal forecast described an assessment of the impact of various scenarios (high-case and low-case scenarios) and the implication on the budget and the regional economy. That said, these qualitative evaluations or reviews were not contained in the budget. The absence of these sensitivity analyses in the budget document (presented to the regional council) limits the ability of legislators to critically ascertain the impact of government policies on each sector of the economy, especially the impact on poverty reduction and service delivery sectors.

Dimension score = C

PI-15 Fiscal strategy

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-15 Fiscal strategy	D	Scoring method M2
PI-15.1 Fiscal impact of policy proposals	D	The regional government prepares partial explanation of budget implications on new policy initiatives and major new public investments.
PI-15.2 Fiscal strategy adoption	D	The regional government does not produce a fiscal strategy.
PI-15.3 Reporting on fiscal outcomes	NA	The development of a fiscal strategy is the responsibility of the federal government; therefore, this dimension is not applicable.

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

PI-15.1 Fiscal impact of policy proposals

110. As indicated under element 10 of PI-5, the regional government prepares and provides, to the regional council, partial explanation of budget implications on new policy initiatives and major new public investments; these are included in the budget speech, but the estimates of the budgetary impact of all major revenue policy changes and major changes to expenditure programs are not.

Dimension score = D

PI-15.2 Fiscal strategy adoption

111. The Oromia regional government does not produce and adopt a fiscal strategy document. A fiscal strategy document outlines broad (aggregate) government parameters on both revenues and expenditures and any fiscal balances that could arise out of net spending.

Dimension score = D

PI-15.3 Reporting on fiscal outcomes

112. The development of a fiscal strategy is the responsibility of the federal government; therefore, this dimension is not applicable.

Dimension score = NA

Ongoing reforms

113. None.

*PI-16 Medium-term perspective in expenditure budgeting**Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-16 Medium-term perspective in expenditure budgeting	D+	Scoring method M2
PI-16.1 Medium-term expenditure estimates	D	The annual budget document presents estimates of expenditure by administrative, function, and economic classification for the budget year only; there is no medium-term expenditure perspective.
PI-16.2 Medium-term expenditure ceilings	D	Aggregate and sector bureau expenditure ceilings for the budget are approved by the regional cabinet after the BCC is issued to budgetary units.
PI-16.3 Alignment of strategic plans and budgets	C	The educational sector annual expenditure policy, representing about 27.3% (by value) of the entire regional government budget, is aligned with the five-year ESDP V. The health sector also prepares a five-year strategy, but this is not costed.
PI-16.4 Consistency of budgets with previous year's estimates	NA	The government does not prepare an MTEF; therefore, it is not possible to analyze the consistency of budgets to the previous year's estimates.

114. This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans.

PI-16.1 Medium-term expenditure estimates

115. The Oromia regional government does not prepare a detailed MTEF. It, however, prepares detailed annual budget estimates which show expenditure according to administrative, functional, and economic classifications. Programme budgeting has not yet been introduced. Therefore, there is no medium-term perspective in the expenditure framework.

Dimension score = D

PI-16.2 Medium-term expenditure ceilings

116. For FY2018/2019 (EC 2011 - last budget submitted to the regional council), BoFED issued the first budget call circular (BCC) on February 8, 2019, which was in line with the budget calendar. That said, the MEFF and the aggregate expenditure estimates are submitted to the regional cabinet for approval, including budgetary units' (sector bureaus) ceilings; for 2018/2019, these were approved around the first week of March 2019 after the issuance of the first BCC.

Dimension score = D

PI-16.3 Alignment of strategic plans and budgets

117. The Oromia ESDP V dated October 2015 for EC 2008–2012 (GC FY2015/2016–FY2019/2020) is fully costed. According to the five-year plan, the total cost is estimated at ETB 136.03 billion,⁸ made up of a one-time capital investment cost of ETB 36.03 billion plus associated recurrent expenditure of ETB 100 billion over the next five years. While the capital cost represents 26.5 percent, the recurrent cost is 73.5 percent of the total estimated cost of the five-year strategy. The education sector represents 27.3 percent⁹ (by value) of the total regional government budget. The annual expenditure policy of the education sector is aligned with the five-year ESDP V.

118. In the health sector, a five-year strategy dubbed the 'Health Sector Growth and Transformation Plan II' for 2015/2016–2019/2020 has also been developed; however, it fails to provide the estimated cost (both capital and recurrent) for the entire duration of the five-year strategy. That said, the annual action plan from which the budget is prepared is aligned with the five-year strategy.

Dimension score = C

PI-16.4 Consistency of budgets with previous year's estimates

119. As indicated under PI-16.1, the regional government does not prepare an MTEF. The annual budget estimate is only for one year (the budget year); therefore, it is not possible to analyze or compare the consistency of budgets to the previous year's estimates.

Dimension score = NA

Ongoing reforms

120. None.

⁸ Pages 96 to 99 of ESDP V dated October 2015.

⁹ EC 2011 budget (education budget ETB 17.2 billion of total regional government budget of ETB 63 billion).

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

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-17 Budget preparation process	D+	Scoring method M2
PI-17.1 Budget calendar	D	An annual budget calendar exists but all budgetary units do not meet the deadlines for completing estimates.
PI-17.2 Guidance on budget preparation	B	A comprehensive and clear budget circular is issued to budgetary units, covering total budget expenditure (capital and recurrent) for the full fiscal year. However, the final approved ceilings for the budget year are issued after the circular but before the completion and submission of final budget estimates.
PI-17.3 Budget submission to the legislature	D	The executive has submitted the annual budget proposal to the legislature after the start of the fiscal year.

121. This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the Ministries, Departments, and Agencies (MDAs), including their political leadership represented by the cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions (i) and (ii) are assessed using the last budget submission, for FY2018/2019. Dimension (iii) is assessed on the basis of the last three approved budgets, that is, FY2016/2017, 2017/2018, 2018/2019.

17.1 Budget calendar

122. A clear budget calendar exists as can be seen in Table 3.13; however, the budget call for EC 2011 (GC FY2017/2018), which was supposed to be sent before February 2018, was sent to BIs at the beginning of April, one month late from the calendar. This in turn affected the submission of the budget estimates by BIs, and all BIs submitted their budget estimates in the months of May and June (please refer to Table 3.14), which was late by one to two months from the calendar (April 15). The budget call does not include ceiling and BIs are required to use the previous year's approved budget as the ceiling for the current year. This is because BoFED does not yet have the picture of the subsidy to be allocated to the region by the federal government. The federal government notifies the estimated subsidy and final subsidy to BoFED around mid-June and beginning of July, respectively. After receiving these notifications, BoFED notifies the budgetary units the estimated ceiling and final ceiling. The temporary ceiling for the EFY 2011 (2018/2019) budget year was sent to the budgetary units on June 20, 2018. Even though BIs are allowed at least six weeks to prepare the budget after receiving the budget circular, the calendar is not generally adhered to in terms of meeting the deadlines.

Table 3.13: Budget calendar (Oromia regional government)

Cycle/Part/Stage	Executing body	Time of execution
Plan preparation		
1. MEFF		
1.1 Preparation of MEFF	BoFED	August 15–October 30
1.2 Approval of MEFF	BoFED	November 1–15
2. PIP		
2.1 Call for PIP	BoFED	November 16–20
2.2 Submit sector PIPs	BoFED	Before December 30
2.3 Analyze PIPs	BoFED and PBs	January 1–30

Cycle/Part/Stage	Executing body	Time of execution
3. Announce three-year budget subsidy	BoFED	Before February 10
4. Annual physical activity plan		
4.1 Prepare annual physical activity plans	PBs	Before February 28
4.2 Analyze annual physical activity plans	BoFED	March 1–30
4.3 Approve annual physical activity plans	Oromia Council	Before May 30
Annual budget		
5. Analyze annual block grant subsidy allocation criteria	BoFED	January 5–February 20
6. Announce initial ceiling	BoFED	Before February 28
7. Approve annual block grant subsidy allocation criteria	Oromia Council	May 1–10
8. Call for budget preparation and announce ceiling	BoFED	Before February 28
9. Allocate budget based on the ceiling and forward the budget request to BoFED	PBs	April 1–15
10. Organize budget requests and present to the council	BoFED	April 15–May 20
11. Approve the endorsed budget	Oromia Council	Before May 30
12. Announce the final ceiling to PBs	BoFED	July 1–10
13. Announce the final ceiling to woredas	BoFED	July 1–7
Official approval		
14. Approve the budget officially	Oromia Council	Before July 30
Implementation		
15. Prepare budget using IBEX	BoFED and PBs	Before July 7
16. Announce budget to PBs using budget preparation forms	BoFED	Before July 7
17. Prepare and present physical and financial implementation plan	BoFED and PBs	Before July 20
18. Budget implementation and administration	BoFED and PBs	July 1–June 30

Source: Budget Department.

Note: PB = Public body.

Table 3.14: Dates of submissions to the BCC for the preparation of the EC 2011 budget

Budget code	Name of public body	Submission date (EC)	Submission date (GC)
1	BoH	September 16, 2010	May 23, 2018
2	Youth and Sport Affairs Bureau	September 13, 2010	May 20, 2018
3	Labour and Social Affairs Bureau	September 1, 2010	May 8, 2018
4	Culture and Tourism Bureau	September 13, 2010	May 20, 2018
5	Women and Children's Affairs Bureau	September 21, 2010	May 28, 2018
6	Agriculture and Natural Resources Bureau	August 22, 2010	April 30, 2018
7	Environment, Forest, and Climate Authority	September 9, 2010	May 8, 2018
8	Coffee and Tea Development Authority	September 21, 2010	May 27, 2018
9	Agricultural Research Institute	September 7, 2010	May 15, 2018
10	Livestock and Fishery Resource Development Bureau	September 15, 2010	May 22, 2018
11	Rural Land Administration and Use Bureau	September 8, 2010	May 15, 2018
12	Cooperative Promotion Agency	September 7, 2010	May 14, 2018
13	Broadcast Network	September 29, 2010	June 6, 2018

Budget code	Name of public body	Submission date (EC)	Submission date (GC)
14	Public Service and Human Resource Development Bureau	September 16, 2010	May 23, 2018
15	Occupational Competence Assurance Agency	September 2, 2010	May 9, 2018
16	Technical, Vocational and Education Training Bureau	September 16, 2010	May 23, 2018
17	Communication Affairs Office	September 3, 2010	May 10, 2018
18	Oromia State University	October 5, 2010	June 12, 2018
19	Secretariat of Caffee Oromia	September 16, 2010	May 23, 2018
20	Office of Auditor General	September 8, 2010	May 15, 2018
21	Ethics and Anti-Corruption Commission	September 9, 2010	May 16, 2018
22	Construction Bureau	October 14, 2010	June 21, 2018
23	Supreme Court	September 23, 2010	May 30, 2018
24	Justice Sector Professionals Training and Legal Research Institute	August 26, 2010	May 3, 2018
25	Revenue Authority	September 27, 2010	June 4, 2018
26	Urban Planning Institute	October 11, 2010	June 18, 2018
27	Integrated Urban Land Information System Coordination Project Office	May 25, 2010	May 2, 2018
28	Transport Authority	August 9, 2010	May 16, 2018
29	Buildings Administration	September 21, 2010	June 28, 2018
30	Trade and Market Development Bureau	June 21, 2010	June 28, 2018

Source: Budget Department.

Dimension score = D

17.2 Guidance on budget preparation

123. The BCC, covering both capital and recurrent expenditure for the full fiscal year that is sent to budgetary units, is clear and comprehensive and explains the budget preparation and submission procedures in detail. This is also confirmed by the Bureaus of Agriculture, Education, Health, and Urban Development and Housing. Though the BCC does not include approved cabinet ceilings for the current budget year, BoFED instructs the budgetary units to use the previous year's approved budget as the ceiling for the current year by making some adjustments to the recurrent budget based on their planned activities and giving priority to ongoing projects over new projects in the case of capital expenditure. The final (cabinet approved) ceilings for the current budget year are, however, issued before the completion and submission of their final budget estimates.

Dimension score = B

17.3 Budget submission to the legislature

124. The federal government notifies the final subsidy to the region at the beginning of July, after the budget of the federal government is approved, which is around the end of June or early July. Hence, the budget preparation of the region is completed and submitted to the council in July, that is, after the beginning of the fiscal year (July 8). Table 3.15 shows the date of submission of the budget to the legislature for the three years.

Dimension score = D

Table 3.15: Dates of submission of the budget to the regional council

Ethiopian Calendar	Gregorian Calendar	
2011	2018/2019	July 11, 2017
2010	2017/2018	July 13, 2016
2009	2016/2017	July 8, 2015

Ongoing reforms

125. None.

PI-18 Legislative scrutiny of budgets

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-18 Legislative scrutiny of budgets	C+	Scoring method M1
PI-18.1 Scope of budget scrutiny	B	The legislature's review covers fiscal policies and aggregates for the coming year as well as the details of expenditure and revenue.
PI-18.2 Legislative procedures for budget scrutiny	C	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. However, public consultations are not done. There are also no procedures for negotiations.
PI-18.3 Timing of budget approval	C	The legislature has approved the annual budget within one month of the start of the year in the last three fiscal years.
PI-18.4 Rules for budget adjustments by the executive	C	Clear rules exist for in-year budget amendments by the executive and are adhered to in some instances. An ex post supplementary budget approval was done in EC 2009 (GC 2016/2017) and EC 2010 (GC 2017/2018).

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

PI-18.1 Scope of budget scrutiny

127. The regional GTP II, which includes the MEFF, is already approved by the regional council (Caffee); so, it is not submitted every year together with the next year budget estimates. Each year, only the revenue and expenditure estimates for the coming year are submitted by the executive to the council and these are reviewed against GTP II. The budget review (which includes active scrutiny and written comments) is done by the Budget and Public Expenditure Standing Committee and then the council approves after hearing the budget speech made by the Regional President with some fiscal policies. Thus, the legislature's review covers fiscal policies, aggregates for the coming year, and the details of expenditure and revenue.

Dimension score = B

PI-18.2 Legislative procedures for budget scrutiny

128. The functions, duties, and procedures for regional council scrutiny of the budget are outlined in Proclamation No. 201/2017 (A Proclamation Enacted to Redefine Organizations, Duties, Conduct of the Members and Meeting Procedures of the 'Caffee'). After review by the cabinet, the President of the Region sends the budget to the council for legislative review and approval. The budget passes two tiers of committee reviews before approval. The first review is done by a coordination committee comprising 12 members (the heads of the 8 standing committees of the council, the speaker, deputy speaker, 1 BoFED representative, and 1 representative from the concerned sector) and second review is done jointly by the Budget and Public Expenditure Standing Committee and Administration and Legal Standing Committee. The council has one economist and three legal advisers hired permanently and they provide technical advice during the review process. These procedures are approved by the council. Once the committee reviews are completed, the Budget and Public Expenditure Standing Committee submits the budget for council approval. However, due to time constraint for review and approval of the budget (the budget is submitted to the council after the beginning of the fiscal year), no public consultation is conducted. Also, there are no negotiation procedures nor specialized committees to review the budgets of ORAG and the judiciary, who are required by law to submit their budget requests directly to the regional council instead of BoFED.

Dimension score = C

PI-18.3 Timing of budget approval

129. Because the final subsidy to the region is notified by the federal government in July, the budget cannot be approved before the beginning of fiscal year, that is, July 8. Table 3.16 shows the date of budget adoption by the council for the past three years; they were approved within one month of the start of the fiscal year.

Table 3.16: Budget submission to parliament and adoption (2016/2017–2018/2019)

Budget year	Draft budget submitted to regional council	Budget approved by regional council
EFY 2009 (FY 2016/2017)	July 8, 2015	July 20, 2015
EFY 2010 (FY 2017/2018)	July 13, 2016	July 17, 2016
EFY 2011 (FY 2018/2019)	July 11, 2017	July 11, 2017

Source: Budget Department.

Dimension score = C

PI-18.4 Rules for budget adjustments by the executive

130. Articles 22 to 26 of Proclamation No. 156/2010 (A Proclamation to Re-establish the Financial Administration of Oromia National Regional State Proclamation No. 88/1997) and Amended Proclamation No. 209/2018 clearly stipulate the rules for budget adjustment. Accordingly, transfers are not allowed from capital to recurrent budget; however, transfers from recurrent to capital budget are allowed. Transfers are also allowed from one recurrent budget to another, likewise from one capital budget to another. BoFED approves transfers between public bodies but public bodies are allowed to make transfers within their own budget. This provision gives BoFED the flexibility to transfer budget provisions between sectors, programs, and economic items. It also stipulates that "supplementary budget appropriation may be authorized by the Caffee (Council) on the recommendation of the council of regional administration (cabinet)." The rules are generally adhered to with respect to transfers between sectors, programs, and economic items but for some instances

in terms of the executive increasing the original approved budget. Ex post supplementary budget approvals were done in EC 2009 and EC 2010. The supplementary budgets for EC 2009 (GC 2016/2017) and EC 2010 (GC 2017/2018) were ETB 5.8 billion and ETB 1.02 billion, which were 13 percent and 2 percent of the original budget, respectively.

Dimension score = C

Ongoing reforms

131. None.

PILLAR V. Predictability and control in budget execution

PI-19 Revenue administration

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-19 Revenue administration	C	Scoring method M2
PI-19.1 Rights and obligations for revenue measures	B	ORA (collecting 85% of regional government's own revenues, excluding grants) uses multiple channels (TV, radio, leaflets, and so on) to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights of taxpayers including redress procedures. These can be accessed on www.ora.gov.et .
PI-19.2 Revenue risk management	C	Currently, there is no comprehensive risk management strategy. ORA uses a partly structured and systematic approach for assessing and prioritizing compliance risks; case selection for tax audit is semiautomated with 14 selection criteria, mostly manual.
PI-19.3 Revenue audit and investigation	C	All planned audits were not completed. The performance for the last year was 88% by value.
PI-19.4 Revenue arrears monitoring	D	The revenue arrears at the end of 2010 (2017/2018) were 12.5% of the total tax collection for the year; however, tax arrears older than 12 months were 89.7% of total tax arrears.

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

133. The regional government's revenue is composed of tax, subsidy from the federal government, and other revenues. The biggest share is from subsidy, which is 74 percent for the three years under review. Tax revenue accounts for 22 percent and other revenues for 4 percent of the total revenue. Table 3.17 shows total revenue collection for the three years under review. The assessment of this indicator is only focusing on revenues (tax and nontax) under the purview and control of the regional government, that is, 22 percent plus 4 percent = 26 percent of total revenues to be considered as 100 percent. Therefore, 22 percent of 26 percent = 85 percent, and 4 percent of 26 percent = 15 percent.

Table 3.17: Summary of total revenues for 2008 (2015/2016) to 2010 (2017/2018) (ETB, millions)

Economic head	Actual	Percentage
Tax revenues		
Tax on income, profit, and capital gain	22,341.8	16
Value added tax	5,361.1	4
Excise taxes on locally manufactured goods	402.4	0
Sales turnover tax on locally manufactured goods	1,035.9	1
Service turnover tax	362.6	0
Stamp sales and duty	718.6	1
Sales tax on imported goods	280.5	0
Sub-total	30,502.9	22
Social contributions		
Contributions to pension fund	1.0	0.0
Grants		
Subsidy transfer receipt from MoF	104,170.3	74
Other revenue		
Research and consultant fee	7.4	0
Administrative fees and charges	907.2	1
Sales of public goods and services	3,371.5	2
Government investment income	656.7	0
Miscellaneous revenue	1,362.9	1
Sales of movable and immovable properties	1.1	0
Sub-total	6,306.8	4
Total revenue	140,981.0	100

PI-19.1 Rights and obligations for revenue measures

134. ORA collects 85 percent of the regional government's total revenues, excluding grants/subsidies from the federal government. It was re-established with Proclamation No. 175/2012 with the objective of establishing modern revenue assessment and collection system to provide customers equitable, efficient, and quality service; enforce tax laws by preventing and controlling tax fraud and evasion; increase the government revenue in the region; and promote voluntary tax compliance by causing taxpayers to discharge their tax obligations through awareness creation. The responsibilities of the authority also include establishment of a system that enables taxpayers to know their rights and duties and to work continuously to create awareness. ORA uses different channels to disseminate information on the main tax obligations and rights and redress processes and procedures such as the website (www.ora.gov.et), social media (Facebook), bulletins and leaflets, stakeholder meetings (this has not been conducted for two years), announcements using a motor van, and weekly TV program on Oromia Broadcasting Network. The main tax laws, which can be found on the website and are applicable in the region, are the following:

- Oromia Income Tax Proclamation No. 202/2009
- Oromia Tax Administration Proclamation No. 203/2009
- Proclamation No. 171/2012 Proclamation to Re-amend Amended Income Tax Proclamation No. 74/2003 (About Sales Register Machine)
- Proclamation No. 75/2003 Turn Over Tax Proclamation
- Proclamation No. 285/2002 Value Added Tax Proclamation
- Proclamation No. 76/1995 Excise Tax Proclamation
- Proclamation No. 686/2010 Commercial Registration and Business Licensing Proclamation

- Proclamation No. 287/2002 Tax on Coffee Exported from Ethiopia (Amendment)
- Proclamation No. 92/2005 Oromia Regional State Mining Income Tax Proclamation
- Proclamation No. 99/2005 Rural Land Use Payment and Agricultural Income Tax Amendment Proclamation
- Proclamation No. 131/2007 Rural Land Use Payment and Agricultural Income Tax Amendment Proclamation No. 99/205
- Proclamation No. 77/2004 Administration Stamp Duty Proclamation
- Proclamation No. 89/2005 A Proclamation to amend Oromia Regional Government Stamp Duty Proclamation No. 77/2004
- Proclamation No.175/2005 Oromia National Regional State Revenues Authority Establishment
- Proclamation No.567/2008 Raw and Semi-Processed Hides and Skins Export Tax

135. The laws are updated and published on the website; though comprehensive, they appear to be cumbersome for ordinary taxpayers. The Treasury Directorate of BoFED provides guidelines on nontax revenue collected by each sector bureau and extra-budgetary unit; the current institutional framework allows retention, usage, and reporting of nontax revenue. Apart from reporting on sector collections, there is very little information to the public in terms of fee rates and applicable charges. The Tax Payer Education and Communication Directorate under ORA is responsible for taxpayer education and awareness to encourage voluntary compliance and improve taxpayer registration. As stated earlier, the directorate conducts weekly TV programs but the town hall meetings for taxpayers have been lagging. The mechanisms for administrative and judicial tax appeal are set out in the Tax Administration Proclamation No. 203/2009. There are three tiers of tax appeal mechanisms:

- Administrative mechanism through the different levels of structures within ORA
- An independent Tax Appeal Board
- Court of law —regional high, supreme, and cessation courts

136. The proclamation specifies the tax appeal procedures at each level. Appeals are initially presented to a complaint committee within ORA. Any taxpayer who is not satisfied with the administrative decisions by the committee has the right to appeal to the independent Tax Appeal Board. Members of the board are the Regional President or his representative, Director of ORA (has no voting right), Regional Attorney General, BoFED, Bureau of Trade, and Chamber of Commerce. A taxpayer who is dissatisfied with the decision of the Board has the right to go to the court. Officials of ORA have indicated that a majority of tax appeal cases are settled administratively; that said, there are no statistics to back this claim.

Dimension score = B

PI-19.2 Revenue risk management

137. The tax registration system requires every taxpayer to have a taxpayer identification number (TIN) and this is incorporated in the tax administration software Standard Integrated Government Tax Administration System (SIGTAS). Each taxpayer registers for a TIN with the national identification through the automated fingerprint identification system and card production facility. It is not possible to get trade license or form a company without having a TIN registration. Officials have indicated that most branches are automated except few woredas that are still using the manual system. The regional tax authority has not developed a risk management strategy; however, risk assessment is conducted

using 14 manual criteria, one of which includes tax compliance rate. Selection of taxpayers for audit is semiautomated with some human interface, mostly based on the 14 criteria. At least, every year, the taxpayer database is updated but there still remain a few numbers of citizens and potential taxpayers not captured.

138. Taxpayers are divided into three categories: A, B, and C based on their annual turnover and categories A and B are required to maintain books of accounts. Hence, they are required to pay their taxes on a self-assessment basis based on their financial reports, while category C taxpayers, which are not required to maintain books of accounts, are required to pay presumptive tax as per a schedule included within the Income Tax Regulation. From the nearly 400,000 taxpayers in the regions, 22,000 are category A, 27,000 category B, and the remaining 350,000 category C. All tax payments are made through direct deposit into the bank.

Dimension score = C

PI-19.3 Revenue audit and investigation

139. Tax auditors from ORA are placed in the zonal, city, and, as per the new structure, at woreda branches also. Currently there are 20 zonal and 18 city branches where ORA tax auditors are stationed. Selection for audit is done based on the risk assessment described under PI-19.2, which is not fully automated. An annual compliance improvement plan (detailing revenue risk areas as well as fraud investigation and mitigation strategy) is developed by the directorate and cascaded to the respective branches. ORA tax auditors conduct their audits based on the annual compliance improvement plan. As shown in Table 3.18, in EFY 2010 (2017/2018) the performance of the audit was 88 percent of the plan. This has shown an improvement from the previous year; however, it is still not achieving its target. This has been attributed to shortage of manpower and low staff technical capacity. Audit of nontax revenue is conducted by the Internal Audit Directorates of the respective budget entity and extra-budgetary unit, with oversight by BoFED Inspections Directorate. That said, very little or no activity takes place with regard to monitoring nontax revenues of extra-budgetary units.

Table 3.18: Planned and performed (amount targeted) audits in 2016/2017 and 2017/2018

Description	Planned audit	Performed audit	Percentage achieved
EFY2009 (FY2016/2017)			
Number of tax files	15,248	12,928	85
Amount (ETB)	2,957,564,797	1,559,957,535	53
EFY2010 (FY2017/2018)			
Number of tax files	16,827	14,858	88
Amount	1,481,171,288	1,297,253,824	88

Source: ORA Audit Directorate.

Dimension score = C.

PI-19.4 Revenue arrears monitoring

140. The tax arrears (defined as taxes due to the regional government after the end of the fiscal year) data are updated monthly and each officer is assigned with a taxpayer in arrears to follow up. As shown in Table 3.19, the stock of revenue arrears at the end of EFY 2010 (2017/2018) was ETB

1.486 billion, which is 12.5 percent of the total tax collection for the year (E/F) and the revenue arrears older than 12 months were 89.7 percent of the revenue arrears for the year ((A-D)/E).

141. It is a known fact that effective revenue mobilization is a major contributing factor to efficient service delivery, and at a rate where 12.5 percent of the regional own revenues are in arrears, this will have a negative impact on service delivery as the expected cash inflows will not be available to pay for the required supplies and services on time. That said, it appears the region sees less impact as 74 percent of its total revenues are from subsidies from the federal government; the impact will be felt where there are significant delays in actual transfers from the federal government.

Table 3.19: Tax arrears for FY2010 (2017/2018) (ETB, millions)

	Brought forward from 2009 (2016/2017)	Actual outturns in 2010 (2017/2018)	Total	Arrears collected	Stock of arrears at end of 2010 (2017/2018)	Total tax revenue collection for the year
	A	B	C (A + B)	D	E (C - D)	F
Amount	1,734	152	1,887	401	1,486	11,844
% of arrears					12.5%	
% older than 12 months	1,734 less 401 = 1,333_ = 89.7% 1,486					

Dimension score = D

PI-20 Accounting for revenue

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-20 Accounting for revenue	D+	Scoring method M1
PI-20.1 Information on revenue collections	B	BoFED receives monthly financial reports from all budget entities but excluding extra-budgetary units that report annually; these reports include revenue (nontax) collections. ORA (collecting 85% of total regional government revenues excluding grants from the federal government) also reports the collection on a monthly basis. The report details the taxes collected into the different categories such as income tax, VAT, and excise tax.
PI-20.2 Transfer of revenue collections	D	More than 75% of tax revenue collections are transferred to the BoFED Treasury once a month.
PI-20.3 Revenue accounts collections	C	The monthly reconciliation, done within four weeks after the month end, does not include assessments and arrears; reconciliation only covers collections and transfers to the Treasury.

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

PI-20.1 Information on revenue collections

143. Majority of the region's revenue (74 percent over the last three years) is derived from subsidy from the federal government, while tax revenue accounts for 22 percent and other revenues 4 percent of the total revenue. This dimension assesses the revenue collection information that is received by BoFED and cannot be applied to the subsidy from the federal government. As already indicated under PI-19.1, ORA collects 85 percent of the region's revenue excluding subsidy from the federal government; the other 15 percent represents nontax revenues. The total revenue collection for the three years under review was ETB 140 billion: ETB 30 billion as tax revenue, ETB 104 billion as subsidies, and ETB 6 billion as other revenue (nontax).

144. BoFED receives monthly financial reports from all budget entities but excluding extra-budgetary units that report annually; these reports include revenue (nontax) collections. ORA also reports the collection on a monthly basis. The report details the taxes collected into the different categories such as income tax, VAT, and excise tax. At the time of assessment (March 2019), tax collection for February stood at ETB 1.67 billion: ETB 1.24 billion from income tax, ETB 0.28 billion from VAT, and ETB 0.15 billion from excise duties.

Dimension score = B

PI-20.2 Transfer of revenue collections

145. ORA has the head office branch, 20 zonal and 18 city branch offices. The zonal and city branches directly deposit collections into the BoFED Treasury account, which constitute less than 25 percent of total collections. The bulk of collection is done by the head office branch; it has a standing order with the CBE to transfer the balance in the revenue account once a month to BoFED. The current transfer arrangement could be resulting in some financial losses to the regional government in the sense that the CBE could be making profits by trading with the cash. Officials of ORA have, however, explained that the monthly transfer arrangement was necessitated by the fact that ORA has to reconcile and refund all VAT accounts and any payables to taxpayers before transferring the balance to the BoFED Treasury.

Dimension score = D

PI-20.3 Revenue accounts collections

146. ORA prepares revenue reconciliation on a monthly basis within four weeks after the previous month, by reconciling the monthly collections, retention by the authority for VAT refund and other taxpayer claims, and transfer to the BoFED Treasury. However, this reconciliation does not include total assessments and arrears. Officials have identified this as a major weakness that requires redress.

Dimension score = C

*PI-21 Predictability of in-year resource allocation**Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-21 Predictability of in-year resource allocation	C+	Scoring method M2
PI-21.1 Consolidation of cash balances	C	The bank accounts at BoFED are consolidated on a daily basis; however, other PBs send their bank

Indicator/Dimension	Score 2018	Justification for 2018 score
		account balances as part of the monthly reporting and these are consolidated by BoFED monthly.
PI-21.2 Cash forecasting and monitoring	B	Annual cash flow forecasts are submitted to BoFED and these are updated on a quarterly basis based on actual inflows and outflows of cash. These are used to request cash from BoFED. BoFED on its part consolidates the annual and quarterly cash flows forecasts and uses it to request subsidy from the federal MoF.
PI-21.3 Information on commitment ceilings	C	BIs receive monthly expenditure commitment ceilings (drawing limits) for general expenditure on goods and services. Drawing limit for capital expenditure has no specific frequency; it depends on submission of completion certificates for works done.
PI-21.4 Significance of in-year budget adjustments	C	Virements are frequent but based on rules. These rules are generally respected; however, significant budget adjustments are made as evidenced in PI-2.1 and PI-2.2. Also, as indicated under PI-18.4, two ex post approvals were made by the regional council after the executive increased the original budgets for EC 2009 and EC 2010; therefore, adjustments to budget allocations are partially transparent.

Note: PB = Public body.

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

PI-21.1 Consolidation of cash balances

148. The Treasury Directorate of BoFED maintains two bank accounts known as Central Treasury (main zero balance [Z] account) and SDG account. The SDG account is used for Agro-Industry Parks funds that are transferred from the federal MoF. Other public bodies have three types of accounts, Z account that is used for Treasury, B account used to make deposits such as internal revenue and refunds, and other project accounts as required. The Z accounts are cleared daily against the Central Treasury account of BoFED.

149. A partial TSA has been established, providing an opportunity for the BoFED Treasury to view and consolidate cash balances daily. The TSA only covers the main Z account held at the NBE and operated by BoFED, and the sub-Z accounts also at NBE and operated by each BI; the TSA covers at least 85 percent (by value) of treasury balances. The main SDG account at BoFED is consolidated daily with the main Z and sub-Z accounts but the sub-SDG accounts at budget entities are not consolidated daily; there is, however, a monthly consolidation of all bank/cash balances. At the time of assessment (March 2019), the consolidated cash balance stood at ETB 2.7 billion. The current TSA framework could result in some amount of cash residing with budget entities, not used, and thereby leading to ineffective resource allocation and inefficient service delivery since other sectors may be lacking scarce resources.

Dimension score = C

PI-21.2 Cash forecasting and monitoring

150. Article 30 of the Oromia Financial Administration Proclamation No. 156/2010 mandates all budget entities to prepare and submit an annual cash flow to BoFED, upon which actual cash for payment of expenditure shall be released, after the approval of the annual budget and in line with the annual procurement plan. This is done in practice, after the approval of the regional annual budget by the council (legislature), usually between the second and third week of July, at the beginning of the new fiscal year. Article 27 of the law allows BIs to spend one-twelfth of the previous year's approved budget if the council delays in approving the annual budget; this has been the practice all this while.

151. Each BI submits annual cash flow forecasts to BoFED, updated quarterly, based on actual cash inflows and outflows. BoFED then consolidates these cash flow forecasts, which are used as a basis for requesting its annual approved grants (subsidy) from the federal government. The consolidated cash flow forecast is also updated quarterly.

Dimension score = B

PI-21.3 Information on commitment ceilings

152. At present, BoFED issues monthly drawing limits (expenditure commitment ceilings) to BIs. The commitment ceilings are in line with the updated quarterly cash flow forecasts, providing reliable information for expenditure commitment. In principle, two types of expenditure ceilings are issued: (a) the first is for general drawing limit for goods and services and (b) the second is for capital expenditure which has no specific frequency but only depends on submission of certificate of completion for capital projects. Officials from BIs have indicated that the release of the general drawing limit for goods and services is timely but delays are sometimes experienced referencing releases for capital projects.

Dimension score = C

PI-21.4 Significance of in-year budget adjustments

153. Articles 22 to 26 of Proclamation No. 156/2010 (A Proclamation to Re-establish the Financial Administration of Oromia National Regional State Proclamation No. 88/1997) clearly stipulate the rules for budget adjustment. The law also states that transfers are not allowed from capital to recurrent budget; it, however, allows transfers from recurrent to capital budget. Transfers are also allowed from one recurrent budget to another, likewise from one capital budget to another. BoFED is authorized to approve transfers between public bodies and can delegate the power to make transfers within the public bodies to the heads of the public bodies. As per the budget guidelines, transfers are not allowed to be made within the first six months of the fiscal year and transfer from one-line item cannot be made more than once, but the frequency of virements is unlimited for different line items. These rules are generally respected; however, significant budget adjustments are made as evidenced in PI-2.1 and PI-2.2; these reallocations follow the budget guidelines. The reallocations, thus, affect the original government policy for delivering service to the people. This is also a sign of weak budget planning and formulation. Also, as indicated under PI-18.4, clear rules for increasing the original budget by the executive exist but these are not always adhered to; therefore, adjustments to budget allocations are partially transparent. The nonadherence to these rules resulted in two ex post legislative approvals in EC 2009 and EC 2010.

Dimension score = C

PI-22 Expenditure arrears*Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-22 Expenditure arrears	D+	Scoring method M1
PI-22.1. Stock of expenditure arrears	D	Stock of expenditure arrears is above 10% in two out of the last three completed fiscal years. Actual percentages as compared to total expenditure were 15.2%, 10.8%, and 9.2% in FY2015/2016, 2016/2017, and 2017/2018, respectively.
PI-22.2. Expenditure arrears monitoring	A	Data on the stock and composition of expenditure arrears are generated quarterly within a month after the end of the preceding quarter.

154. This indicator has two dimensions: dimension 22.1 assesses the level of stock of expenditure arrears, and dimension 22.2 examines the framework for monitoring expenditure payments arrears.

PI-22.1 Stock of expenditure arrears

155. Unpaid bills for goods, services and works received after year-end are recognized as grace period payables and should be cleared within 30 days of the new fiscal year. The other expenditure arrears relating to capital expenditure are retentions payable to contractors which will be cleared based on the progress of the project as payment certificates are received and on the acceptance of final work. The analysis below excludes retentions as these are not considered as expenditure arrears since construction works are still in progress; the analysis, however, includes salary and pension arrears and long-term liabilities. As shown in Table 3.20, expenditure arrears are above 10 percent in two out the last three completed fiscal years. Actual percentages as compared to total expenditure were 15.2 percent, 10.8 percent and 9.2 percent in FY2015/2016, 2016/2017, and 2017/2018, respectively.

156. Undoubtedly, the accumulation of expenditure arrears, though reducing both in nominal and percentage terms over the assessment period, could be a contributory factor for poor and/or inefficient service delivery as supplies will be reluctant to provide the needed services as required. Accumulation of expenditure arrears could also send a wrong signal to supplies to hike their prices to compensate for late payment; these could then increase cost of services.

Table 3.20: Analysis of stock of expenditure arrears

	2015/2016	2016/2017	2017/2018
Total arrears (excluding retentions)	5,877,676,943.41	5,070,749,413.52	4,576,797,507.52
Total government expenditure	38,736,002,746.91	47,038,604,729.19	49,542,549,316.21
% of arrears to total expenditure	15.2	10.8	9.2

Source: BoFED Accounts Directorate.

Dimension score = D

PI-22.2 Expenditure arrears monitoring

157. An ageing analysis report of the stock of expenditures arrears showing the composition and type of expenditure is part of the monthly reporting package that is prepared by the sector bureaus and woredas of the region. Woredas submit monthly reports to zones, which are part of the regional

administration structure, and zones consolidate the monthly reports received from the woredas and submit to BoFED on a quarterly basis. Regional sector bureaus submit monthly reports to BoFED. BoFED then prepares quarterly consolidated report for the region which includes ageing analysis of expenditure arrears, within a month after the end of the previous quarter.

Dimension score = A

PI-23 Payroll controls

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-23 Payroll controls	C+	Scoring method M1
PI-23.1 Integration of payroll and personnel records	B	There is no direct link between the personnel (HR) records and the payroll database. The payroll is fully supported by personnel files and timesheets, checked against the previous month's payroll data. The staff structure, grading, and salary scale are approved by the Civil Service Bureau; however, hiring of staff based on the approved posts is the responsibility of each entity.
PI-23.2 Management of payroll changes	A	All staff changes such as hiring, termination, and promotion is managed by the HR Directorate, the database is immediately updated, and the Finance Directorate is copied in all the correspondence. Changes are captured within the month they occurred and retroactive adjustments are rare.
PI-23.3 Internal control of payroll	A	Both the personnel and payroll management processes are manual. The head of each BI and extra-budgetary unit is the sole responsible officer with the authority to approve changes to personnel and payroll records in accordance with approved civil service posts. This control process is clear and sufficient for ensuring payroll integrity; changes result in a manual audit trail.
PI-23.4 Payroll audit	C	No comprehensive payroll audit has been undertaken within the last three years; however, partial payroll audits are carried out as part of the usual annual financial and compliance audit by both internal and external auditors.

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

PI-23.1 Integration of payroll and personnel records

159. The region uses a decentralized personnel and payroll system in which each BI and extra-budgetary unit is responsible for managing its own personnel and payroll. The staff structure, grading, and salary scale are approved by the Civil Service Bureau; however, hiring of staff based on the

approved posts is the responsibility of each entity. There is no direct link between the personnel (HR) records and the payroll database. The personnel database is maintained by the HR Directorate of each entity. The Finance Directorate of each entity prepares monthly payrolls based on monthly updated personnel data received from the HR Directorate; this is also checked against the previous month's data. Each employee signs a daily attendance sheet checked by the head of department and submitted to HR for vetting and approval before the payroll is prepared. Based on this information, the Finance Directorate prepares the payroll and processes the payments through a bank. The region uses Microsoft Excel to process payroll, and monthly payments are directly transferred to employees' bank accounts.

Dimension score = B

PI-23.2 Management of payroll changes

160. All staff changes such as hiring, termination, and promotion are managed by the HR Directorate, the database is immediately updated, and the Finance Directorate is copied in all the correspondence (letters) that are related to staff changes to enable prompt update when the staff list is received from HR for monthly payroll preparation. All changes (as per civil service law are approved by the head of the central government institution) are captured within the month they occurred and retroactive adjustments are rare, as confirmed by budgetary units. At the time of assessment (March 2019), retroactive adjustments were 0 percent as per the payroll data at BoFED and visited institutions. Internal and external auditors of the regional government also did not report any findings in this regard. Analysis of sample extra-budgetary units also confirmed rare retroactive adjustments. If an employee joins close to the end of the month after the payroll is processed, he or she is paid separately within the month and no retroactive payment is made in the following month. Also, staff who do not report to work for two weeks or more will have no salary transfers to their bank accounts.

Dimension score= A

PI-23.3 Internal control of payroll

161. Both the personnel and payroll management processes are manual. The head of each BI and extra-budgetary unit is the sole responsible officer with the authority to approve changes to personnel and payroll records in accordance with approved civil service posts. This control process is clear and sufficient for ensuring payroll integrity and results in manual audit trail, that is, any authorized officer who works on personnel and payroll records signs for gaining access to the file and enters the date the file was worked on. The personnel database is maintained by HR and the payroll data is maintained by the Finance Directorate. Access to records is restricted except for the responsible officer. All changes to the personnel database are approved by the respective bureau head and letters of approval are kept by the HR and the Finance Directorates. A review of both the internal and external audit (refer to PI-30.3) reports showed no incidences of weak payroll controls; there were no adverse external audit opinions with reference to payroll controls.

Dimension score = A

PI-23.4 Payroll audit

162. Internal audit is decentralized; they conduct financial and compliance audit as part of their annual audit programs. Partial payroll audit is conducted as part of the financial and compliance audit in which the payroll is verified for correctness and triangulation is done with personnel records such as monthly attendance sheets, staff contracts, and promotion and salary adjustment. However, no comprehensive payroll audit was conducted covering the staff structure, grading, salary scale, and

head count over the last three completed fiscal years. The Regional Auditor General also conducts payroll audit as part of its routine annual financial audit and the procedures are similar to the internal audit; it has not conducted a comprehensive payroll audit. Audit reports include no major payroll findings. The most common findings include arithmetical errors on payroll and salary paid wrongly to terminated staffs, but these are rare.

Dimension score= C

PI-24 Procurement

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-24 Procurement	D	Scoring method M2
PI-24.1 Procurement monitoring	D	Data on procurement are available; for FY2017/2018, total regional government entities procurement amounted to ETB 13.97 billion. The information shows the purpose of procurement and contract sum but fails to indicate who won the contract. Further, there is no evidence to suggest that the data are accurate and complete (audited by ORAG or independently verified by the regional procurement authority).
PI-24.2 Procurement methods	D*	Available data on procurement do not indicate the method of procurement used.
PI-24.3 Public access to procurement information	D	As shown in Table 3.21, only two out of the six procurement elements are published; these include the proclamation and bidding opportunities.
PI-24.4 Procurement complaints management	D	The complaints management framework is not independent. It fails to meet criterion (i) of the PEFA requirements but meets four other elements (ii, iii, iv, and vi) and partially (v).

163. This indicator focuses on the management of procurement expenditure and promotes predictability of resource availability. The indicator has four dimensions that focus on key procurement management, procurement monitoring, transparency, openness and competitiveness of procurement methods applied, public access to procurement information, and the management of procurement complaints and redress arrangements.

PI-24.1 Procurement monitoring

164. The regional procurement authority conducted a procurement process audit and issued a final report dated September 28, 2018; the report revealed low technical capacity of procurement staff, inadequate procurement staff, and high turnover of procurement staff. The report also shows that 75 percent of budgetary units prepare full bid documents, 77 percent of bid evaluations are done as per standards, 83 percent prepare full contract documents, and 13 percent are unable to prepare procurement plans. Information obtained from the regional government procurement authority shows that ETB 13.97 billion was spent on public procurement for all regional government units as against planned expenditure (as per procurement plans) of ETB 19.96 billion for FY2017/2018. Out of the actual expenditure, ETB 4.08 was spent on goods, ETB 7.24 billion on works, and ETB 2.65 billion on services. However, the information does not indicate who won the contracts; it only shows the purpose of the contracts (what the contract was for) and the value of the contracts. Also, there is no evidence to

substantiate the fact that the information provided is accurate and complete; in other words, there is no independent verification by the regional auditor (ORAG) or the procurement authority to ascertain the correctness of data provided.

Dimension score = D

PI-24.2 Procurement methods

165. In 2017 (EC 2009), a new procurement directive was issued (Directive No. 01/2009), amending the existing procurement threshold; the new thresholds are as follows:

- National competitive bidding (NCB) and international competitive bidding (ICB)
 - Works: ETB 20,000,000 and above
 - Goods: ETB 6,000,000 and above
 - Consultancy: ETB 4,000,000 and above
 - Other services: ETB 2,000,000 and above
- ICB
 - Works: ETB 100,000,000 and above
 - Goods: ETB 30,000,000 and above
 - Consultancy: ETB 5,000,000 and above
 - Other services: ETB 14,000,000 and above
- Request for proposal (consultancy): ETB 900,000 and above
- Restricted bid

Method	ETB		
	Region	Zone and Urban Administration	Woredas
Works	5,000,000	4,000,000	3,000,000
Goods	1,200,000	1,000,000	800,000
Consultancy	700,000	600,000	500,000
Other services	1,000,000	750,000	500,000

- Request for quotation

Method	ETB		
	Region	Zone and Urban Administration	Woredas
Works	500,000	300,000	200,000
Goods	200,000	100,000	80,000
Consultancy	120,000	60,000	50,000
Other services	150,000	75,000	50,000

- Direct bidding: Up to ETB 5,000

166. Available data on public procurement do not indicate the type of procurement method used; as indicated under PI-24.1, total procurement for FY2017/2018 amounted to ETB 13.97 billion. About 29.2 percent was spent on goods, 51.8 percent on works, and the remaining 19 percent on services.

Dimension score = D*

PI-24.3. Public access to procurement information

167. Article 6 of Public Procurement Proclamation No. 157/2010 provides for public accessibility of the law, directives, and any other public procurement information; these include procurement plans, bidding opportunities, contracts awards, and data on resolution of procurement complaints. While most of this information is available at each budgetary unit as well as the procurement regulatory body, they are not made public. As shown in Table 3.21, only two out of the six procurement elements are published for central government entities; these include the proclamation and bidding opportunities.

Table 3.21: Public access to procurement information

Element/ requirements	Met (Y/N)	Evidence used/ comments
1. Legal and regulatory framework for procurement	Yes	The legal framework is on the website https://chilot.me/regional-laws/oromia-nrs-laws/proclamation-no-157-2010-the-oromia-national-regional-state-government-public-procurement-and-property/ and http://www.oromiabofed.gov.et . Printed copies are also available at the regional council.
2. Government procurement plan	No	Each BI prepares an annual procurement plan; however, these are not published
3. Bidding opportunities	Yes	Bidding opportunities are published in the regional newspapers.
4. Contract awards (purpose, contractor, and value)	No	Information on contract awards is not made public.
5. Data on resolution of procurement complaints	No	There are data on resolution of procurement complaints but these are not published. Samples of complaints resolved include the following: <ul style="list-style-type: none"> • January 17, 2019 - Education Bureau versus Asdem Engineering and General Trading Plc • January 17, 2019 - Education Bureau versus Burda Druck Indian Pvt. Ltd • December 25, 2018 - Education Bureau versus Burda Druck Indian Pvt. Ltd • February 14, 2018 Oromia Special Zone versus Kichu Micro Enterprise
6. Annual procurement statistics	No	Though data on procurement are available at each budgeted entity, there are no comprehensive annual statistics on public procurement.

Dimension score = D

PI-24.4 Procurement complaints management

168. Chapter XIII of Public Procurement Proclamation No. 157/2010 established the regional procurement complaints mechanism; it outlines the legal structures for resolution of complaints. The first step of complaints resolutions is at the budget entity level; the second is at the bureau level (that is, the complaints body). There is also the court process as the final stage. The Oromia public procurement authority does not compile statistics on resolution of procurement complaints even though the data exist at the procurement bureau/authority located at BoFED. As indicated in Table 3.22, the complaints body meets five out of the six elements but fails to meet the most important

element, which is criterion (i) on independence; three out of five members are directly involved in the process leading to contract award.

Table 3.22: Elements of procurement complaints framework

Elements/requirements	Met (Y/N)	Evidence used/comments
Complaints are reviewed by a body which		
(i) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No	The complaints body is not independent as majority of its members are directly or indirectly involved in procurement. Three out of five members are directly involved in the process leading to contract award. The membership of the body includes: <ul style="list-style-type: none"> • BoFED (chairperson); • Chamber of Commerce (member); • Budgeted entity (member); • Public Procurement and Property Disposal Agency (member); and • Oromia Public Procurement Authority (member/secretary).
(ii) Does not charge fees that prohibit access by concerned parties	Yes	The complaints body does not charge fees for filing any complaints.
(iii) Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes	The complaints body adopts the processes for receiving complaints; the procedure is enshrined in the law (Article 62(1) of Procurement Proclamation No. 157/2010).
(iv) Exercises the authority to suspend the procurement process	Yes	The procurement is halted until complaints are resolved; this is backed by Article 62(2) of Procurement Proclamation No. 157/2010.
(v) Issues decisions within the time frame specified in the rules/regulations	Partial	Article 62(5) of Procurement Proclamation No. 157/2010 mandates the complaints body to issue decisions within 15 working days. Majority of cases are resolved within stipulated time; delays are usually due to late submission of further evidence.
(vi) Issues decisions that are binding on every party (without) precluding subsequent access to an external higher authority	Yes	The decisions of the complaints body are binding to both parties. That said, any party is not precluded from seeking legal redress.

Dimension score = D

PI-25 Internal controls on non-salary expenditure

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-25 Internal controls on non-salary expenditure	B+	Scoring method M2
PI-25.1 Segregation of duties	A	The various PFM laws and regulations, including the organizational structure, prescribe clear segregation of duties across the expenditure management process.
PI-25.2 Effectiveness of expenditure commitment controls	B	Expenditure commitment controls exist through IBEX; it limits commitment to approved budget and

Indicator/Dimension	Score 2018	Justification for 2018 score
		cash flow projections for most types of expenditure but not to actual cash available.
PI-25.3 Compliance with payment rules and procedures	B	Compliance levels with regard to payment rules and procedures are high; infractions do not exceed 5% of total government expenditure according to ORAG.

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

170. The assessment of this indicator covers the central government, including budgetary units and extra-budgetary units.

PI-25.1. Segregation of duties

171. The organizational structure of the regional government, budgetary units, and extra-budgetary units clearly defines the responsibility of each officer (financial and/or nonfinancial). The principal PFM law that governs internal control procedures and segregation of duties is the Oromia Financial Administration Proclamation No. 156/2010. Article 6 sets out the responsibilities of the head of budgetary unit; he/she is responsible for ensuring proper use of public resources, safeguarding of assets, proper and timely accountability and reporting, and providing overall leadership in financial administration. The legal framework prescribes the segregation of duties among various financial management procedures, including planning and budgeting, budget execution, cash and treasury management, internal audit (Article 7 of Financial Administration Proclamation No. 156/2010), recording, accounting and reporting, and various stages of approval for expenditure commitment and payment. In addition to the main PFM legal framework, other supporting legislation and directives provide clear segregation of duties; these legislations (proclamations), manuals, and directives include the following:

- Public Procurement Proclamation No. 157/2010
- Procurement Directive No. 01/2009
- Cash Disbursement Manual 2010
- Property Administration Manual 2010
- Accounting Manual 2010
- Internal Audit Manual 2005
- Government Fixed Assets Management Manual

Dimension score = A

PI-25.2 Effectiveness of expenditure commitment controls

172. The Financial Administration Proclamation No. 156/2010 (Article 31) stipulates that no budget entity can commit for expenditure unless there is an approved budget to that effect. Once the annual budget is approved by the regional council, it is uploaded unto IBEX (financial management software). At present, IBEX has been rolled out to all budgetary units at regional sector bureaus, zones, and woredas; therefore, the same expenditure commitment mechanism is applicable across the board.

Also, most extra-budgetary units use IBEX. To date, IBEX only limits expenditure commitment for most types of expenditure to approved budget and also based on the cash flow forecast (projections), but not to actual available cash, thereby allowing expenditure commitment where there is no cash leading to accumulation of expenditure arrears (see PI-22.1).

Dimension score = B

PI-25.3 Compliance with payment rules and procedures

173. Compliance levels with regard to payment rules and procedures are high, as confirmed by ORAG, especially on payroll controls and cash management, but with some exceptions on public procurement and advances. ORAG estimates that non-compliance to financial rules and regulations do not exceed 5 percent of total government expenditure. The Inspection Directorate of BoFED puts the compliance level at a little above 80 percent. Exceptions are rightly authorized and justified.

Dimension score = B

Ongoing reforms

174. Training is being delivered on cash management and expenditure procedures as an ongoing reform.

PI-26 Internal audit

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-26 Internal audit	C+	Scoring method M1
PI-26.1 Coverage of internal audit	B	Internal audit covers an average of 85% by value for both revenue and expenditure.
PI-26.2 Nature of audits and standards applied	C	The most recent internal audit manual dates back to 2012/2013 (EC 2005) with little conformity to ISPPA; that said, internal auditors are trained at least yearly on some aspects of ISPPA. Again, more than 90% of internal audit activities focus on financial and compliance issues.
PI-26.3 Implementation of internal audits and reporting	B	Available statistics show that 77% of planned audit programs are completed. Quarterly internal audit reports are issued to heads of the audited entity and BoFED Inspection Directorate.
PI-26.4 Response to internal audits	C	At least 55% by value of audited entities provide timely response to audit queries within one month; this has also been confirmed by ORAG.

175. International good practice in PFM looks for the operation of internal audit as a service to management, with the function of identifying ways of correcting and improving systems, so as to improve the efficiency, economy, and effectiveness of the delivery of public services. This indicator assesses the standards and procedures applied in internal audit and contains four dimensions dealing with the coverage of internal audit, the nature of audits and standards applied, implementation of internal audit plans, and the response to internal audit reports.

176. The assessment of this indicator covers central government BIs and extra-budgetary units.

PI-26.1. Coverage of internal audit

177. Internal audit functions are governed by Article 7 of the Oromia Financial Administration Proclamation No. 157/2010. According to the law, internal auditors are responsible for conducting periodic audits to ascertain the proper use and safeguarding of public assets, prepare reports at specific intervals for the attention of the head and management of budget and extra-budget institutions, develop audit plans and programs, and monitor the implementation of recommended remedial actions. A new law (Proclamation 207/2011) was promulgated to, among others, guarantee the independence of internal auditors as part of efforts to improve efficiency.

178. The Inspection Directorate at BoFED is the regulatory body for internal audit functions across the region. It provides periodic training and evaluation of internal audit activities. Presently, there are 52 regional sector bureaus, 21 zones, 336 woredas/city administration, and 9 public enterprises. Both the city administrations and woredas use the pool (centralized) system of accounting and auditing, meaning woreda sector offices have no physical presence of internal auditors. Each of these institutions has an internal audit unit, though functional but lacks the requisite technical capacity; this was also confirmed by ORAG. Also, the vacancy rate stands between 25 percent and 35 percent. ORA collects 85 percent (representing only tax revenues) of total regional government revenues (tax and nontax), excluding grants and subsidies from the federal government; the remaining 15 percent is nontax revenue collected by regional sector bureaus. As revenue is considered a high-risk area, it has better audit coverage, currently about 90 percent across all sectors (for both tax and nontax). Expenditure coverage varies across the board; it ranges from 70 percent to 80 percent according to officials.

Dimension score = B

PI-26.2 Nature of audits and standards applied

179. The most recent internal audit manual used by internal auditors relates to EC 2005 (GC 2013) and has little compliance with International Standards for the Professional Practice of Internal Auditing (ISPPA), the latest ISPPA was dated 2016. That said, the Inspection Directorate of BoFED (the regulatory body) conducts training for all internal auditors at least once a year based on some aspects of the 2016 ISPPA. A review of both EC 2010 and EC 2011 internal audit plans shows that at least 90 percent of internal audit activities focus on financial and compliance audit, with very little activities on systems audit. Over the last three years, no information technology (IT) audit has been conducted; also, the Inspection Directorate has just begun (late 2018, covering nine zones and four city administrations) some performance audit in the 'promoting basic service' sectors which include agriculture, education, health, water, and rural roads; these performance audits are still ongoing. ORAG did indicate that it places less reliance on internal audit work due to quality of reporting and technical staff capacity.

Dimension score = C

PI-26.3. Implementation of internal audit and reporting

180. Each internal audit unit prepares and submits an annual internal audit plan to BoFED; BoFED reviews these plans and also makes inputs into each internal audit plan to ensure they address relevant audit issues. The analysis as shown in Table 3.23 indicates that on average 77 percent of planned audits are completed; each internal audit unit prepares quarterly reports and submits a copy to the head of institution and the Inspection Directorate of BoFED for review and comments. Copies of these reports are made available to ORAG on demand, usually during external audits.

Table 3.23: Analysis of audits completed against planned activities FY2017/2018

Activity	Planned audits	Actual audits	% completion
Treasury, revenue, and cash count	36	30	83
Expenditure management	79	55	70
Procurement compliance	23	20	87
Asset and property management	20	16	80
Total	158	121	77

Dimension score = B

PI-26.4. Response to internal audits

181. The regional Financial Administration Proclamation No. 157/2010 (Article 67) outlines stringent measures in terms of penalties for non-compliance to financial rules and regulations in addition to heads of institutions failing to provide appropriate response to both internal and external audit queries. While there are no consolidated statistics to ascertain the level of response to internal audit findings for all central government entities, evidences obtained from BoFED, BoH, BoE, Oromia Urban Development and Housing Bureau, BoA, ORA, and Oromia Government Cadastre—representing about 55 percent by value of audited entities—provide timely response within one month after the issuance of the reports. ORAG has also confirmed that there has been improvement in response to audit findings over the last three years, mainly due to the involvement of the regional anticorruption agency and attorney general for follow-up on criminal activities.

Dimension score = C

PILLAR VI. Accounting and reporting

PI-27 Financial data integrity

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-27 Financial data integrity	B+	Scoring method M2
PI-27.1 Bank account reconciliations	B	Bank account reconciliation for all active central government accounts is done monthly within four weeks from the end of the month.
PI-27.2 Suspense accounts	NA	Not applicable.
PI-27.3 Advance accounts	A	Advance accounts are reconciled monthly but there still remain uncleared balances (excluding advance to contractors) amounting to ETB 2.1 billion as at June 30, 2018, representing about 3.7% of total actual government revenues. Therefore, more than 90% are cleared timely.
PI-27.4 Financial data integrity process	B	The region uses IBEX for financial recording and reporting and users are given a password, and user rights are defined for each user by the IT Administrator. The system results in an audit trail. However, the system fails to prompt for change in user password.

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

PI-27.1 Bank account reconciliations

183. Bank reconciliation reports are instituted as one component in the monthly reporting package that is prepared and submitted to BoFED by all budgetary units; other central government institutions and extra-budgetary units also prepare monthly bank reconciliation statements, but these are not submitted to BoFED. Therefore, all public bodies prepare bank reconciliations on a monthly basis within four weeks from the end of the month. The regional treasury accounts (account B and Z) at BoFED are reconciled mostly each day but a complete reconciliation is carried out monthly within four weeks after the end of the previous month.

Dimension score = B

PI-27.2 Suspense accounts

184. This dimension is not applicable as there are no suspense accounts.

Dimension score = NA

PI-27.3 Advance accounts

185. As per the financial rules of the region, all staff advances are required to be cleared within seven days of return and if not settled, it will be deducted from the next month's salary of the staff; in practice, this rule is respected. Advances to contractors for capital projects are reconciled when payment certificates are presented. A review of the financial records of the BoA, BoE, and BoH indicated that there were no supplier advances and payments are made on receipt of goods and services. Advance reconciliation reports are prepared monthly and submitted to BoFED as part of the monthly reporting package and these are consolidated by BoFED. There are, however, uncleared advances amounting to ETB 2.1 billion as at June 30, 2018, representing about 3.7 percent of total actual government revenue for 2017/2018.

186. As service delivery requires availability of cash for payment of expenditure, the continuous accumulation and non-acquittal of advances translates into inefficient resource allocation, which is likely to have a negative impact on efficient service delivery.

Dimension score = A

PI-27.4 Financial data integrity process

187. The region uses IBEX for financial recording and reporting and users are given a password; rights are defined for each user by the IT Administrator. The IBEX system results in an audit trail. However, the main concern with regard to financial data integrity process relates to where the system fails to prompt users to change their passwords periodically and accountants interviewed confirmed that they have never changed their passwords for years.

Dimension score = B

Ongoing reforms

188. None.

*PI-28 In-year budget reports**Summary of scores and performance table*

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-28 In-year budget reports	C+	Scoring method M1
PI-28.1 Coverage and compatibility of reports	A	The in-year budget execution reports include revenue and expenditure according to type; they allow direct comparison between approved budget estimates and actual expenditure by detailed economic and administrative classification (for both recurrent and capital expenditure) and source of funds; the reports also show transfers to zones and woredas.
PI-28.2 Timing of in-year budget reports	B	BoFED consolidates budget entity reports every quarter within a month after the end of the previous quarter but does not circulate the consolidated report to budget entities. However, each budget entity has direct access to IBEX and generates its own in-year reports for management use.
PI-28.3 Accuracy of in-year budget reports	C	Concerns regarding data accuracy exist but they are neither highlighted in budget entity reports nor in consolidated BoFED reports. One major concern that remains unresolved is the overstatement of revenues in the consolidated BoFED report; transfers to budget entities are recorded as revenues by budget entities and these are not set off against regional subsidies/grants to budget entities.

189. This indicator assesses the comprehensiveness, accuracy, and timeliness of information on budget execution. In-year budget reports must be consistent with the budget coverage and classification to allow monitoring of budget performance and if necessary timely use of corrective measures. It contains three dimensions. Dimension 28.1 assesses coverage and compatibility of reports, dimension 28.2 assesses timing of in-year budget reports, and dimension 28.3 assesses accuracy of in-year budget reports.

PI-28.1 Coverage and compatibility of reports

190. Each budgetary unit prepares and submits monthly reports to BoFED. These reports are directly generated from the IBEX financial reporting module. The reports include revenue and expenditure according to type; they allow direct comparison between approved budget estimates and actual expenditure by detailed economic and administrative classification (for both recurrent and capital expenditure) and source of funds; the reports also show transfers to zones¹⁰ and woredas/city

¹⁰ Zones are branches of the regional government; therefore, zone education office is a branch office (de-concentrated unit) of the regional sector education bureau.

administration. Woredas submit monthly reports to the respective zones and the zones consolidate and submit them to BoFED each quarter.

Dimension score = A

PI-28.2 Timing of in-year budget reports

191. As indicated under PI-28.1, each budget entity submits monthly report to BoFED within four weeks after the end of the previous month. BoFED then consolidates these reports every quarter within a month after the end of the previous quarter but does not circulate the consolidated report to budget entities. However, each budget entity has direct access to IBEX and generates its own in-year reports as described in PI-28.1, with analysis on the usage of the budget and explanations for any deviations thereon. The consolidated report of the regional government is also submitted to the federal MoF.

Dimension score = B

PI-28.3 Accuracy of in-year budget reports

192. The IBEX financial reporting system captures expenditures at both commitment and payments stages; the system rejects unapproved commitments. However, the monthly reports generated and submitted to BoFED by each budget entity do not show commitments but expenditure at payment stage. Concerns regarding data accuracy exist but they are neither highlighted in budget entity reports nor in consolidated BoFED reports. One major concern that remains unresolved is the overstatement of revenues in the consolidated BoFED report; transfers to budget entities are recorded as revenues by budget entities and these are not set off against regional subsidies/grants to budget entities.

Dimension score = C

PI-29 Annual financial reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-29 Annual financial reports	C+	Scoring method M1
PI-29.1 Completeness of annual financial reports	C	The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. They also contain some financial assets such as cash and bank balances, advances, and receivables. However, the reports do not include tangible assets (fixed assets), guarantees, contingent liabilities, and other financial assets such as shares and investments in SoEs. Information on extra-budgetary units is also not included.
PI-29.2 Submissions of reports for external audit	B	The financial reports for EC 2010 (2018/2019) were submitted to the Regional Auditor General on November 5, 2018, which is within four months after the close of the fiscal year ended July 7, 2018.
PI-29.3 Accounting standards	C	The consolidated financial statements of the regional government for FY2015/2016, 2016/2017, and 2017/2018 were prepared based on modified cash basis; this has been consistent over time and

Indicator/Dimension	Score 2018	Justification for 2018 score
		in accordance with the Financial Administration Proclamation No. 156/2010.

193. This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is critical for accountability and transparency in the PFM system. It contains three dimensions. Dimension 29.1 assesses completeness of annual financial reports, dimension 29.2 assesses submissions of reports for external audit, and dimension 29.3 assesses the accounting standards used to prepare financial statements.

PI-29.1 Completeness of annual financial reports

194. Article 59 of the Oromia Financial Administration Proclamation No. 156/2010 prescribes the content of consolidated annual financial statements. According to the law, the report should include (a) financial transactions on revenue and expenditure, (b) debt, (c) contingent liabilities, (d) guarantees, (e) transfers/subsidies, (f) accounts on special funds, (g) assets, and (h) liabilities. Table 3.24 outlines the content of the annual financial statements. The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. They also contain some financial assets such as cash and bank balances, advances, and receivables. However, the reports do not include tangible assets (fixed assets), guarantees, contingent liabilities, and other financial assets such as shares and investments in SoEs.

Table 3.24: Information contained in annual financial statement

Financial heading	Sub-financial heading	Presence in financial statements
Revenue	Direct tax	Yes
	Indirect tax	Yes
	Investment income	Yes
	Nontax revenue	Yes
	Grants	Yes
Expenditure and transfers	Personnel emolument	Yes
	Goods and services	Yes
	Interests	Yes
	Investments	Yes
	Losses	No
	Statutory payments	Yes
	Subsidies and transfers	Yes
Assets	Cash and bank balances	Yes
	Advances	Yes
	Public loans (receivable)	Yes
	Equity and other investments	No
	Revenue arrears	No
	Tangible assets	No
Liabilities	Public debts (domestic)	Not applicable
	Public debts (foreign)	Not applicable
	Long-term borrowings	Not applicable
	Suspense accounts	Not applicable
	Contingent liabilities	No
	Guarantees	No
	Expenditure arrears	No

Source: BoFED Consolidated Annual Financial Statements June 30, 2018.

Dimension score = C

PI-29.2 Submissions of reports for external audit

195. The Financial Administration Proclamation No. 156/2010 requires all public bodies to close their accounts and submit them to the Auditor General within three months of the end of the year. However, it does not mention the date the consolidated accounts should be submitted for external audit, except that the said consolidated accounts shall be submitted to ORAG before the end of the next fiscal year. Available evidence, however, suggests that the consolidated financial reports for EC 2010 (2018/2019) were submitted to the Regional Auditor General (ORAG) on November 5, 2018, which is within four months after the close of the fiscal year ending July 7, 2018.

Dimension score = B

PI-29.3 Accounting standards

196. The consolidated financial statements of the regional government for FY2015/2016, 2016/2017, and 2017/2018 were prepared based on modified cash basis; this has been consistent over time and in accordance with the Financial Administration Proclamation No. 156/2010. It should be noted that the regional government adopts the same federal government financial reporting standards. Presently, there is no indication referencing the adoption of International Public Sector Accounting Standards (IPSAS); also, any such consideration will have to be driven by the federal government.

Dimension score = C

PILLAR VII. External scrutiny and audit

PI-30 External audit

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-30 External audit	D+	Scoring method M1
PI-30.1 Audit coverage and standards	C	The current audit coverage is 63% (by value for both revenue and expenditure). The audits are performed in accordance with ISSAI standards issued by INTOSAI, and ORAG uses AFROSAI-E auditing manuals. The audit reports highlight significant issues such as unsupported payments, non-compliance to procurement rules, and weaknesses in property management.
PI-30.2 Submission of audit reports to the legislature	C	ORAG audit reports are submitted to the regional council between eight and nine months after receipt of consolidated financial statements from BoFED.
PI-30.3 External audit follow-up	C	The audited entity submits a comprehensive management letter, including evidence of action as applicable. However, this does not include extra-budgetary units as ORAG does not cover their

Indicator/Dimension	Score 2018	Justification for 2018 score
		financial audits due to limited financial and human capacity.
PI-30.4 Supreme Audit Institution Independence	D	<p>ORAG has full and timely access to public data. Out of the principles of independence, the following are not met:</p> <ul style="list-style-type: none"> • Right and obligation to report its work, and the freedom to decide the date and timing of audit reports and to publish and disseminate them. • Freedom to decide the content and timing of audit reports and to publish and disseminate them. • Financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources.

197. This indicator assesses the quality of the external audit in terms of the scope and coverage of the audit and adherence to appropriate audit standards (including independence of the external audit institutions). The timeliness of submission of audit reports to the legislature is also important in ensuring timely accountability of the executive to the legislature and the public, much as it is for a timely follow-up of the external audit recommendations. The assessment covers the central government institutions including all agencies and extra-budgetary units and focuses on the last three fiscal years.

PI-30.1 Audit coverage and standards

198. The Audit Proclamation No. 154/2010 (as amended) grants the Auditor General the power to carry out or cause an audit on the accounts of government offices (BIs, extra-budgetary units and SoEs) and development organizations to be carried out so as to ensure that the resources of the national regional government are used only for the benefits of the public and that it brings about the required result. In 2012, ORAG decided to limit its audit activities (both actual audit and supervision of SoEs audits done by independent auditors in accordance with SoE establishment laws) to only budgetary institutions due to both capacity and financial constraints.

199. The current audit coverage is 63 percent (by value for both revenue and expenditure). The audits are performed in accordance with International Standard for Supreme Audit Institutions (ISSAI) standards issued by International Organization of Supreme Audit Institutions (INTOSAI), and ORAG uses African Organization of English-Speaking Supreme Audit Institutions (AFROSAI-E) auditing manuals. The audit reports highlight significant issues, as outlined under PI-30.3. The 2016/2017 ORAG performance report indicates that 8 percent of the reports were unqualified, 70 percent qualified, 18 percent adverse, and 4 percent disclaimer.¹¹ ORAG's plan was to cover 828 government entities (budget, extra-budgetary, and SoEs) by EC 2017 (GC 2024) but this target appears to be elusive mainly due to the current financial and human capacity constraints. ORAG has four branch offices throughout the region and annually covers all sector offices, woredas, and cities. Staffing remains a challenge; out of 360 required auditors as per the organizational structure, only 205 positions (57 percent) are filled. Table 3.25 shows the planned and performed audit in the past years; about 72 percent (by number) was performed in 2015/2016 and 79 percent (by number) was performed in 2016/2017. The limitation in both human and financial resources could have serious repercussions on external audit output and

¹¹ ORAG annual performance report for EC 2009 (2016/2017).

outcomes, especially where proper external scrutiny is needed to track resources delivered to and received by primary service delivery units.

200. There have never been external quality assurance reviews conducted by AFROSAI-E or other institutions but ORAG established an internal quality assurance, that is, peer review mechanism in which each director reviews audit files of other directors every six months. A quality assurance policy manual is developed in coordination with Addis Ababa, Amhara, SNNPR, and Benishangul Gumuz Regions but this is not yet implemented.

Table 3.25: Plan and performance of audits for EFY2008 (FY2015/2016) and EFY2009 (FY2016/2017)

Type of audit	Number of planned audits		Actual audits performed		Percentage	
	2008 (2015/2016)	2009 (2016/2017)	2008 (2015/2016)	2009 (2016/2017)	2008 (2015/2016)	2009 (2016/2017)
Financial	358	315	259	248	72	79
Follow-up	300	229	244	130	81	57

Note: 2017/2018 ORAG performance not yet completed.

Dimension score = C

PI-30.2 Submission of audit reports to the legislature

201. The Financial Administration Proclamation No. 156/2010 requires all BIs and extra-budgetary units to close their accounts and submit the same to the Auditor General within three months from the end of the fiscal year. However, the same law provides wide latitude for BoFED to submit the consolidated accounts to ORAG, but this must be done before the end of the next fiscal year. The audit law (Article 21(7) of Proclamation No. 154/2010—A Proclamation to amend Proclamation No. 90/2005—Proclamation to Re-establish the Office of Oromia National Regional State Auditor General) is more specific, requiring BoFED to submit the consolidated accounts to ORAG not later than EC January 7 (which is six months after the end of the fiscal year July 7). Article 16(15) of the audit law says that ORAG shall submit its annual audit reports of government finances of the current fiscal year to the regional council not later than EC July 7 of the next fiscal year.

202. At present, there is no transmittal letter that accompanies ORAG audit reports to the regional council. That said, both ORAG and the regional council have confirmed that the consolidated audit reports received in the last three completed fiscal years, that is, for FY2014/2015, 2015/2016, and 2016/2017 were received on EC July 7, the day the regional council convenes for its first session. From the time ORAG received all three (FY2014/2015, 2015/2016, and 2016/2017) consolidated financial statement (which was in November each year) to the time ORAG submitted its audit reports to the regional council, the time lag is between eight and nine months.

Dimension score = C

PI-30.3 External audit follow-up

203. The audit procedures start by follow-up of the previous year's audit findings. The audit report of ORAG contains two parts: current year's findings and follow-up of previous year's findings. ORAG also reports to the council quarterly; these are discussed by the Budget and Public Expenditure Standing Committee. PAC and other committees also consider audit findings as one discussion topic with the concerned entities. Proclamation No. 154/2010 (A Proclamation to amend Proclamation No. 90/2005) Proclamation to Re-establish the Office of Oromia National Regional State Auditor General requires audited entities to take corrective actions and report the same within 30 days from receipt of the report. ORAG indicated that its standard time frame for executive response is within 5 days of

receipt of a management letter; nonetheless, all audited entities provide a written response between 15 to 30 days. As per the 2015/2016 ORAG audit report, the recurring issues are highlighted in Table 3.26.

Table 3.26: ORAG repetitive findings

Finding	Amount (ETB)
Unsupported payments	34,058,852
Payment made above the contract value	20,993,701
Uncollectible profit tax and VAT in Adama City	112,405,796
Transaction recording error	109,167,932
Unidentified receivables	Not quantified
Weaknesses in property management	Not quantified
Spending for unbudgeted line items	Not quantified
Total	276,626,281

Source: ORAG audit report on 2015/2016 consolidated financial statements.

204. It should be noted that, presently, ORAG does not cover the financial audit of SoEs and extra-budgetary units due to limited financial and human capacity. Audit follow-up has been decreasing in the last three completed fiscal years, and as per available data, audit follow-up fell from 85 percent in 2014/2015 to 81 percent in 2015/2016 and then to 57 percent in 2016/2017.

Dimension score = C

PI-30.4 Supreme Audit Institution independence

205. The review indicated that five of the eight principles of independence were met, as shown in Table 3.27. The principles which were not fully met were (a) the right and obligation to report its work and the freedom to decide the date and timing of audit reports and to publish and disseminate them; (b) the freedom to decide the content and timing of audit reports and to publish and disseminate them; and (c) financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources. In practice, ORAG has full and timely access to public data.

Dimension score = D

Table 3.27: Independence of ORAG

Element/Requirements	Met (Y/N)	Evidence used/Comments
Existence of an appropriate and effective legal framework and of de facto application provisions of this framework	Yes	The legal framework is determined by Proclamation No. 154/2010, (Proclamation to amend Proclamation No. 90/2005) Proclamation to Re-establish the Office of Oromia National Regional State Auditor General. It stipulates that the Auditor General shall be appointed by the regional council; the organizational structure, salary scale, and other benefits are approved by the council; the Auditor General has unlimited access to government information; the term of the Auditor General is six years and serves for two years only; and the Auditor General is accountable to the council. The removal of the Auditor General is only with certain conditions including apparent health condition, incompetence, corruption, and pension age.

Element/Requirements	Met (Y/N)	Evidence used/Comments
Independence of ORAG head and its members including security of tenure and legal immunity	Yes	Article 20(2) and 20(3) of Proclamation No. 154/2010 provides immunity to the Auditor General, Deputy Auditor General, and the auditors that they will not be liable for audit works done with a free mind. No civil or criminal proceedings shall be instituted on the basis of audit reports submitted and comments given on the session of the council.
Broad mandate and full discretion in delivering the tasks entrusted to the Supreme Audit Institution	Yes	Proclamation No. 154/2010, Article 7, grants ORAG the power to carry out or cause an audit on the accounts of government offices and development organization, to issue directives concerning standards and procedures of auditing, and to conduct other types of audit as required.
Unrestricted access to information	Yes	Proclamation No. 154/2010, Article 21, provides for the obligation for public bodies to be audited. Article 21.1 mentions that any individual, employee, or an official in charge shall submit complete documents, ledgers, vouchers, written documents, electronic documents, oral evidence, and all other documents forthwith upon request by the Auditor General, auditors, or representatives of the Auditor General who deemed it useful and necessary for auditing within a specified period of time, and when deemed necessary shall sign after giving his or her comment. In practice, ORAG has full and timely access to public data.
Right and obligation to report its work, and the freedom to decide the date and timing of audit reports and to publish and disseminate them	No	<p>Proclamation No. 154/2010, Article 21, specifies the time and date of audit report.</p> <p>Article 21.1 - ORAG shall audit the income and expenditure of the regional government offices on or before January 8 of the subsequent budget year and submit its report to the concerned body.</p> <p>Article 21.2 - ORAG shall audit within two months - the annual income and expenditure of the regional government which is prepared by BoFED and is submitted on or before January 8; and report its results to the concerned body.</p> <p>However, in practice the audit reports are delayed up to six months from the stipulated deadlines. The audit reports are presented to the legislature when the council convenes, which is around June/July.</p>
Freedom to decide the content and timing of audit reports and to publish and disseminate them	No	ORAG has the right to determine the content of its reports but the timing is decided by the proclamation as described earlier. Also, there is no specific provision for disseminating audit findings until after the council decides or reviews the said reports.
Existence of follow-up mechanism on ORAG recommendation has been implemented	Yes	The audit procedures start by follow-up of the previous year audit findings and the audit report of ORAG contains two parts: current year findings and follow-up of previous year findings. ORAG also reports to the council quarterly and these are discussed by the Budget and Public Expenditure Standing Committee. PAC and

Element/Requirements	Met (Y/N)	Evidence used/Comments
		other committees also consider audit findings as one topic when discussing with the entities.
Financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources	No	<p>Article 16 of Proclamation No. 154/2010 provides ORAG the mandate to prepare a structure, study salary scale and other benefits for the head and professional and submit to the council for approval, organize the office as deemed necessary, and prepare and submit annual work plan and budget to the council and implement the same upon approval.</p> <p>In contrast to this provision, ORAG submits its annual budget request to BoFED. It is also indicated that it has shortage of auditors and only 57% of the audit positions are filled.</p>

PI-31 Legislative scrutiny of audit reports

Summary of scores and performance table

Indicator/Dimension	Score 2018	Justification for 2018 score
PI-31 Legislative scrutiny of audit reports	B	Scoring method M2
PI-31.1 Timing of audit report scrutiny	A	The review of audit report is completed within one month of the receipt of audit report; this has been the case over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017.
PI-31.2 Hearings on audit findings	C	Over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017, PAC conducted audit hearings by inviting ORAG to brief it on audit findings; only a few budgeted entities are invited for the hearings, including BoFED.
PI-31.3 Audit recommendations by the legislature	A	PAC issues audit recommendations and systematically follows up on recommendations and remedial actions by conducting a quarterly review and issues quarterly reports; this has been the case in all three fiscal years, FY2014/2015, 2015/2016, and 2016/2017.
PI-31.4: Transparency of legislative scrutiny of audit reports	D	The hearings are not public; also, PAC reports are not published on the website but a weekly TV program is aired to, among others, disseminate audit findings and recommendations. This has been the practice over the last three completed fiscal years, FY2014/2015 to 2016/2017.

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

PI-31.1 Timing of audit report scrutiny

207. Available evidence, as shown in Table 3.28, indicates that the regional council conducts a speedy review of the consolidated audit report submitted by ORAG. The review is completed within one month of the receipt of audit report; this has been the case over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017.

Table 3.28: Timeliness of regional council review of audit reports

Particulars	EFY 2007 (FY 2014/2015)	EFY 2008 (FY2015/2016)	EFY 2009 (FY 2016/2017)
Date on which ORAG submitted consolidated audit report to the regional council	July 10, 2016	July 4, 2017	July 30, 2018
Date on which the report was tabled in the house	July 12, 2016	July 5, 2017	August 1, 2018
Date on which PAC reviewed the audit report	July 20, 2016	July 14, 2017	August 10, 2018
Date on which PAC tabled the reviewed audit report	July 25, 2016	July 18, 2017	August 14, 2018

Source: Oromia Regional Council.

Dimension score = A

PI-31.2 Hearings on audit findings

208. Over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017, the regional council sat twice a year as a full house; nonetheless, the various committees including PAC met quarterly to review documents referred to the council. PAC's review of audit reports from ORAG takes place first of all, with an in-depth briefing from ORAG on audit findings, focusing on those with adverse or qualified opinions. At the time of drafting this report, consolidated financial statements of EFY 2009/2010 (FY 2017/2018) were still being audited, yet to be submitted to the regional council. Referencing 2014/2015, 8 central government institutions out of 50 were invited for review; this increased to 10 out of 52 central government institutions. For 2016/2017 review, only 5 BIs (representing about 15 percent by value) out of 52 were invited. Officials of BoFED are always invited to attend the review.

Dimension score = C

PI-31.3 Audit recommendations by the legislature

209. PAC issues audit recommendations that are adopted by the full house of the regional council. Each quarter, even though the whole house is on recess, PAC invites BIs to submit an update of PAC recommendations plus a new action plan on outstanding recommendations to be implemented. Following from this, PAC prepares quarterly updates on status of remedial actions, indicating those accomplished and those still outstanding. For the FY2016/2017 audit report which was reviewed in 2018, quarterly reports dated December 2, 2018, for quarter 1 and February 19, 2019, for quarter 2 were issued. With regard to FY2014/2015 and 2015/2016, PAC also issued quarterly reports; these reports were consistently issued in December, February, May, and August.

Dimension score = A

PI-31.4 Transparency of legislative scrutiny of audit reports

210. The hearings are not public; also, PAC reports are not published on the website, but a weekly TV program on Oromia Broadcasting Service is aired at 9 p.m. local time to disseminate, among others, audit and PAC findings and recommendations. This has been the practice over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017.

Dimension score = D

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment of PFM performance

Budget reliability

211. Federal government subsidies (block grants) are reliable except for SDG, in terms of actual outturns compared with original budget, with variance below 5 percent in two of the last three years except for 2015/2016 with the highest variance of 17.5 percent. Actual variances for 2016/2017 and 2017/2018 were -1.1 percent and 0.2 percent, respectively (HLG-1.1). Also, the timing of actual releases of block grant is good (HLG-1.3); the main weakness relates to earmarked grants (SDG) with a variance between 15 percent and 40 percent compared with the budget; the worse period was in 2016/2017 with a variance of 40 percent (HLG-1.2). The unreliability of earmarked grants affects the timely completion of earmarked projects mainly funded by development partners; this could also result in payment delays thereby leading to accumulation of expenditure arrears (PI-22.1 with a score of 'D').

212. Both revenue and expenditure budgets, at aggregate levels, are reliable (PI-1 and PI-3). The revenue by type is also credible with variances between 6.6 percent and 8.5 percent, all three years' variances less than 10 percent. The government also respects the limit on contingency vote, which is currently below 1 percent—actual average variance is 0.5 percent over the last three years (PI-2.3). The main weakness is on expenditure composition outturn by economic classification, with variances above 15 percent in two of the three years; the actual variances were 11.9 percent, 17 percent, and 16 percent in 2015/2016, 2016/2017, and 2017/2018, respectively. The continuous budget reallocations also raise questions about budget credibility as well as the delivery of government services based on its original policy intent.

Transparency of public finances

213. Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards or a classification that can produce consistent information with those standards; these are similar to the federal government system with the same chart of accounts but with IBEX. Clarity on budget classification encourages transparency and accountability; it is therefore not surprising that coverage and comparability of reports (PI-28.1) scores 'A'.

214. There are no unreported regional government operations; all revenues are proclaimed in the budget and expenditures are reported in the annual financial statements. However, the analysis shows that the consolidated annual financial statements are less complete (refer to PI-29 rated 'C+'). Transfers to city administrations and woredas are rule based and transparent; nonetheless, there are delays in providing reliable information for budget preparation (PI-7.2) as a result of delays from the federal government.

215. Main weaknesses identified in the transparency of public finances include information contained in the budget documents (PI-5); the current year's budget (either the revised budget or the estimated outturn) is presented in the same format as the budget proposal but the previous year's outturn both aggregate and details are not part of the budget documentation, which does not facilitate budget analysis and comparison. Also, public access to fiscal information is poor; most information is not published, and if published at all, it is late (PI-9 rated 'D'). Information on resources (cash and kind) received by primary schools and health care facilities is available but not published; also, information on both planned performance and output/outcome achieved, though available, is not published (PI-8 rated 'D+').

Management of assets and liabilities

216. There are internal guidelines for preparing project feasibility studies, though not standardized and not published. Project selection is based on government priorities and may not be according to the economic viability of the project; one clear example is the condominium project which is a key government priority but viability in terms of funding could pose a challenge (PI-11 rated 'D+'). Inefficiencies in PIM can affect budget credibility and also result in accumulation of expenditure arrears (PI-22.1 rated 'D'). Fixed asset management is decentralized, with each institution responsible for managing its own fixed assets. The challenge is that there is no centralized asset management framework (PI-12.2), making it difficult for the government to ascertain its total asset base. Work is, however, progressing in the land management system. The government maintains a register of its financial assets, including investments in public and private entities; however, this information is not published (PI-12.1).

217. The main weakness under assets and liabilities management relates to monitoring and reporting on fiscal risks (PI-10 rated 'D+'). At present, the government has no idea of total fiscal risks; this could negatively affect budget reliability, as scarce resources (unbudgeted) could be used to pay for these liabilities when they fall due. One major risk is in the housing sector, with the provision of housing for its citizens; funding for the housing projects is done through the issuance of bonds to the CBE, which is guaranteed by the Oromia government. The total outstanding loan is unknown. City administrations and woredas submit their end-of-year reports to BoFED on time, usually within three months, but these reports are not published.

Policy-based fiscal strategy and budgeting

218. Macroeconomic and fiscal forecasting is done but with assumptions only on regional GDP since all other macro indicators (inflation, interest rate, exchange rate, and so on) are the remit of the federal government. The forecasts are for five years, with yearly updates, and are submitted to the regional council after they have been reviewed by the regional cabinet (PI-14). The budget is not prepared on a medium-term basis even though a five-year revenue (by type) and expenditure aggregate framework is prepared (PI-16.1 rated 'D'). Available evidence suggests that some sector strategies are aligned to the medium-strategy; also, the annual action plans and budgets are aligned to sector strategies (PI-16.3).

219. A clear budget calendar exists, providing useful guidance on budget preparation. Budget estimates are prepared based on the previous year's approved ceilings. Final ceilings of the new budget year are issued around the end of July but with marginal changes to original estimates. The main weaknesses relate to late response to budget calls by budget entities (PI-17.1 rated 'D') and the delay in submission of budget estimates to the regional council; this is done in July (PI-17.3 rated 'D'). Weaknesses in the budget preparation process could also account for the frequent and significant budget virements (PI-21.4 rated 'C' and PI-2.2 rated 'D'). That said, the legal framework allows for one-twelfth spending of the previous year's budget. The scrutiny of the budget is satisfactory (PI-18). Clear

rules exist for in-year budget amendments by the executive and are adhered to. That said, they allow for extensive administrative allocations (the effect of which is PI-2.1 and P1-2.2 not performing well). Three supplementary budgets have been approved in each of the last completed fiscal years, but with ex post approval except that of 2015/2016 (EC 2008) (PI-18.4).

Predictability and control in budget execution

220. There are radio and TV taxpayer programs to educate the populace on the rights and obligations of taxpayers. Also, tax leaflets are available at taxpayer offices. There are also redress mechanisms for taxpayers, both administratively and at the legal courts. Case selection for tax audit and fraud investigation is semiautomated, with some selections done manually based on set criteria. The main weaknesses in revenue administration and accounting for revenues are the frequency of revenue transfer to the Treasury—this is done once a month (PI-20.2 rated ‘D’)—and revenue arrears monitoring, as arrears are significant (PI-19.4 rated ‘D’). It is interesting to note that in spite of an increase of about 10 percent in the number of targeted tax files for audit which resulted in about 15 percent increase in the number of tax files actually audited, there was rather a decline of about 18.7 percent in terms of amounts recovered in tax arrears; this raises questions regarding the effectiveness and/or underdeveloped risk management practices.

221. BIs receive reliable, monthly expenditure commitment ceilings, based on an annual cash flow which is updated quarterly. Consolidation of Treasury cash/bank balances is done daily but does not include sector balances (PI-21). The framework for monitoring and reporting on expenditure arrears is good; this is done quarterly within a month with an ageing analysis. That said, the stock of expenditure arrears (excluding retentions) is high, presently between 9.2 percent and 15 percent of total government expenditure (PI-22.1 rated ‘D’); this affects budget reliability.

222. Payroll management is decentralized and manual; the controls provide reliable assurance that limits the incidence of ghost workers though not entirely eliminating them with marginal retroactive changes. No comprehensive payroll audit has been conducted over the last three years, even though partial audits as part of the regular financial audits are done each month by the internal audit unit as well as ORAG during annual external audits (PI-23 rated ‘C+’). The relatively strong payroll controls have a positive impact on the credibility of the budget and it is surprising that aggregate expenditure (PI-1) is rated ‘B’.

223. A fundamental weakness observed relates to procurement management; while each budgetary unit prepares an annual procurement plan, these plans are not submitted to the procurement regulatory authority at BoFED. To this end, there are no database and/or statistics on actual procurement either by open competition, restricted tender, sole sourcing, or request for quotation. This is compounded by the fact that the procurement complaints mechanism is less independent, with a majority of members involved in actual procurement activities. Very little procurement information is available to the public; significant elements not available to the public include contract awards, government procurement plans, and data on resolution of procurement complaints (PI-24 rated ‘D’).

224. Clear segregation of PFM responsibilities is enshrined in the proclamation. Expenditure commitment limits exist in IBEX but not to the extent of cash availability. Compliance to rules and regulations is adequate, with a few exceptions (PI-25). Internal audit coverage is currently about 80 percent in terms of implementation of approved internal audit plans, but this is impaired by overreliance on financial and compliance audit as against systems audit. There are also professional capacity and HR capacity challenges; adherence to international internal audit standards is limited. Management provides partial response to audit findings (PI-26), as there are still repetitive findings.

Accounting and reporting

225. Bank reconciliations are done within a month after the end of the previous month, both for BoFED Treasury main accounts and budgetary units. The good news is that there are no suspense accounts; however, advances are still outstanding in spite of regular reconciliations, especially those relating to contractors. This good practice of bank reconciliation (PI-27.1 rated 'B') coupled with the regular reconciliation and acquittal of advances (PI-27.3 rated 'A') assures the availability of cash for payment of expenditure. A data integrity process is in place with checks and balances from accounts staff; there are, however, concerns on data accuracy as some financial data may not be complete and accurate; for instance, there are duplications with regard to revenue reporting. Also, IBEX does not prompt the change of passwords which could pose a risk to data security (PI-27.4 rated 'B').

226. In-year budget execution reports are comparable to original budgets and allow meaningful analysis. They are issued quarterly within a month after the end of the quarter; that said, woredas/city administrations and sectors prepare monthly reports within four weeks. There are concerns on data accuracy, but they do not significantly affect the usefulness of financial data (PI-28 rated 'C+'). End-of-year financial statements are prepared and submitted to ORAG within six months after the end of the financial year. The statements are comparable with approved budgets and contain information on revenue, expenditure, liabilities, and financial assets; however, significant financial disclosures such as guarantees and contingent liabilities are omitted (PI-29.1 rated 'C').

External scrutiny and audit

227. External audit coverage is quite low, currently at 63 percent by value; ORAG has indicated that both financial and human capacity constraints are the factors for this audit coverage. Therefore, presently, ORAG does not cover SoEs. Audits largely follow INTOSAI/AFROSAI-E standards. ORAG has unrestricted access to public records; it conducts audits according to its plans. While the operational and administrative independence of ORAG is guaranteed, it lacks financial (budget) independence (PI-30 rated 'D+'). Institutions with qualified and adverse audit opinions are summoned for hearing, but the hearings are not public. One unique element identified is the systematic framework by which the regional council—PAC—engages in follow-ups of its recommendations; this is done quarterly with the issuance of quarterly follow-up reports. That said, these reports are not published on its website but the regional council conducts a weekly TV program on Oromia Broadcasting Service to disseminate, among others, PAC reports and findings (PI-31 rated 'B')

4.2 Effectiveness of the internal control framework

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

229. **Control environment.** The guiding frameworks for the regional government are the constitution and various proclamations and regulations on PFM, procurement, internal audit, external audit, parliamentary oversight, and anti-corruption. Generally, rules and regulations are respected, and management and staff have supportive attitudes toward internal control (PI-25). The centralized public service policy for the organizational structure and compensation scheme helped for a standardized and transparent pay system throughout the region. By law, ORAG is mandated to prepare a structure, study salary scale and other benefits for the head and professionals and submit this to council for approval, and submit annual work plan and budget to the council. However, it submits the budget request to BoFED (PI-30). The tight audit follow-up conducted by the regional

council demonstrates the structural will of the government for internal control (PI-31). Shortage of manpower and low staff capacity limited the coverage of tax audit conducted by the revenue authority (PI-19). There aren't significant revenue and expenditure outside the report of the region (PI-6).

230. **Risk assessment.** Organizational-level risk assessment is essential to ensure that the internal control in place is effective. The risk assessment function by the revenue authority on taxation, though not fully structured and systematic, helps improve the control on revenue collection. There is no practice of conducting periodic organizational-level risk assessment and most public bodies do not have a comprehensive risk management strategy. Internal audit and external audit functions largely focus on compliance audit than systems audit and are not based on a comprehensive risk analysis and rating. The recurring nature of certain findings and recommendations from internal and external audit reflects partly the weakness of certain control activities in procurement, property administration, and asset management (PI-25, PI-26, and PI-30).

231. **Control activities.** The procedures for key internal control activities such as segregation of duties, authorization and approval, reconciliation and review, and physical security of assets are stipulated in the different laws, regulations, directives, manuals, and guidelines. These procedures are applied for preparation, review, and approval of payments and procurement and property management. However, there is no record of land and natural resources belonging to the regional government (PI-12). In addition, monthly reconciliation of bank accounts, cash counts, annual physical counts, and ongoing internal and external audits strengthened the internal control. The use of SIGTAS and fingerprint identification systems for taxpayer registration strengthen the internal control over revenue collection (PI-19).

232. The role of information and communication technology (ICT) as a control activity within the PFM system is limited. Most of the financial management procedures including disbursement, procurement, property administration, HR, and payroll are not automated. A partial TSA has been established, providing an opportunity for the BoFED Treasury to view and consolidate cash balances on a daily basis (PI-21). IBEX is just a budget and expenditure management software. It only limits expenditure commitment to the approved budget but not to cash availability. The limited systemic audit and risk assessment exercises limited the opportunity for the revision and improvement of existing control activities. Manuals and procedures are not updated timely. The frequent structural changes within the regional administration demand a swift update of the control activities to ensure their effectiveness.

233. **Information and communication.** Monthly financial reports and quarterly and annual physical performance reports are produced and communicated to the management at the BI level. The financial statements provide information on budget utilization, revenue collection, cash balances, receivables, and payables (PI-28.1), while the performance reports provide information on activities performed and targets achieved. BIs' management submit annual financial reports to ORAG for audit on time. Management of BIs also report to the council on their performances. Internal audit units produce and submit reports to their respective management and to BoFED. ORAG submits its reports to the management and the regional council. Some of the internal audit units and ORAG conduct performance audits and communicate their findings. The revenue authority uses various channels to inform the taxpayers about their rights and obligations (PI-19). Revenue collections are reported by the revenue authority to BoFED monthly (PI-20). Most bureaus have websites, though these are not fully used in terms of providing information to the public (PI-9). Though data on procurement are available at each budgeted entity, there are no comprehensive annual statistics on public procurement (PI-24).

234. The accounting system is not in line with international accounting standards such as IPSAS. The financial statements do not provide information on tangible assets, contingent liabilities,

investments, loan, and guarantees (PI-29.1). Most of the BIs received qualified audit opinion and a fifth of them received adverse and disclaimer opinion (PI-30.1). At the regional level, consolidated budget execution reports are prepared quarterly and annually (PI-28.2). The audit report on the consolidated fund of the region is presented to the council (PI-30.2). Information access to the public is yet to be developed at the regional level. The audit report of the Auditor General (PI-30) and the audit follow-up report of PAC (PI-31) are not published. ORA uses different channels to disseminate information on the main tax obligations and rights and redress processes and procedures (PI-19). The approved budget of the region is gazetted and posted on the website of BoFED. Fiscal risk monitoring in connection with SoEs is weak. Audited and unaudited financial statements are not published and information on contingent liabilities is not produced and communicated (PI-10).

235. BIs use rudimentary and non-systematic ways of undertaking economic analysis of public investment projects. The planning commission has developed an internal guideline for analyzing investment projects; however, this is neither published nor made available to sector bureaus (budgetary institutions) and extra-budgetary units. The implementing unit monitors investment projects through physical inspection and periodic (quarterly) financial progress reports (PI-11). Some of the nonfinancial assets are registered at BI levels, but consolidated information is not available at BoFED. The consolidated financial statement of the region does not contain a balance sheet as well as disclosure on public investments in SoEs (PI-12, PI-30).

236. **Monitoring.** Different monitoring mechanisms are in place to ensure the efficiency and effectiveness of operation, fulfilment of accountability, compliances to rules and regulations, and safeguarding of resources. Management of BIs receive monthly financial and quarterly performance reports and also submit their performance reports to the council. The internal audit units and the Regional Auditor General conduct audits. The regional council scrutinizes the audit reports and continuous follow-up is conducted (PI-26, PI-30, and PI-31). The Central Internal Audit Directorate at BoFED monitors the implementation of internal audit recommendations. An internal peer review mechanism is established at the Regional Auditor General (PI-30) for quality assurance. The limited application of the international standards on internal auditing (PI-26), the institutional limitation of PAC, and the quality of in-year and annual financial statements weaken monitoring activities (PI-28 and PI-29). The regional procurement authority conducts a procurement process audit (PI-24).

4.3 PFM strengths and weaknesses

Impact of PFM systems on the three main budgetary outcomes

Fiscal discipline

237. Ethiopia is a federal democratic country, providing administrative autonomy to the regional government in accordance with its 1995 Constitution of the Federal Democratic Republic of Ethiopia Proclamation No 1/1995. The dynamic political and administrative system ensures that laws passed at the federal government level are cascaded to all regional and city governments to ensure uniformity. The PFM laws (proclamations) for the regional government are derived directly from the federal government structure; these proclamations are quite strong for providing solid basis for strengthening both PFM institutions and activities. The enactment of laws alone does not guarantee strong PFM systems; this should be supported by strong political and public service systems. Leaders at the regional government level have shown such commitments to ensuring improvement in PFM systems.

Other PFM strengths that affect fiscal discipline include the preparation of a credible budget at the aggregate level for both revenues and expenditures. The budget classification is good; this allows transparency. Another aspect that strengthens fiscal discipline relates to the fact that all revenues

and expenditures from extra-budgetary units are proclaimed in the regional government's budget and reported in the annual financial statements. Clear rules exist for in-year budget amendments by the executive and are adhered to. That said, they allow for extensive administrative allocations. Tax revenue arrears continue to grow alarmingly, affecting overall revenue outturn performance which affects budget credibility. Stock of expenditure arrears (excluding retentions) is also high—huge expenditure arrears negatively affect budget credibility. Three supplementary budgets have been approved in each of the last completed fiscal years, but with ex post approval except that of 2015/2016 (EC 2008). This has a negative implication on fiscal discipline as it allows the government to spend above its budget without prior approval from the regional council. Strategic allocation of resources

238. Strategic allocation of resources is affected by functional and economic budget reallocations. Frequent budget reallocations override the government's original policy intentions, leading to poor resource allocation which affects efficient service delivery, going forward. Another major weakness is monitoring and reporting of fiscal risk. The government has no idea of total fiscal risks (both explicit and implicit) of SoEs and other contingent liabilities. One major risk is in the housing sector, with the provision of housing for its citizens; funding for the housing projects is done through the issuance of bonds to the CBE, which is guaranteed by the Oromia government. The total outstanding bond loan is unknown. This has a negative implication on strategic allocation of resources as the government will have to divert funds to pay for unplanned losses.

Efficient service delivery

239. Reliable and timely information on allocation to service delivery units is a key element for efficient service delivery; while this is relatively good, delays in actual transfers negatively affect payment for goods and services, thereby affecting primary service delivery. The internal control framework has been strengthened by the revision of most PFM proclamations (procurement, budget, and cash management); the enforcement of rules and regulations has reduced (even though some still exist) the incidence of waste of public resources, so that scarce resources are strategically allocated to the right sectors for economic prosperity.

240. While aggregate budget is credible, the continuous reallocation of approved budget both at the functional and economic levels defeats the purpose of original government policy. This means that planned service delivery activities will no longer receive the necessary funding, thereby negatively affecting the quality of primary service delivery. Furthermore, there are significant deviations referencing earmarked grants (SDG) with variances between 15 percent and 40 percent (HLG-1.2). While this does not affect overall regional government revenue budget, resource allocation for earmarked programs is affected, resulting in deficiencies in planned service delivery outcomes. Information on resources (cash and kind) received by primary schools and health care facilities is available but not published, therefore lack of transparency in fiscal information. Also, public access to fiscal information is poor; most information is not published, and if published at all, it is late.

241. The frequency of transfer of revenues (taxes) from ORA to the Treasury, done once a month, is not satisfactory—the impact of this is that the government may be lacking the needed resources to pay for goods and services on time, thereby affecting the quality of service delivery. Procurement management is weak. Most procurement information (procurement plans, contract awards, procurement statistics, and resolution of procurement complaints) is not accessible to the public, raising concerns on transparency and competitiveness.

4.4 Performance changes since a previous assessment

242. The last PEFA assessment was conducted in 2015, using the 2011 methodology. In accordance with the PEFA Secretariat's Guidance Note on measurement of performance change, the 2011 framework was used to assess the situation at the time of assessment in 2018. Annex 4 provides detailed analysis of the changes since 2015.

Fiscal discipline

243. The credibility of the revenue budget has improved; that said, the expenditure budget at the aggregate level has not changed but remains credible since 2015. The expenditure composition budget has, however, deteriorated, which has implication on both fiscal discipline and strategic allocation of resources. While the government has tightened the monitoring and reporting framework of expenditure arrears, the actual stock of expenditure arrears has increased significantly from below 2 percent of total government expenditure in 2015 to more than 10 percent in two of the last three completed fiscal years, raising budget credibility issues. Both the scope and timeliness of in-year budget execution reports have seen an improvement, providing reasonable and timely fiscal information for executive decision making.

Strategic allocation of resources

244. Deterioration in expenditure composition variance in 2018 compared with 2015 has negatively affected strategic resource allocation. This was compounded by the fact that the government sought ex post legislative approval through a supplementary budget to increase the original budget, though this did not affect aggregate expenditure budget performance which remained unchanged since 2015. While a clear and fixed budget calendar exists, all BIs failed to adhere to deadlines for budget preparation and submission mainly because they did not receive BCCs on time from BoFED, which will allow a sufficient period for budget preparation. This may affect links between budgets and plans as BIs will hastily formulate and prepare their budgets, thereby missing key priority areas.

Efficient service delivery

245. Efficient service delivery has been affected by deteriorations in both earmarked grants (SDG) transfers from the federal government, and the expenditure composition outturns. Transfers from higher level of government (HLG-1) have deteriorated from an overall score of B+ in 2015 to D+ in 2018 mainly as a result of significant deviations of earmarked grants (SDG) between budgets and outturns. PI-2.1 which assesses the extent of expenditure composition variance has also deteriorated with a score of C in 2018 against B in 2015. The continuous reallocation of budgets to other votes meant that planned service delivery initiatives will have to be suspended or discontinued entirely. Stock of expenditure arrears has increased from below 2 percent of total government expenditure in 2015 to more than 10 percent in 2018; this sends a wrong signal to suppliers of goods and services. Delays in payment of government commitments contribute to supplier price hikes as a way to compensate for payment delays, which in turn leads to increases in cost of service delivery. The sharp deterioration in tax arrears collection ratio from about 90 percent in 2015 to 21.3 percent in 2018 is an indication of weak tax collection and enforcement framework, the impact of which is low government revenues for the needed primary service delivery activities.

5. Government reform process

5.1 Approach to PFM reforms

246. There is no specific PFM reform strategy for the Oromia regional government, except that regional PFM reforms are tied to the federal government reform policy; therefore, the regional government cannot initiate reforms that are not in line with overall federal government reform strategy. The regional government has therefore decided to adopt the federal government's PFM reform strategy 2018–2022, which is anchored on Pillar 2.6 - fiscal policy of GTP II. To ensure coherence to the regional government's financial administration procedures, the federal PFM reform plan has been translated into the regional language 'Afaa Oromo' for better appreciation and understanding across regional, zonal, and woreda offices; this is expected to be completed by the end of April 2019. The intention is not to translate the entire strategy but those areas that are relevant and applicable to the regional government.

5.2 Recent and ongoing reform actions

247. As part of the federal government plan to rollout an Integrated Financial Management Information System (IFMIS) across all federal and regional government budgetary units, officials of the regional finance bureau, BoFED, undertook training on IFMIS in 2018. Besides, training and capacity building on key PFM activities are still ongoing, with funding from development partners through the federal government. Some of the key training activities undertaken in recent years include accounting and financial reporting, planning and budgeting (although program-based budgeting is yet to be implemented at the regional level), procurement management, property administration, and cash and treasury management. These training programs have also benefited zones and woredas. There is also collaboration between the regional government and the Oromia Regional University in terms of developing the technical capacity of government functionaries to acquire higher professional and academic qualification.

248. Another important initiative that is ongoing relates to woreda benchmarking, using similar PEFA ratings to rank woredas; the worse performing woredas then receive training to strengthen their capacity. Also, woreda PACs and finance committees have been trained on how to scrutinize audit reports and budget reviews, respectively.

Donor coordination

249. Donor coordination usually takes place at the federal government level; the regional government is involved where necessary. Coordination appears to be weak, as identified at the federal government level, and it is likely to have an impact on the regional government.

5.3 Institutional considerations

Government leadership and ownership

250. The leadership and ownership of the regional government in terms of PFM reforms is evidenced by the fact that it decided not only to adopt the federal government reform strategy but also to translate relevant portions into the regional official language, Afaa Oromoo, for easy understanding. High government officials (Head and Deputy Head of BoFED, plus BoFED directors for budget, finance and accounts, and Inspection Directorate) take part in both training and awareness creation across all regional sector bureaus, zones, and woredas. The high-level government officials meet each woreda at least twice a year, both for training and commitment toward reforms. The government also takes part in the Joint Review and Implementation Support missions.

Coordination across government

251. There is a focal person (PFM expert) at BoFED responsible for coordinating all regional PFM training and capacity-building activities. For better coordination, all regional sector heads (PFM functional directors and their deputies plus technical staff) undergo joint training programs; this helps in sharing ideas and learning from each other. It also affords the opportunity for peer reviewing.

A sustainable reform process

252. While there is no stand-alone PFM reform strategy for the region, the current funding arrangement for all PFM training and capacity-building initiatives is done through the federal MoF and largely funded by development partners. That said, the regional government is taking steps to mainstream PFM training programs into the regular regional government budget to guarantee sustainability

Transparency of the PFM program

253. A number of ongoing initiatives have been aimed at improving transparency in PFM: (a) provision of budget literacy training for 50 citizens per woreda, (b) printing and publication of annual budget across all woredas, (c) TV and radio programs on Oromia Broadcasting Network to disseminate information, and (d) FTA programs at woreda levels.

ANNEXES

Annex 1: Performance indicator summary

No.	Indicator	2018 score	Justification for 2018 score
HLG-1	Transfers from a higher-level government	D+	
HLG 1.1	Outturn of transfer from higher-level government	A	Transfers were more than 95% compared to original budget in two of the last three completed fiscal years. Deviations between original budget and actual transfer were 17.5%, -1.1%, and 0.2% in 2015/2016, 2016/2017, and 2017/2018, respectively.
HLG 1.2	Earmarked grants outturn	D	Transfers of earmarked grants deviated by more than 10% in all three years under review. Actual deviations were 21.8% in 2015/2016, 40% in 2016/2017, and 15% in 2017/2018.
HLG 1.3	Timeliness of transfer from higher-level government	A	Actual disbursements of both recurrent and capital grants have been evenly spread within each of the last three years under review. These disbursements were done monthly.
Pillar I. Budget reliability			
PI-1	Aggregate expenditure outturn	B	Aggregate expenditure outturn was between 90% and 110% in two of the last three years (90.2% in 2015/2016, 101.3% in 2016/2017, and 88.8% in 2017/2018).
PI-2	Expenditure composition outturn	D+	
2.1	Expenditure composition by function	C	Expenditure composition variance by function for two of the last three years was less than 15% (actual variances were 9.3% in 2015/2016, 16.6% in 2016/2017, and 12.1% in 2017/2018).
2.2	Expenditure composition by economic type	D	Expenditure composition variance by economic type was more than 15% in two of the last three years (actual variances were 11.3% in 2015/2016, 16.4% in 2016/2017, and 15.5% in 2017/2018).
2.3	Expenditure from contingency reserves	A	Expenditure charged to contingency reserves for the last three years averaged 0.5% of the total expenditure.
PI-3	Revenue outturn	B	
3.1	Aggregate revenue outturn	B	Actual total revenue outturn for at least two of the last three years was between 94% and 112% (actual variances were 92.3% in 2015/2016, 104.6% in 2016/2017, and 109.8% in 2017/2018).
3.2	Revenue composition outturn	B	Revenue composition variance for the three years was less than 10% (actual variances were 6.6% in 2015/2016, 7% in 2016/2017, and 8.7% in 2017/2018).
Pillar II. Transparency of public finances			
PI-4	Budget classification	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards. This classification is the same as that of the federal government except for some

No.	Indicator	2018 score	Justification for 2018 score
			functions, such as defence, that are not applicable at the regional government level.
PI-5	Budget documentation	D	Budget documentation does not fulfil at least three basic elements. It fulfils only one basic element (number 3) and one additional element (number 11).
PI-6	Regional government operations outside financial reports	A	
6.1	Expenditure outside financial reports	A	The regional government reports all expenditures received from the federal government road fund in its financial statements. There is no other expenditure from extra-budgetary units outside regional government financial reports
6.2	Revenue outside financial reports	A	There are no unreported extra-budgetary revenues outside regional government financial reports. All revenues from the road fund are proclaimed as part of the regional government budget
6.3	Financial reports of extra-budgetary units	NA	This dimension is not applicable
PI-7	Transfers to subnational government	B	
7.1	System for allocating transfers	A	The system of horizontal allocation of grants is transparent and rule based. The grant distribution formula is based on four main criteria: (a) population size of the woreda/city administration - this is also referred to as the number of beneficiaries of services in each woreda/city administration, (b) infrastructure deficit, (c) the per capita (unit) cost approach in terms of services provided in the woreda/city administration, and (d) the revenue-generating potential of the woreda/city administration.
7.2	Timeliness of information on the transfers	C	BoFED notifies woredas/city administration to prepare their budget estimates in June (after June 20, 2017), allowing about two weeks to finalize their budget estimates. Minor adjustments take place after receiving the final ceilings in mid-July but does not exceed 3% of the woreda's initial budget estimates.
PI-8	Performance information for service delivery	D+	
PI-8.1	Performance plans for service delivery	D	Both sectors prepare annual action plans out of these medium-term plans, from which the annual budget estimates are prepared. However, both the medium-term strategies and the annual action plans are not published. Programme budgeting has not yet been introduced.
PI-8.2	Performance achieved for service delivery	D	The Oromia BoE prepares an annual education abstract that provides information on performance achieved against targets. The BoH also prepares an annual performance report,

No.	Indicator	2018 score	Justification for 2018 score
			outlining targets achieved. However, none of these reports are published.
PI-8.3	Resources received by service delivery	B	The regional BoE compiles an annual report on both cash and in-kind resources, but the health sector does not. EC 2010 (GC 2017/2018) educational statistics abstract report dated September 2018 indicates that a total of ETB 849.9 million was spent on primary education; ETB 72.5 million of this relates to donations in kind.
PI-8.4	Performance evaluation for service delivery	C	The most recent evaluation done in the health sector was dated May 25, 2018; this was a joint evaluation done among the regional BoH, independent consultants, and development partners; however, there is no evidence of publication of evaluation report. Also, there is no evidence on education sector evaluation.
PI-9	Public access to fiscal information	D	The regional government only makes available one out of the four basic elements; also, none of the additional elements are made public.
Pillar III. Management of assets and liabilities			
PI-10	Fiscal risk reporting	D+	
10.1	Monitoring of public corporations	C	All nine public enterprises submitted their annual financial statements for 2017/18 to BoFED within one month after the end of the year. BoFED does not receive audited financial statements and these reports are also not published.
10.2	Monitoring of subnational governments	D	Zones and woredas have no borrowing powers; they do not pose fiscal risk to the regional government. All 21 zones submit annual financial statements to BoFED, timely, within three months after the end of fiscal year. However, these reports are not published; also, the consolidated audit reports are not published.
10.3	Contingent liabilities and other fiscal risks	D	BoFED does not keep records of both explicit and implicit contingent liabilities. Also, there are no records of guaranteed bonds issued to the housing agency.
PI-11	Public investment management	D+	
11.1	Economic analysis of investment projects	C	The planning commission has developed an internal guideline for analyzing investment projects; however, this is neither published nor made available to sector bureaus (budgetary institutions) and extra-budgetary units. Institutions use rudimentary methods for project appraisal.
11.2	Investment project selection	C	Project selection for inclusion into the annual budget is largely based on regional government priorities (which include irrigation, health, education, animal grazing, and rural roads), even though some of these projects are selected purely based on the results of feasibility studies conducted.

No.	Indicator	2018 score	Justification for 2018 score
11.3	Investment project costing	D	At present, the annual budget has no MTEF; the budget only shows cost implication of projects for the current year, with no projections for the forthcoming year. Nonetheless, the Project Appraisal Document provides information of total capital cost together with associated recurrent cost.
11.4	Investment project monitoring	C	The implementing unit monitors investment projects through physical inspection and periodic (quarterly) financial progress reports. The annual financial statements also report on actual expenditure of the projects.
PI-12	Public asset management	D+	
12.1	Financial asset monitoring	C	BoFED keeps records of investments in public and private entities, but this is not published. The annual financial statements disclose balances of both cash and bank.
12.2	Nonfinancial asset monitoring	D	The regional government does not maintain a comprehensive and consolidated register of its fixed assets; there are no records of government land, buildings, and natural resources. Presently, management of fixed assets is decentralized at the budgetary unit level. The asset registers maintained by these budgetary units provide information on the age and usage of assets.
12.3	Transparency of asset disposal	C	Article 57 of the Oromia Government Procurement and Property Administration Proclamation No. 157/2010 and Directive No. 1/2009 regulate disposal of fixed asset; there are no clear legal provisions for the disposal of financial assets. Proceeds from the sale of fixed assets and the original cost of assets are disclosed in the financial reports; there is no disclosure of the new owner(s). There was no privatization in 2017/2018.
PI-13	Debt management	D	
13.1	Recording and reporting of debts and guarantees	D	The government has issued guarantees to the housing agency for the construction of condominiums but has failed to keep proper records to that effect. The government has no idea of the total value of guarantees issued to the housing agency.
13.2	Approval of debts and guarantees	D	BoFED is solely responsible for authorizing and approving guarantees. Nonetheless, there are no guidelines, policies, and procedures that guide the issuance of these guarantees.
13.3	Debt management strategy	D	The region doesn't prepare debt management strategy.
Pillar IV. Policy-based fiscal strategy and budgeting			
PI-14	Macroeconomic and fiscal forecasting	B	
14.1	Macroeconomic forecasts	B	Over the last three completed fiscal years, the regional government prepared forecasts of GDP and savings and investment rates. It has no capacity to forecast exchange rate, interest rate,

No.	Indicator	2018 score	Justification for 2018 score
			and inflation. The forecasts are reviewed and approved by the regional cabinet, with an annual update, and sent to the regional council with the underlying assumptions as part of budget documentation for information purpose only.
14.2	Fiscal forecasts	B	Over the last three completed fiscal years, the planning commission prepares the MEFF with forecasts of GDP and savings and investments. The forecast includes aggregate revenues and expenditures and the budget balance. There are no explanations of differences between forecasts and the current year's budget as part of budget documentation submitted to the regional council.
14.3	Macro-fiscal sensitivity analysis	C	There is a qualitative evaluation of impact of various scenarios of macro-fiscal forecast; however, this is not included in the annual budget. This has been the case over the last three completed fiscal years.
PI-15	Fiscal strategy	D	
15.1	Fiscal impact of policy proposals	D	The regional government prepares partial explanation of budget implications on new policy initiatives and major new public investments.
15.2	Fiscal strategy adoption	D	The regional government does not produce a fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	Not applicable.
PI-16	Medium-term perspective in expenditure budgeting	D+	
16.1	Medium-term expenditure estimates	D	The annual budget document presents estimates of expenditure by administrative, function, and economic classification for the budget year only; there is no medium-term expenditure perspective.
16.2	Medium-term expenditure ceilings	D	Aggregate and sector bureau expenditure ceilings for the budget are approved by the regional cabinet after the BCC is issued to budgetary units.
16.3	Alignment of strategic plans and budgets	C	The educational sector annual expenditure policy, representing about 27.3% (by value) of the entire regional government budget, is aligned with the five-year ESDP V. The health sector also prepares a five-year strategy, but this is not costed.
16.4	Consistency of budgets with previous year's estimates	NA	The government does not prepare an MTEF; therefore, it is not possible to analyze the consistency of budgets to the previous year's estimates.
PI-17	Budget preparation process	D+	
17.1	Budget calendar	D	An annual budget calendar exists but all budgetary units do not meet the deadlines for completing estimates.
17.2	Guidance on budget preparation	B	A comprehensive and clear budget circular is issued to budgetary units, covering total budget expenditure (capital and recurrent) for the full fiscal year. However, the final approved ceilings

No.	Indicator	2018 score	Justification for 2018 score
			for the budget year are issued after the circular but before the completion and submission of final budget estimates.
17.3	Budget submission to the legislature	D	The executive has submitted the annual budget proposal to the legislature after the start of the fiscal year.
PI-18	Legislative scrutiny of budgets	C+	
18.1	Scope of budget scrutiny	B	The legislature's review covers fiscal policies and aggregates for the coming year as well as the details of expenditure and revenue.
18.2	Legislature procedures for budget scrutiny	C	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to. However, public consultations are not done. There are also no procedures for negotiations.
18.3	Timing of budget approval	C	The legislature has approved the annual budget within one month of the start of the year in the last three fiscal years.
18.4	Rules for budget adjustments by the executive	C	Clear rules exist for in-year budget amendments by the executive and are adhered to in some instances. An ex post supplementary budget approval was done in EC 2009 (GC 2016/2017) and EC 2010 (GC 2017/2018).
Pillar V. Predictability and control in budget execution			
PI-19	Revenue administration	C	
19.1	Rights and obligation for revenue measures	B	ORA (collecting 85% of regional government's own revenues, excluding grants) uses multiple channels (TV, radio, leaflets, and so on) to provide payers with easy access to comprehensive and up-to-date information on the main revenue obligation areas and on rights of taxpayers including redress procedures. These can be accessed on www.ora.gov.et .
19.2	Revenue risk management	C	ORA uses a partly structured and systematic approach for assessing and prioritizing compliance risks; case selection for tax audit is semiautomated with 14 selection criteria, mostly manual.
19.3	Revenue audit and investigation	C	All planned audits were not completed. The performance for the last year was 88% by value.
19.4	Revenue arrears monitoring	D	The revenue arrears at the end of 2010 (2017/2018) were 12.5% of the total tax collection for the year; however, tax arrears older than 12 months were 89.7% of total tax arrears.
PI-20	Accounting for revenue	D+	
20.1	Information on revenue collections	B	BoFED receives monthly financial reports from all budget entities but excluding extra-budgetary units that report annually; these reports include revenue (nontax) collections. ORA (collecting 85% of total regional government revenues excluding grants from the federal government) also reports the collection on a monthly basis. The report details the taxes collected into the

No.	Indicator	2018 score	Justification for 2018 score
			different categories such as income tax, VAT, and excise tax.
20.2	Transfer of revenue collections	D	More than 75% of tax revenue collections are transferred to the BoFED Treasury once a month.
20.3	Revenue accounts reconciliation	C	The monthly reconciliation, done within four weeks after the month end, does not include assessments and arrears; reconciliation only covers collections and transfers to the Treasury.
PI-21	Predictability of in-year resource allocation	C+	
21.1	Consolidation of cash balances	C	The bank accounts at BoFED are consolidated on a daily basis; however, other PBs send their bank account balances as part of the monthly reporting and these are consolidated by BoFED monthly.
21.2	Cash forecasting and monitoring	B	Annual cash flow forecasts are submitted to BoFED and these are updated on a quarterly basis based on actual inflows and outflows of cash. These are used to request cash from BoFED. BoFED on its part consolidates the annual and quarterly cash flows forecasts and uses it to request subsidy from the federal MoF.
21.3	Information on commitment ceilings	C	BIs receive monthly expenditure commitment ceilings (drawing limits) for general expenditure on goods and services. Drawing limit for capital expenditure has no specific frequency; it depends on submission of completion certificates for works done.
21.4	Significance of in-year budget adjustments	C	Virements are frequent but based on rules. These rules are generally respected; however, significant budget adjustments are made as evidenced in PI-2.1 and PI-2.2. Also, as indicated under PI-18.4, two ex post approvals were made by the regional council after the executive increased the original budgets for EC 2009 and EC 2010; therefore, adjustments to budget allocations are partially transparent.
PI-22	Expenditure arrears	D+	
22.1	Stock of expenditure arrears	D	Stock of expenditure arrears is above 10% in two out of the last three completed fiscal years. Actual percentages as compared to total expenditure were 15.2%, 10.8%, and 9.2% in FY2015/2016, 2016/2017, and 2017/2018, respectively.
22.2	Expenditure arrears monitoring	A	Data on the stock and composition of expenditure arrears are generated quarterly within a month after the end of the preceding quarter.
PI-23	Payroll controls	C+	
23.1	Integration of payroll and personnel records	B	There is no direct link between the personnel (HR) records and the payroll database. The payroll is fully supported by personnel files and timesheets, checked against the previous month's payroll data. The staff structure,

No.	Indicator	2018 score	Justification for 2018 score
			grading, and salary scale are approved by the Civil Service Bureau; however, hiring of staff based on the approved posts is the responsibility of each entity.
23.2	Management of payroll changes	A	All staff changes such as hiring, termination, and promotion is managed by the HR Directorate, the database is immediately updated, and the Finance Directorate is copied in all the correspondence. Changes are captured within the month they occurred and retroactive adjustments are rare.
23.3	Internal controls of payroll	A	Both the personnel and payroll management processes are manual. The head of each BI and extra-budgetary unit is the sole responsible officer with the authority to approve changes to personnel and payroll records in accordance with approved civil service posts. This control process is clear and sufficient for ensuring payroll integrity; changes result in a manual audit trail.
23.4	Payroll audits	C	No comprehensive payroll audit has been undertaken within the last three years; however, partial payroll audits are carried out as part of the usual annual financial and compliance audit by both internal and external auditors.
PI-24	Procurement	D	
24.1	Procurement monitoring	D	Data on procurement are available; for FY2017/2018, total regional government entities procurement amounted to ETB 13.97 billion. The information shows the purpose of procurement and contract sum but fails to indicate who won the contract. Further, there is no evidence to suggest that the data are accurate and complete (audited by ORAG or independently verified by the regional procurement authority).
24.2	Procurement methods	D*	Available data on procurement do not indicate the method of procurement used.
24.3	Public access to procurement information	D	As shown in Table 3.21, only two out of the six procurement elements are published; these include the proclamation and bidding opportunities.
24.4	Procurement complaints management	D	The complaints management framework is not independent. It fails to meet criterion (i) of the PEFA requirements but meets the four other elements (ii, iii, iv, and vi) and partially (v).
PI-25	Internal controls on non-salary expenditure	B+	
25.1	Segregation of duties	A	The various PFM laws and regulations, including the organizational structure, prescribe clear segregation of duties across the expenditure management process.
25.2	Effectiveness of expenditure commitment controls	B	Expenditure commitment controls exist through IBEX; it limits commitment to approved budget

No.	Indicator	2018 score	Justification for 2018 score
			and cash flow projections for most types of expenditure but not to actual cash available.
25.3	Compliance with payment rules and procedures	B	Compliance levels with regard to payment rules and procedures are high; infractions do not exceed 5% of total government expenditure according to ORAG.
PI-26	Internal audit	C+	
26.1	Coverage of the internal audit	B	Internal audit covers an average of 85% by value for both revenue and expenditure.
26.2	Nature of audits and standards applied	C	The most recent internal audit manual dates back to 2012/2013 (EC 2005) with little conformity to ISPPA; that said, internal auditors are trained at least yearly on some aspects of ISPPA. Again, more than 90% of internal audit activities focus on financial and compliance issues.
26.3	Implementation of internal audits and reporting	B	Available statistics show that 77% of planned audit programs are completed. Quarterly internal audit reports are issued to heads of the audited entity and BoFED Inspection Directorate.
26.4	Response to internal audits	C	At least 55% by value of audited entities provide timely response to audit queries within one month; this has also been confirmed by ORAG.
Pillar VI. Accounting and reporting			
PI-27	Financial data integrity	B+	
27.1	Bank account reconciliations	B	Bank account reconciliation for all active central government accounts is done monthly within four weeks from the end of the month.
27.2	Suspense accounts	NA	Not applicable.
27.3	Advance accounts	A	Advance accounts are reconciled monthly but there still remain uncleared balances (excluding advance to contractors) amounting to ETB 2.1 billion as at June 30, 2018, representing about 3.7% of total actual government revenues. Therefore, more than 90% are cleared timely.
27.4	Financial data integrity process	B	The region uses IBEX for financial recording and reporting and users are given a password, and user rights are defined for each user by the IT Administrator. The system results in an audit trail. However, the system fails to prompt for change in user password.
PI-28	In-year budget reports	C+	
28.1	Coverage and comparability of reports	A	The in-year budget execution reports include revenue and expenditure according to type; they allow direct comparison between approved budget estimates and actual expenditure by detailed economic and administrative classification (for both recurrent and capital expenditure) and source of funds; the reports also show transfers to zones and woredas.
28.2	Timing of in-year budget reports	B	BoFED consolidates budget entity reports every quarter within a month after the end of the previous quarter but does not circulate the consolidated report to budget entities. However, each budget entity has direct access to IBEX and

No.	Indicator	2018 score	Justification for 2018 score
			generates its own in-year reports for management use.
28.3	Accuracy of in-year budget reports	C	Concerns regarding data accuracy exist but they are neither highlighted in budget entity reports nor in consolidated BoFED reports. One major concern that remains unresolved is the overstatement of revenues in the consolidated BoFED report; transfers to budget entities are recorded as revenues by budget entities and these are not set off against regional subsidies/grants to budget entities.
PI-29	Annual financial reports	C+	
29.1	Completeness of annual financial reports	C	The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. They also contain some financial assets such as cash and bank balances, advances, and receivables. However, the reports do not include tangible assets (fixed assets), guarantees, contingent liabilities, and other financial assets such as shares and investments in SoEs. Information on extra-budgetary units is also not included.
29.2	Submissions of reports for external audit	B	The financial reports for EC 2010 (2018/2019) were submitted to the Regional Auditor General on November 5, 2018, which is within four months after the close of the fiscal year ended July 7, 2018.
29.3	Accounting standards	C	The consolidated financial statements of the regional government for FY2015/2016, 2016/2017, and 2017/2018 were prepared based on modified cash basis; this has been consistent over time and in accordance with the Financial Administration Proclamation No. 156/2010.
Pillar VII. External scrutiny and audit			
PI-30	External audit	D+	
30.1	Audit coverage and standards	C	The current audit coverage is 63% (by value for both revenue and expenditure). The audits are performed in accordance with ISSAI standards issued by INTOSAI and ORAG uses AFROSAI-E auditing manuals. The audit reports highlight significant issues such as unsupported payments, non-compliance to procurement rules, and weaknesses in property management.
30.2	Submission of audit reports to the legislature	C	ORAG audit reports are submitted to the regional council between eight and nine months after receipt of consolidated financial statements from BoFED.
30.3	External audit follow-up	C	The audited entity submits a comprehensive management letter, including evidence of action as applicable. However, this does not include extra-budgetary units as ORAG does not cover their financial audits due to limited financial and human capacity.

No.	Indicator	2018 score	Justification for 2018 score
30.4	Supreme Audit Institution independence	D	ORAG has full and timely access to public data. Out of the principles of independence, the following are not met: <ul style="list-style-type: none"> • Right and obligation to report its work, and the freedom to decide the date and timing of audit reports and to publish and disseminate them. • Freedom to decide the content and timing of audit reports and to publish and disseminate them. • Financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources.
PI-31	Legislative scrutiny of audit reports	B	
31.1	Timing of audit report scrutiny	A	The review of audit report is completed within one month of the receipt of audit report; this has been the case over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017.
31.2	Hearing on audit findings	C	Over the last three completed fiscal years, FY2014/2015, 2015/2016, and 2016/2017, PAC conducted audit hearings by inviting ORAG to brief it on audit findings; only a few budgeted entities are invited for the hearings, including BoFED.
31.3	Audit recommendations by the legislature	A	PAC issues audit recommendations and systematically follows up on recommendations and remedial actions by conducting a quarterly review and issues quarterly reports; this has been the case in all three fiscal years, FY2014/2015, 2015/2016, and 2016/2017.
31.4	Transparency of the legislative scrutiny of audit reports	D	The hearings are not public; also, PAC reports are not published on the website but a weekly TV program is aired to, among others, disseminate audit findings and recommendations.

Note: PB = Public body.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	<p>The guiding frameworks for the regional government are the constitution and various proclamations and regulations on PFM, procurement, internal audit, external audit, parliamentary oversight, and anti-corruption. Generally, rules and regulations are respected, and management and staff have supportive attitudes toward internal control (PI-25). The centralized public service policy for the organizational structure and compensation scheme helped for a standardized and transparent pay system throughout the region. By law, ORAG is mandated to prepare a structure, study the salary scale and other benefits for the head and professionals and submit this to the council for approval, and submit annual work plans and budgets to the council. However, it submits the budget request to BoFED (PI-30). The tight audit follow-up conducted by the regional council demonstrates the structural will of the government for internal control (PI-31). Shortage of manpower and low staff capacity limited the coverage of tax audit conducted by the revenue authority (PI-19). There aren't significant revenue and expenditure outside the report of the region (PI-6).</p>
2. Risk assessment	<p>Organizational-level risk assessment is essential to ensure that the internal control in place is effective. The risk assessment function by the revenue authority on taxation, though not fully structured and systematic, helps improve the control on revenue collection. There is no practice of conducting periodic organizational-level risk assessment and most public bodies do not have a comprehensive risk management strategy. Internal audit and external audit functions largely focus on compliance audit than systems audit and are not based on a comprehensive risk analysis and rating. The recurring nature of certain findings and recommendations from internal and external audits reflects partly the weakness of certain control activities in procurement, property administration, and asset management (PI-25, PI-26, and PI-30).</p> <p>PFM risk areas include the following:</p> <ul style="list-style-type: none"> • PI-10 (fiscal risk reporting) 'D+' - Mainly on subnational monitoring which is weak in terms of submission of subnational government annual financial reports for review; also, on monitoring and reporting of contingent liabilities. • PI-11 (public investment management) 'D+' - No-existence of formal public investment guidelines, limiting the economic analysis on investment programs; the selection criteria, mostly based on government priorities with little economic analysis; and the weak costing framework of investment projects with no forward-linked recurrent expenditure. • PI-12 (public asset management) 'D+' - The absence of a comprehensive and consolidated government asset register to effectively monitor and safeguard government assets; also, weak monitoring of government financial assets (investments in companies). • PI-19.4 (revenue arrears monitoring) 'D' - Revenue arrears are quite high, at 12.5% of total tax collections. • PI-22 (expenditure arrears) 'D+' - Stock of arrears are above 10% of total government expenditure.
3. Control activities	<p>The procedures for key internal control activities such as segregation of duties, authorization and approval, reconciliation and review, and physical security of assets are stipulated in the different laws, regulations, directives, manuals, and guidelines. These procedures are applied for preparation, review, and approval of payments and procurement and property management. However, there is no record of land and natural resources belonging to the regional government (PI-12). In addition, monthly reconciliation of bank accounts, cash counts, annual physical counts, and ongoing internal and external</p>

Internal control components and elements	Summary of observations
	<p>audits strengthened the internal control. The use of SIGTAS and fingerprint identification systems for taxpayer registration strengthen the internal control over revenue collection (PI-19).</p> <p>The role of ICT as a control activity within the PFM system is limited. Most of the financial management procedures including disbursement, procurement, property administration, HR, and payroll are not automated. A partial TSA has been established, providing an opportunity for the BoFED Treasury to view and consolidate cash balances on a daily basis (PI-21). IBEX is just a budget and expenditure management software. It only limits expenditure commitment to the approved budget but not to cash availability. The limited systemic audit and risk assessment exercises limited the opportunity for the revision and improvement of existing control activities. Manuals and procedures are not updated timely. The frequent structural changes within the regional administration demand a swift update of the control activities to ensure their effectiveness.</p> <p>Weak PFM areas include the following:</p> <ul style="list-style-type: none"> • PI-24 (procurement) 'D' - The main issue relates to the independence of procurement complaints system, public access to procurement information, and procurement statistics. • PI-26.2 (nature of audits and standards applied) 'C' - Internal audits do not meet international standards.
4. Information and communication	<p>Monthly financial reports and quarterly and annual physical performance reports are produced and communicated to the management at the BI level. The financial statements provide information on budget utilization, revenue collection, cash balances, receivables, and payables (PI-28.1), while the performance reports provide information on activities performed and targets achieved. BIs' management submit annual financial reports to ORAG for audit on time. Management of BIs also report to the council on their performances. Internal audit units produce and submit reports to their respective management and to BoFED. ORAG submits its reports to the management and the regional council. Some of the internal audit units and ORAG conduct performance audits and communicate their findings. The revenue authority uses various channels to inform the taxpayers about their rights and obligations (PI-19). Revenue collections are reported by the revenue authority to BoFED monthly (PI-20). Most bureaus have websites, though these are not fully used in terms of providing information to the public (PI-9). Though data on procurement are available at each budgeted entity, there are no comprehensive annual statistics on public procurement (PI-24).</p> <p>The accounting system is not in line with international accounting standards such as IPSAS. The financial statements do not provide information on tangible assets, contingent liabilities, investments, loan, and guarantees (PI-29.1). Most of the BIs received qualified audit opinion and a fifth of them received adverse and disclaimer opinion (PI-30.1). At the regional level, consolidated budget execution reports are prepared quarterly and annually (PI-28.2). The audit report on the consolidated fund of the region is presented to the council (PI-30.2). Information access to the public is yet to be developed at the regional level. The audit report of the Auditor General (PI-30) and the audit follow-up report of PAC (PI-31) are not published. ORA uses different channels to disseminate information on the main tax obligations and rights and redress processes and procedures (PI-19). The approved budget of the region is gazetted and posted on the website of BoFED. Fiscal risk monitoring in connection with SoEs is weak. Audited and unaudited financial statements are not published and information on contingent liabilities is not produced and communicated (PI-10).</p>

Internal control components and elements	Summary of observations
	<p>BIs use rudimentary and non-systematic ways of undertaking economic analysis of public investment projects. The planning commission has developed an internal guideline for analyzing investment projects; however, this is neither published nor made available to sector bureaus (budgetary institutions) and extra-budgetary units. The implementing unit monitors investment projects through physical inspection and periodic (quarterly) financial progress reports (PI-11). Some of the nonfinancial assets are registered at BI levels, but consolidated information is not available at BoFED. The consolidated financial statement of the region does not contain a balance sheet as well as disclosure on public investments in SoEs (PI-12, PI-30).</p> <p>Main area of concern:</p> <ul style="list-style-type: none"> PI-9 (public access to fiscal information) 'D' - Most government fiscal data are not accessible by the public
5. Monitoring	<p>Different monitoring mechanisms are in place to ensure the efficiency and effectiveness of operation, fulfilment of accountability, compliances to rules and regulations, and safeguarding of resources. Management of BIs receives monthly financial and quarterly performance reports and also submits their performance reports to the council. The internal audit units and the Regional Auditor General conduct audits. The regional council scrutinizes the audit reports and continuous follow-up is conducted (PI-26, PI-30, and PI-31). The Central Internal Audit Directorate at BoFED monitors the implementation of internal audit recommendations. An internal peer review mechanism is established at the Regional Auditor General (PI-30) for quality assurance. The limited application of the international standards on internal auditing (PI-26), the institutional limitation of PAC, and the quality of in-year and annual financial statements weaken monitoring activities (PI-28 and PI-29). The regional procurement authority conducts a procurement process audit (PI-24).</p> <p>Areas to note include the following:</p> <ul style="list-style-type: none"> PI-30 (external audit) 'D+' - ORAG presently does not cover SoE audits mainly due to technical capacity and finance resource constraints.

Annex 3A: Sources of information

Please note that there were no other specific surveys or analytical work conducted for the Oromia regional government; information below was used for the assessment.

Indicator	Dimension	Data used
Pillar I. Budget reliability		
1. Aggregate expenditure outturn	1.1 Aggregate expenditure outturn	Approved expenditure budgets and actual outturns for 2015/2016, 2016/2017, and 2017/2018; interview with BoFED budget officials
2. Expenditure composition outturn	2.1 Expenditure composition outturn by function	Approved expenditure budgets and actual outturns for 2015/2016, 2016/2017, and 2017/2018; classification according to functions; interview with BoFED budget officials
	2.2 Expenditure composition outturn by economic type	Approved budgets and actual outturns for 2015/2016, 2016/2017, and 2017/2018; classification according to economic type; interview with BoFED budget officials
	2.3 Expenditure from contingency reserves	Contingency vote and actual expenditure from contingency vote for 2015/2016, 2016/2017, and 2017/2018
3. Revenue outturn	3.1 Aggregate revenue outturn	Approved revenue budgets and actual outturns for 2015/2016, 2016/2017, and 2017/2018; interview with BoFED budget officials
	3.2 Revenue composition outturn	Approved revenue budgets and actual outturns according to revenue type for 2015/2016, 2016/2017, and 2017/2018; interview with BoFED budget officials
Pillar II. Transparency of public finances		
4. Budget classification	4.1 Budget classification	Budget documentation for 2017/18; interview with budget officials
5. Budget documentation	5.1 Budget documentation	Budget documentation for 2018/2019 submitted to the regional council; interview with budget officials
6. Central government operations outside financial reports	6.1 Expenditure outside financial reports	List of extra-budgetary units and total expenditure for 2017/18
	6.2 Revenue outside financial reports	List of extra-budgetary units and total revenue for 2017/18
	6.3 Financial reports of extra-budgetary units	List of extra-budgetary units and dates of submission of annual financial statements for 2017/18
7. Transfers to subnational governments	7.1 System for allocating transfers	Grants/subsidies distribution formula (EC 2010) for woredas approved by the regional council
	7.2 Timeliness of information on the transfers	Approved budget with ceilings for FY2017/2018
8. Performance information for service delivery	8.1 Performance plans for service delivery	Health Sector Growth and Transformation Plan II and ESDP V; annual action plans for 2018/19

Indicator	Dimension	Data used
	8.2 Performance achieved for service delivery	Performance report for both health and education sector for 2017/18
	8.3 Resources received by service delivery	Educational statistics abstracts for 2017/18
	8.4 Performance evaluation for service delivery	Health sector midterm evaluation report for 2017/18
9. Public access to fiscal Information	9.1 Public access to fiscal information	Oromia government website www.oromia.gov.et
Pillar III. Management of assets and liabilities		
10. Fiscal risk reporting	10.1 Monitoring of public corporations	No data on SoEs
	10.2 Monitoring of subnational governments	Annual financial statements from 21 zones plus dates of submission of annual financial statements to BoFED for 2017/18
	10.3 Contingent liabilities and other fiscal risks	Interview with officials of BoFED budget department; consolidated annual financial statements for FY2017/2018
11. Public investment management	11.1 Economic analysis of investment projects	Interview with officials from planning commission and Budget Directorate of BoFED ; data on 10 largest capital investment projects for FY2017/2018
	11.2 Investment project selection	Interview with officials from Planning Directorate of BoFED
	11.3 Investment project costing	Project documents on 10 largest investments for FY2017/2018
	11.4 Investment project monitoring	Progress and project completion reports from planning commission of BoFED
12. Public asset management	12.1 Financial asset monitoring	Consolidated annual financial statements for 2017/2018
	12.2 Nonfinancial asset monitoring	Individual fixed assets register (decentralized) from sample regional sector bureaus (education, health, agriculture, and urban development)
	12.3 Transparency of asset disposal	Article 57 of the Oromia Government Procurement and Property Administration Proclamation No.157/2010; disposal documents from PPPDS
13. Debt management	13.1 Recording and reporting of debt and guarantees	Not applicable
	13.2 Approval of debt and guarantees	Not applicable
	13.3 Debt management strategy	Not applicable
Pillar IV. Policy-based fiscal strategy and budgeting		
14. Macroeconomic and fiscal forecasting	14.1 Macroeconomic forecasts	Medium-term regional strategic plan (also dubbed GTP II 2016/17–2020/2021)
	14.2 Fiscal forecasts	Medium-term regional strategic plan (also dubbed GTP II 2016/17–2020/2021)
	14.3 Macro-fiscal sensitivity analysis	Scenario analysis for 2017/18
15. Fiscal strategy	15.1 Fiscal impact of policy proposals	Not applicable
	15.2 Fiscal strategy adoption	Not applicable

Indicator	Dimension	Data used
	15.3 Reporting on fiscal outcomes	Not applicable
16. Medium-term perspective in expenditure budgeting	16.1 Medium-term expenditure estimates	Budget documentation for 2018/2019
	16.2 Medium-term expenditure ceilings	Budget documentation for 2018/2019
	16.3 Alignment of strategic plans and budgets	Health Sector Growth and Transformation Plan II and ESDP V; annual action plans for 2018/19
	16.4 Consistency of budgets with previous year's estimates	No MTEFF
17. Budget preparation process	17.1 Budget calendar	Budget calendar for 2018/2019; dates sectors responded to the BCC
	17.2 Guidance on budget preparation	Budget circular for 2018/2019
	17.3 Budget submission to the legislature	Dates budgets (2015/2016, 2016/2017, and 2017/2018) were submitted to the regional council
18. Legislative scrutiny of budgets	18.1 Scope of budget scrutiny	Proclamation No. 201/2017 (A Proclamation Enacted to Redefine Organizations, Duties, Conduct of the Members and Meeting Procedures of the 'Caffee'); interview with regional council budget and finance committee
	18.2 Legislative procedures for budget scrutiny	Proclamation No. 201/2017 (A Proclamation Enacted to Redefine Organizations, Duties, Conduct of the Members and Meeting Procedures of the 'Caffee'); interview with regional council budget and finance committee
	18.3 Timing of budget approval	Budget approval dates for 2015/2016, 2016/2017, and 2018/2019
	18.4 Rules for budget adjustments by the executive	Articles 22 to 26 of Proclamation No. 156/2010 (A Proclamation to Re-establish the Financial Administration of Oromia National Regional State Proclamation No. 88/1997) and Amendment Proclamation No. 209/2018
Pillar V. Predictability and control in budget execution		
19. Revenue administration	19.1 Rights and obligations for revenue measures	Oromia tax laws, sample tax leaflets, ORA website www.ora.gov.et ; interviews with ORA officials
	19.2 Revenue risk management	Interviews with ORA officials
	19.3 Revenue audit and investigation	Tax audit plan and actual performance for 2017/2018
	19.4 Revenue arrears monitoring	Tax arrears for 2017/2018
20. Accounting for revenue	20.1 Information on revenue collections	Monthly revenue reports submitted to BoFED
	20.2 Transfer of revenue collections	Copy of standing order for bank transfer; confirmation from the BoFED Treasury

Indicator	Dimension	Data used
	20.3 Revenue accounts reconciliation	Copy of 2017/2018 revenue reconciliation statement
21. Predictability of in-year resource allocation	21.1 Consolidation of cash balances	Interview with the BoFED Treasury; copy of consolidation report for March 5, 2019
	21.2 Cash forecasting and monitoring	Sample cash flow forecasts from education, health, and agriculture; consolidated cash flow forecast from BoFED
	21.3 Information on commitment ceilings	Copy of drawing limit 2017/2018
	21.4 Significance of in-year budget adjustments	Interview with Budget Directorate of BoFED; list of virements for 2017/2018
22. Expenditure arrears	22.1 Stock of expenditure arrears	Expenditure arrears for 2015/2016, 2016/2017, and 2017/2018
	22.2 Expenditure arrears monitoring	Copy on consolidated quarterly in-year budget execution report, including statement of age-profiled expenditure arrears according to type
23. Payroll controls	23.1 Integration of payroll and personnel records	Sample personnel records from education, agriculture, health and BoFED; interviews with HR and Payroll Directorates of selected sector bureaus
	23.2 Management of payroll changes	A copy of February 2019 payroll run from BoFED and selected sector bureaus
	23.3 Internal control of payroll	Interview with HR heads of sector bureaus
	23.4 Payroll audit	Interview with HR heads of sector bureaus, ORAG, and internal audit units
24. Procurement management	24.1 Procurement monitoring	Data/statistics on procurement for 2017/2018
	24.2 Procurement methods	Data/statistics on procurement for 2017/2018
	24.3 Public access to procurement information	PPPDS website (not functional); BoFED website
	24.4 Procurement complaints management	Article 57 of the Oromia Government Procurement and Property Administration Proclamation No.157/2010; disposal documents from PPPDS
25. Internal controls on non-salary expenditure	25.1 Segregation of duties	Articles 22 to 26 of Proclamation No. 156/2010 (A Proclamation to Re-establish the Financial Administration of Oromia National Regional State Proclamation No. 88/1997) and Amendment Proclamation No. 209/2018; financial management manuals on procurement, cash management, and asset management
	25.2 Effectiveness of expenditure commitment controls	Information from IBEX; interview with Finance Directorates
	25.3 Compliance with payment rules and procedures	Interview with internal audit units and ORAG; sample copies of internal audit reports for 2017/2018

Indicator	Dimension	Data used
26. Internal audit	26.1 Coverage of internal audit	Internal audit manual; interview with internal auditors
	26.2 Nature of audits and standards applied	Sample internal audit plans for 2017/2018; interview with internal auditors
	26.3 Implementation of internal audits and reporting	Interview with internal audit units and ORAG; sample copies of internal audit reports for 2017/2018; internal audit plans for 2017/18
	26.4 Response to internal audits	Interview with internal audit units and ORAG; sample copies of internal audit reports for 2017/2018
Pillar VI. Accounting and reporting		
27. Financial data integrity	27.1 Bank account reconciliation	Bank reconciliation statements for end-of-year 2017/2018 and latest reconciliations January 2019 from the BoFED Treasury and sector bureaus (education, health, agriculture, and urban development)
	27.2 Suspense accounts	Not applicable
	27.3 Advance accounts	2017/2018 annual financial statements; interview with accounts staff
	27.4 Financial data integrity processes	IBEX system review and control process for data integrity
28. In-year budget reports	28.1 Coverage and comparability of reports	In-year budget execution report for 2017/2018
	28.2 Timing of in-year budget reports	In-year budget execution report for 2017/2018; review of IBEX system
	28.3 Accuracy of in-year budget reports	In-year budget execution report for 2017/2018
29. Annual financial reports	29.1 Completeness of annual financial reports	2017/2018 consolidated annual financial statements
	29.2 Submissions of reports for external audit	Dates of submission of 2017/2018 consolidated annual financial statements to ORAG
	29.3 Accounting standards	Review of consistency of accounting standards for 2015/2016, 2016/2017, and 2017/2018 consolidated annual financial statements
Pillar VII. External scrutiny and audit		
30. External audit	30.1 Audit coverage and standards	Interview with ORAG; data on audit coverage; audit manual; annual audit plan for 2015/2016, 2016/2017, and 2017/2018
	30.2 Submission of audit reports to the legislature	Dates of submission of 2015/2016 and 2016/2017 audit reports to regional council; triangulation from regional council
	30.3 External audit follow-up	Interview with ORAG; review of 2015/2016 and 2016/2017 audit reports

Indicator	Dimension	Data used
	30.4 Supreme audit institution independence	Review of audit law - The Audit Proclamation No. 154/2010 (as amended)
31. Legislative scrutiny of audit reports	31.1 Timing of audit report scrutiny	Dates PAC received and reviewed ORAG audit reports
	31.2 Hearings on audit findings	Interview with PAC members
	31.3 Audit recommendations by the legislature	Quarterly PAC reports
	31.4 Transparency of legislative scrutiny of audit reports	Interview with PAC members

Annex 3B: List of stakeholders interviewed

Name	Organization	Position	Telephone	Email
Oromia Bureau of Finance and Economic Development				
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Lume Woreda - Dhaka Boora Primary School				
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Annex 4: Tracking change in performance based on the 2011 PEFA framework

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM outturns: Credibility of the Budget				
HLG-1 Transfers from a higher-level government	B+	D+		Deterioration in overall score due to slippage in dimension (ii)
(i) Outturn of transfer from higher-level government	A	A	Transfers were more than 95% compared to original budget in two out of the last three completed fiscal years. Deviations between original budget and actual transfer were 17.5%, -1.1%, and 0.2% in 2015/2016, 2016/2017, and 2017/2018, respectively.	No change
(ii) Earmarked grants outturn	B	D	Transfers of earmarked grants deviated by more than 10% in all three years under review. Actual deviations were 21.8% in 2015/2016, 40% in 2016/2017, and 15% in 2017/2018.	Both score and performance deteriorated; there were significant deviations between budget and actual transfers.
(iii) Timeliness of transfer from higher-level government	A	A	Actual disbursements of both recurrent and capital grants have been evenly spread within each of the last three years under review.	No change
PI-1 Aggregate expenditure outturn compared to original approved budget	B	B	Actual budget outturns were 101.2%, 110.6%, and 92.5% in 2015/2016, 2016/2017, and 2017/2018, respectively	No change
PI-2 Composition of expenditure outturn compared to original approved budget	B+	C+		Deterioration in dimension (i)

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	B	C	Variance in expenditure composition were 9.3%, 16.6%, and 12.1% in 2015/2016, 2016/2017, and 2017/2018, respectively.	Deterioration in both score and performance
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	A	A	Actual expenditure charged to contingency vote was on average 0.5%.	No change
PI-3 Aggregate revenue outturn compared to original approved budget	D	C	Actual domestic revenue outturns were 84.9%, 94.8%, and 128.7% in 2015/2016, 2016/2017, and 2017/2018, respectively.	Improvement in both score and performance
PI-4 Stock and monitoring of expenditure payment arrears	B+	C+		Deterioration in overall score and performance
(i) Stock of expenditure payment arrears and a recent change in the stock	A	C	Stock of expenditure arrears is above 10% in two out the last three completed fiscal years. Actual percentages as compared to total expenditure were 15.2%, 10.8%, and 9.2% in FY2015/2016, 2016/2017, and 2017/2018, respectively.	Deterioration in both score and performance
(ii) Availability of data for monitoring the stock of expenditure payment arrears	B	A	Reliable data on stock of arrears are generated quarterly; this is age-profiled.	Improvement in both score and performance
B. Key cross-cutting issues: Comprehensiveness and transparency				
PI-5 Classification of the budget	B	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification using GFS/COFOG standards. This	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			classification is the same as that of the federal government except for some functions, such as defence, that are not applicable at the regional government level.	
PI-6 Comprehensiveness of information included in budget documentation	C	C	The budget fully fulfils two elements; three elements are not applicable (that is, debt stock, deficit financing, and forecast of fiscal deficit).	No change
PI-7 Extent of unreported government operations	D+	D+		No change even though there is improvement in dimension (i)
(i) Level of unreported government operations	B	A	There are no unreported government operations. All revenues and expenditures from the federal government road fund are proclaimed and reported	Improvement in both score and dimension
(ii) Income/expenditure information on donor-funded projects	D	D	Information on donor financed projects is seriously deficient.	No change
PI-8 Transparency of intergovernmental fiscal relations	B+	A		No real change
(i) Transparency and objectivity in the horizontal allocation among subnational Governments	B	A	All transfers (conditional and unconditional) are determined according to a transparent and rule-based system which is approved by the council.	No real change; the same system of transfer existed since the last assessment; score should have been A in 2015 according to evidence which suggests at least 90% of allocations are rule based
(ii) Timeliness and reliable information to subnational	B	B	Subnational governments (woredas) receive	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
governments on their allocations			reliable information on their annual allocations before completing their annual budgets; changes thereafter are only 3% of their total budget.	
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	All woredas fiscal and financial information is consolidated annually within six months after the end of the previous year; the reports are consistent with regional government financial information.	No change
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	C+	C+		No change
(i) Extent of central government monitoring of autonomous entities and public enterprises	C	C	Public enterprises submit annual financial reports to BoFED, but this is not consolidated.	No change
(ii) Extent of central government monitoring of subnational government's fiscal position	A	A	Woredas do not generate fiscal risk; also, their annual financial statements are consolidated annually.	No change
PI-10 Public access to key fiscal information	C	C	The regional government makes available only one item (annual budget documentation) to the public when it is submitted to the council.	No change
C. Budget cycle				
C(i) Policy-based budgeting				
PI-11 Orderliness and participation in the annual budget process	B	C		Deterioration mainly due to dimension (i). No real change in dimension (ii) as it appears overrated in 2015
(i) Existence of, and adherence to, a fixed budget calendar	C	D	An annual budget calendar exists but all budgetary units	Deterioration in both score and performance

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			do not meet the deadlines for completing estimates.	
(ii) Guidance on the preparation of budget submissions	A	B	A comprehensive and clear budget circular is issued to budgetary units, covering total budget expenditure (capital and recurrent) for the full fiscal year. However, the final approved ceilings for the budget year are issued after the circular but before the completion and submission of final budget estimates.	No change in real terms; the same system exists where previous year's approved ceilings are used for budget estimates, awaiting cabinet approved ceilings for new fiscal year. Therefore, 2015 might have been overrated
(iii) Timely budget approval by the legislature	C	C	The regional council approved the budget within one month after the start of the fiscal year in all three years (2015/2016, 2016/2017, and 2017/2018) under review.	No change
PI-12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting	NR	C+		Not comparable
(i) Multiyear fiscal forecasts and functional allocations	C	C	The planning commission prepares aggregates of fiscal forecast for three years on a rolling basis but only for main economic categories.	No change
(ii) Scope and frequency of debt sustainability analysis	NA	NA	Not applicable	
(iii) Existence of costed sector strategies	NR	B	The educational sector annual expenditure policy, representing about 27.3% (by value) of the entire regional government budget, is aligned with the	Not comparable

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			five-year ESDP V. The health sector also prepares a five-year strategy, but this is not costed.	
(iv) Links between investment budgets and forward expenditure estimates	C	C	There are some links between sector strategies, investment cost, and forward-linked recurrent expenditure but they are weak in many areas.	No change
C(ii) Predictability and control in budget execution				
PI-13 Transparency of taxpayer obligations and liabilities	A	A		No change
(i) Clarity and comprehensiveness of tax liabilities	A	A	The tax laws and regulations are comprehensive and clear with limited powers for discretion.	No change
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	The regional revenue authority (ORA) website is functional and provides easy access to users and taxpayers for up-to-date information on their rights and obligation. Also, there are tax bulletins, leaflets, and TV and radio tax programs.	No change
(iii) Existence and functioning of a tax appeal mechanism.	B	B	There is a functional and independent tax appeal body; however, majority of taxpayers have little information on their functions.	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B+	B		No real change
(i) Controls in the taxpayer registration system	A	B	Taxpayers are registered with unique TIN in a	No real change; 2015 appears to be overrated

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			database which is updated at least yearly with some links to the financial sector; the taxpayer database is, however, not complete as officials have indicated that there are still some potential taxpayers outside the tax net.	
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	B	There are deterrent tax penalties, but these are not consistently administered.	No change
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	B	Tax audit and fraud investigation plans exist and are followed through according to the approved plan based on approved selection criteria for most tax areas.	No change
PI-15 Effectiveness in collection of tax payments	D+	D+		No change in overall score but there is deterioration in dimension (i)
(i) Collection ratio for gross tax arrears	A	D	The revenue arrears at the end of 2010 (2017/2018) were 12.5% of the total tax collection for the year. Also, the collection ratio is 21.3%.	Deterioration in both score and performance
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	C	C	ORA transfers tax revenues to the BoFED Treasury once a month.	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	D	There is no complete reconciliation of tax assessment, collections, arrears, and transfers to the BoFED Treasury.	No change
PI-16 Predictability in the availability of funds for	C+	C+		No change in overall score but there is

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
commitment of expenditures				deterioration in dimension (i)
(i) Extent to which cash flows are forecasted and monitored	A	B	Annual cash flow forecasts are submitted to BoFED and these are updated on a quarterly basis based on actual inflows and outflows of cash.	Deterioration in both score and performance
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C	C	BIs receive monthly expenditure commitment ceilings (drawing limits) for general expenditure on goods and services. Drawing limit for capital expenditure has no specific frequency; it depends on submission of completion certificates for works done.	No change
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	C	C	Virements are frequent but based on rules. These rules are generally respected; however, significant budget adjustments are made as evidenced in PI-2-1 and PI-2.2.	No change
PI-17 Recording and management of cash balances, debt, and guarantees	C	C		No change
(i) Quality of debt data recording and reporting	NA	D	The government has issued guarantees to the housing agency for the construction of condominiums but has failed to keep proper records to that effect. The government has no idea of the value of guarantees issued to the housing agency.	Not comparable; 2015 was rated NA

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Extent of consolidation of the government's cash balances	C	C	The bank accounts at BoFED are consolidated on a daily basis; however, other PBs send their bank account balances as part of the monthly reporting and these are consolidated by BoFED monthly.	No change
(iii) Systems for contracting loans and issuance of guarantees	C	D	BoFED is solely responsible for authorizing and approving guarantees. Nonetheless, there are no guidelines, policies, and procedures that guide the issuance of these guarantees.	No change as the 2015 assessment was overrated. It should have been D in 2015.
PI-18 Effectiveness of payroll controls	B+	C+		No real change; dimension (iv) in 2015 was overrated
(i) Degree of integration and reconciliation between personnel records and payroll data	B	B	There is no direct link between personnel and payroll records, but the payroll is fully supported by personnel files, timesheets, and changes to personnel records duly authorized by the head of the BI.	No change
(ii) Timeliness of changes to personnel records and the payroll	A	A	Changes to personnel and payroll records occur within the same month.	No change
(iii) Internal controls of changes to personnel records and the payroll	A	A	Both the personnel and payroll management processes are manual. The head of the BI and extra-budgetary unit is the sole responsible officer with the	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			authority to approve changes to personnel and payroll records in accordance with approved civil service posts. This control process is clear and sufficient for ensuring payroll integrity; changes result in manual audit trail.	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	B	C	No comprehensive payroll audit has been undertaken within the last three years; however, partial payroll audits are carried out as part of the usual annual financial and compliance audit by both internal and external auditors.	No real change; the same system on partial payroll audit exists, which is done as part of financial audit. Therefore, 2015 appears to be overrated.
PI-19 Competition, value for money, and controls in procurement	C	D+		No real change; dimension (iv) was overrated in 2015
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework	B	B	The Public Procurement Proclamation No. 157/2010 meets five out of the six PEFA requirements; it fails to meet element number (v).	No change
(ii) Use of competitive procurement methods	D	D	There are no reliable data on the use of competitive procurement methods.	No change
(iii) Public access to complete, reliable, and timely procurement information	D	D	There is no system for making procurement information available to the public.	No change
(iv) Existence of an independent administrative procurement complaints system	B	D	The procurement complaints system meets the following PEFA criteria (i), (iii), (iv), (v), and (vii). It does not	No real change; this was overrated in 2015. Criteria (ii) which relates to independence of members of review

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			meet criteria (ii) and (vi).	board has not changed since 2015 - three out of five members are directly involved in the process leading to contract award.
PI-20 Effectiveness of internal controls for non-salary expenditure	B	B		No change
(i) Effectiveness of expenditure commitment controls	B	B	Expenditure commitment controls exist through IBEX; it limits commitment to approved budget and cash flow projections for most types of expenditure.	No change
(ii) Comprehensiveness, relevance, and understanding of other internal control rules/procedures	B	B	The PFM proclamations and directives are comprehensive and clear, mostly understood by officials but may be excessive.	No change
(iii) Degree of compliance with rules for processing and recording transactions	B	B	Officials comply in most cases with PFM proclamations and directives; there are some instances where emergency procedures are used with less justification.	No change
PI-21 Effectiveness of internal audit	C+	C		No real change; dimension (ii) in 2015 appears to be overrated
(i) Coverage and quality of the internal audit function	C	C	Internal audit is functional in all BIs but limited in capacity and does not meet international standards. Audit work is mostly on financial and compliance audit.	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Frequency and distribution of reports	A	C	Internal audit reports are issued quarterly with copies to the head of the audited institution and BoFED, but not to ORAG (except on request).	No real change; this was overrated in 2015. The 2015 report clearly states that ORAG obtains copies of internal audit reports on request, meaning there is no systematic framework for ORAG to receive internal audit reports. This situation has not changed since then.
(iii) Extent of management response to internal audit function	C	C	The executive takes action on audit queries and recommendation but with significant delays.	No change
C(iii) Accounting, recording, and reporting				
PI-22 Timeliness and regularity of accounts reconciliation	B	B		No change
(i) Regularity of bank reconciliation	B	B	Bank reconciliation for the BoFED Treasury accounts takes place monthly within four weeks after the end of the previous month.	No change
(ii) Regularity and clearance of suspense accounts and advances	B	B	There are no suspense accounts; reconciliation of advances takes place at least once a year by the end of the second month of the new fiscal year but there are still some outstanding balances.	No change
PI-23 Availability of information on resources received by service delivery units	B	B	Both the health and education sectors collect and compile annual reports on both cash and in-kind resources received	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			by primary schools and health clinics.	
PI-24 Quality and timeliness of in-year budget reports	C+	C+		No real change in spite of the uncertainty surrounding dimension (iii)
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	In-year reports are directly comparable to original budget classification in detail; expenditure is captured at payment stages only.	No change
(ii) Timeliness of the issue of reports	C	A	BoFED prepares quarterly consolidated financial reports within four weeks after the end of the previous quarter.	Improvement in both score and performance
(iii) Quality of information	B	C	Concerns regarding data accuracy exist but they are neither highlighted in budget entity reports nor in consolidated BoFED reports. However, this does not fundamentally undermine the usefulness of financial information.	Change not apparent; the 2015 report does not state whether data concerns are highlighted in the in-year reports, which is required for a 'B' score. Officials have, however, confirmed that these reports do not highlight data concerns and could have been rated 'C' instead of 'B' in 2015.
PI-25 Quality and timeliness of annual financial statements	C+	C+		No change
(i) Completeness of the financial statements	B	B	The annual consolidated financial statements show information on revenues, expenditures, financial assets, and liabilities but with some omissions	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			such as government investments and contingent liabilities.	
(ii) Timeliness of submissions of the financial statements	A	A	The financial reports for EC 2010 (2018/2019) were submitted to the Regional Auditor General on November 5, 2018, which is within four months after the close of the fiscal year ended July 7, 2018.	No change
(iii) Accounting standards used	C	C	The financial statements for the last three years have been prepared using government standards in the legal framework on modified cash basis; they are consistent over time.	No change
C(iv) External scrutiny and audit				
PI-26 Scope, nature, and follow-up of external audit	C+	C+		No change
(i) Scope/nature of audit performed (including adherence to auditing standards)	C	C	Audit coverage is 63% by value. Audits are prepared using INTOSAI standards. Some performance audits are also conducted.	No change in score but there is improvement in performance as a result of some performance audits conducted
(ii) Timeliness of submission of audit reports to the legislature	C	C	Audit reports are submitted within nine months of receipt from BoFED to the regional council.	No change
(iii) Evidence of follow-up on audit recommendations	A	A	There is evidence of effective and timely follow-up by ORAG.	No change
PI-27 Legislative scrutiny of the annual budget law	B+	C+		Deterioration due to dimension (iv)
(i) Scope of the legislature scrutiny	B	B	The legislature's review covers fiscal policies and aggregates for the	No change

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			coming year as well as the details of expenditure and revenue.	
(ii) Extent to which the legislature's procedures are well established and respected	A	B	The rules for budget reviews are clear and well respected. There are specialized committees such as budget and finance committee and support from technical experts but there are no negotiation arrangements.	No real change; 2015 appears to be overrated as no negotiation committees or arrangements existed since then
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	B	The regional council has between four to six weeks in total to review macro aggregates and annual budget estimates.	No change
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature	B	C	Clear rules exist for in-year budget amendments by the executive and are adhered to in some instances. Two ex post supplementary budget approvals were done in EC 2009 (GC 2016/2017) and EC 2010 (GC 2017/2018).	Deterioration in both score and performance
PI-28 Legislative scrutiny of external audit reports	B+	B+		No change in overall score and performance even though there is improvement in dimension (i)
(i) Timeliness of examination of audit reports by the legislature	B	A	The review of audit reports is completed within one month of the receipt of audit report.	Improvement in both score and performance

Indicator/Dimension	Score previous assessment (2015)	Score current assessment (2018)	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Extent of hearing on key findings undertaken by the legislature	A	A	PAC conducts in-depth hearing on key audit findings; it invites officials from audited entities with qualified or adverse audit opinion, plus officials from BoFED and ORAG are in attendance.	No change
(iii) Issuance of recommended actions by the legislature and implementation by the executive	A	B	PAC issues recommendations to the executive and makes quarterly follow-ups, but not all recommendations are implemented.	No real change; 2015 was overrated as there are still repetitive findings; also, some recommendations have not been implemented
D-1 Predictability of direct budget support	NA	NA	Not applicable	No change
(i) Annual deviation of actual budget support from forecast	NA	NA	Not applicable	No change
(ii) In-year timeliness of donor disbursements	NA	NA	Not applicable	No change
D-2 Financial information provided by donors for budgeting and reporting on projects and programs	D+	NU	Deemed not relevant	Not comparable
(i) Completeness and timeliness of budget estimates by donor for project support	C	NU	Deemed not relevant	Not comparable
(ii) Frequency and coverage of reporting by donors on actual flows for project support	D	NU	Deemed not relevant	Not comparable
D-3 Proportion of aid that is managed by use of national procedures	C	NU	Deemed not relevant	Not comparable

Note: Public body; NU = Not assessed; NR = Not scored.

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

Analysis for PI-1: FY2015/2016

Fiscal years for assessment

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

Data for year = 2015/2016 (ETB, millions)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	1,796.49	2,053.19	1,644.95	414.86	414.86	25.2
Justice and Security	3,673.94	3,565.71	3,364.02	213.19	213.19	6.3
General Services	3,519.83	3,255.95	3,222.91	43.54	43.54	1.4
Agriculture and Natural Resources	3,226.42	3,238.91	2,954.26	295.09	295.09	10.0
Water, Mineral, and Energy Resources	3,606.05	2,917.19	3,301.86	-375.26	375.26	11.4
Trade, Transport, and Investment	1,573.84	1,735.46	1,441.08	299.98	299.98	20.8
Urban Land Management	5,612.10	5,520.06	5,138.69	399.17	399.17	7.8
Education and Training	11,163.16	9,741.78	10,221.49	-448.30	448.30	4.4
Youth and Sport, Culture and Tourism, and Social Affairs	1,153.78	933.12	1,056.45	-120.32	120.32	11.4
Health Office	6,756.83	5,309.41	6,186.86	-860.33	860.33	13.9
Relief and Control	222.17	340.70	203.43	138.37	138.37	68.0
Allocated expenditure	42,304.60	38,611.48	38,736.00	0.00	3,608.41	
Interest contingency	-646.51	-124.52				
Total expenditure	42,951.11	38,736.00				
Aggregate outturn (PI-1)						90.2
Composition (PI-2) variance						9.3
Contingency share of budget						0.29

Analysis for PI-1: FY2016/2017

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	1,903.01	2,587.34	1,966.07	635.09	635.09	32.3
Justice and Security	4,254.39	4,618.43	4,395.37	247.73	247.73	5.6
General Services	3,646.85	3,723.88	3,767.70	-23.93	23.93	0.6
Agriculture and Natural Resources	3,408.16	3,684.23	3,521.10	182.81	182.81	5.2
Water, Mineral, and Energy Resources	4,260.32	3,597.71	4,401.50	-784.57	784.57	17.8
Trade Transport and Investment	1,754.74	2,769.30	1,812.88	971.21	971.21	53.6
Urban Land Management	6,336.54	4,812.37	6,546.52	-1,708.45	1,708.45	26.1
Education and Training	11,946.71	14,118.87	12,342.60	1,851.68	1,851.68	15.0
Youth and Sport, Culture and Tourism, and Social Affairs	1,216.24	1,165.42	1,256.54	-84.89	84.89	6.8
Health Office	6,583.45	5,481.00	6,801.61	-1,291.33	1,291.33	19.0
Relief and Control	219.44	230.14	226.71	4.65	4.65	2.1
Allocated expenditure	45,529.83	46,788.67	47,038.60	0.00	7,786.34	
Interest contingency	-910.33	-249.93				
Total expenditure	46,440.16	47,038.60				
Aggregate outturn (PI-1)						101.3
Composition (PI-2) variance						16.6
Contingency share of budget						0.54

Analysis for PI-1: FY2017/2018

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	2,170.61	2,496.61	1,950.32	561.50	561.50	28.8
Justice and Security	5,668.70	5,395.83	5,093.40	335.31	335.31	6.6
General Services	4,754.57	4,808.86	4,272.04	566.12	566.12	13.3
Agriculture and Natural Resources	4,501.73	4,330.79	4,044.86	312.32	312.32	7.7
Water, Mineral, and Energy Resources	3,796.51	3,249.60	3,411.22	-141.82	141.82	4.2
Trade, Transport, and Investment	2,845.76	2,007.81	2,556.95	-536.90	536.90	21.0
Urban Land Management	7,373.71	4,481.82	6,625.37	-2,116.24	2,116.24	31.9
Education and Training	15,280.05	14,756.76	13,729.32	1,117.34	1,117.34	8.1
Youth and Sport, Culture and Tourism, and Social Affairs	1,254.00	1,189.27	1,126.74	69.78	69.78	6.2
Health Office	7,223.97	6,258.13	6,490.83	-194.57	194.57	3.0
Relief and Control	268.79	267.06	241.51	27.17	27.17	11.3
Allocated expenditure	55,138.40	49,242.55	49,542.55	0.00	5,979.07	
Interest contingency	-670.89	-300.00				
Total expenditure	55,809.29	49,542.55				
Aggregate outturn (PI-1)						88.8
Composition (PI-2) variance						12.1
Contingency share of budget						0.54

Analysis for PI-2: FY2015/2016

Fiscal years for assessment

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

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	20,028.6	18,251.6	18,063.1	188.5	188.5	1.0
Goods and Services	6,885.7	7,769.3	6,210.0	1,559.3	1,559.3	25.1
Fixed Assets and Construction	14,948.5	11,502.0	13,481.5	-1,979.5	1,979.5	14.7
Grants, Contributions and Subsidies to Institutions and Enterprises	318.2	694.0	286.9	407.0	407.0	141.9
Government Investment	307.1	306.4	277.0	29.4	29.4	10.6
Miscellaneous Payments	463.0	212.8	417.6	-204.8	204.8	49.1
Total expenditure	42,951.1	38,736.0	38,736.0	0.0	4,368.6	
Composition variance						11.3

Analysis for PI-2 FY2016/2017

Data for year = 2016/2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	22,944.6	25,855.0	23,240.3	2,614.7	2,614.7	11.3
Goods and Services	7,775.8	8,085.4	7,876.0	209.4	209.4	2.7
Fixed Assets and Construction	14,593.2	11,303.9	14,781.2	-3,477.3	3,477.3	23.5
Grants, Contributions, and Subsidies to Institutions and Enterprises	481.2	1,524.4	487.4	1,037.0	1,037.0	212.8
Government Investment	19.3	18.7	19.5	-0.9	0.9	4.4
Miscellaneous Payments	626.0	251.2	634.1	-382.9	382.9	60.4
Total expenditure	46,440.2	47,038.6	47,038.6	0.0	7,722.2	
Composition variance						16.4

Analysis for PI-2 FY2017/2018

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Personnel Services	32,560.6	31,486.5	28,904.4	2,582.1	2,582.1	8.9
Goods and Services	7,475.3	7,782.0	6,635.9	1,146.1	1,146.1	17.3
Fixed Assets and Construction	13,803.9	8,743.0	12,253.9	-3,510.9	3,510.9	28.7
Grants, Contributions, and Subsidies to Institutions and Enterprises	368.8	434.5	327.4	107.1	107.1	32.7
Government Investment	538.2	437.6	477.8	-40.1	40.1	8.4
Miscellaneous Payments	1,062.5	658.9	943.2	-284.3	284.3	30.1
Total expenditure	55,809.3	49,542.5	49,542.5	0.0	7,670.6	
Composition variance						15.5

Results matrix

Year	Composition variance
2015/2016	11.3%
2016/2017	16.4%
2017/2018	15.5%

Analysis of revenue outturn - PI-3: FY2015/2016

Fiscal years for assessment

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

Data for year = 2015/2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Tax on Income, Profit and Capital Gain	7,261.5	6,721.3	6,701.3	19.9	19.9	0.3
VAT	2,947.0	1,893.9	2,719.7	-825.7	825.7	30.4
Excise Taxes on Locally Manufactured Goods	72.3	121.5	66.7	54.8	54.8	82.2
Sales Turnover Tax on Locally Manufactured Goods	332.5	257.7	306.9	-49.2	49.2	16.0
Service Turnover Tax	85.1	83.9	78.5	5.4	5.4	6.9
Sales Tax on Imported Goods	0.0	2.1	0.0	2.1	2.1	
Stamp Sales and Duty	350.2	274.7	323.2	-48.5	48.5	15.0
Social contributions						
Contributions to Pension Fund	0.0	435,187.7	0.0	435,187.7	435,187.7	-
Grants						
Subsidy Transfer Receipt from MoF	28,681.7	27,450.6	26,469.2	981.3	981.3	3.7
Other revenue						
Research and Consultant Fee	0.0	1.1	0.0	1.1	1.1	-
Administrative Fees and Charges	246.9	389.2	227.8	161.4	161.4	70.8
Sales of Public Goods and Services	1,328.6	877.1	1,226.1	-349.0	349.0	28.5
Government Investment Income	228.0	231.8	210.4	21.4	21.4	10.2
Miscellaneous Revenue	424.8	418.3	392.0	26.3	26.3	6.7
Sales of Movable and Immovable Properties	3.1	1.0	2.9	-1.9	1.9	64.2
Total revenue	<u>41,961.7</u>	<u>38,724.9</u>	38,724.9	0.0	2,548.5	
Overall variance						92.3
Composition variance						6.6

Analysis of revenue outturn - PI-3 FY2016/2017

Data for year = 2016/2017

Economic Head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Tax on Income, Profit and Capital Gain	6,112.2	6,841.0	6,395.6	445.4	445.4	7.0
VAT	2,056.7	1,677.4	2,152.1	-474.7	474.7	22.1
Excise Taxes on Locally Manufactured Goods	161.7	99.9	169.2	-69.4	69.4	41.0
Sales Turnover Tax on Locally Manufactured Goods	323.7	269.5	338.7	-69.3	69.3	20.4
Service Turnover Tax	113.7	101.8	118.9	-17.1	17.1	14.4
Stamp Sales and Duty	390.7	307.7	408.8	-101.0	101.0	24.7
Sales Tax on Imported Goods	0.0	5.8	0.0	5.8	5.8	
Social contributions						
Contributions to Pension Fund	0.0	0.5	0.0	0.5	0.5	-
Grants						
Subsidy Transfer Receipt from MoF	32,406.0	35,086.8	33,908.3	1,178.5	1,178.5	3.5
Other revenue						
Research and Consultant Fee	0.0	1.1	0.0	1.1	1.1	-
Administrative Fees and Charges	498.9	263.9	522.1	-258.2	258.2	49.5
Sales of Public Goods and Services	1,172.6	1,151.1	1,227.0	-75.9	75.9	6.2
Government Investment Income	317.7	230.3	332.5	-102.2	102.2	30.7
Miscellaneous Revenue	850.9	427.7	890.4	-462.6	462.6	52.0
Royalty on Public Assets	0.0	0.1	0.0	0.1	0.1	
Sales of Movable and Immovable Properties	1.0	0.0	1.0	-1.0	1.0	100.0
Total revenue	44,406.0	46,464.7	46,464.7	0.0	3,263.0	
Overall variance						104.6%
Composition variance						7.0%

Analysis of revenue outturn - PI-3 FY2017/2018

Data for year = 2017/2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Tax revenues						
Tax on Income, Profit, and Capital Gain	6,937.3	8,779.5	7,620.2	1,159.3	1,159.3	15.2
VAT	1,896.6	1,789.8	2,083.3	-293.6	293.6	14.1
Excise Taxes on Locally Manufactured Goods	192.4	181.0	211.3	-30.4	30.4	14.4
Sales Turnover Tax on Locally Manufactured Goods	329.0	508.7	361.3	147.3	147.3	40.8
Service Turnover Tax	133.4	176.9	146.5	30.4	30.4	20.8
Stamp Sales and Duty	317.0	408.8	348.2	60.6	60.6	17.4
Social contributions						
Contributions to Pension Fund	0.0	0.1	0.0	0.1	0.1	-
Grants						
Subsidy Transfer Receipt from MoF	39,791.7	41,632.9	43,708.7	-2,075.8	2,075.8	4.7
Other revenue						
Research and Consultant Fee	0.0	5.1	0.0	5.1	5.1	-
Administrative Fees and Charges	234.2	254.1	257.2	-3.1	3.1	1.2
Sales of Public Goods and Services	518.6	1,343.2	569.6	773.6	773.6	135.8
Government Investment Income	186.6	194.6	205.0	-10.3	10.3	5.0
Miscellaneous Revenue	254.4	516.9	279.5	237.4	237.4	84.9
Sales of Movable and Immovable Properties	0.6	0.0	0.7	-0.7	0.7	100.0
Total revenue	<u>50,791.7</u>	<u>55,791.5</u>	55,791.5	0.0	4,827.7	
Overall variance						109.8
Composition variance						8.7

Results matrix

Year	Total revenue deviation	Composition variance
2015/2016	92.3%	6.6%
2016/2017	104.6%	7.0%
2017/2018	109.8%	8.7%

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

Fiscal years for assessment

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

Data for year = 2015/2016

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	1,796.49	2,053.19	1,644.95	414.86	414.86	25.2
Justice and Security	3,673.94	3,565.71	3,364.02	213.19	213.19	6.3
General Services	3,519.83	3,255.95	3,222.91	43.54	43.54	1.4
Agriculture and Natural Resources	3,226.42	3,238.91	2,954.26	295.09	295.09	10.0
Water, Mineral, and Energy Resources	3,606.05	2,917.19	3,301.86	-375.26	375.26	11.4
Trade, Transport, and Investment	1,573.84	1,735.46	1,441.08	299.98	299.98	20.8
Urban Land Management	5,612.10	5,520.06	5,138.69	399.17	399.17	7.8
Education and Training	11,163.16	9,741.78	10,221.49	-448.30	448.30	4.4
Youth and Sport, Culture and Tourism, and Social Affairs	1,153.78	933.12	1,056.45	-120.32	120.32	11.4
Health Office	6,756.83	5,309.41	6,186.86	-860.33	860.33	13.9
Relief and Control	222.17	340.70	203.43	138.37	138.37	68.0
Allocated expenditure	42,304.60	38,611.48	38,736.00	0.00	3,608.41	
Grants - SDG	-4,667.50	-3,651.10				
Contingency	646.51	0.00				
Total expenditure	38,283.61	34,960.38				
Aggregate outturn (PI-1)						101.2
Composition (PI-2) variance						9.3
Contingency share of budget						0.00

Data for year = 2016/2017

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	1,903.01	2,587.34	1,966.07	635.09	635.09	32.3
Justice and Security	4,254.39	4,618.43	4,395.37	247.73	247.73	5.6
General Services	3,646.85	3,723.88	3,767.70	-23.93	23.93	0.6
Agriculture and Natural Resources	3,408.16	3,684.23	3,521.10	182.81	182.81	5.2
Water, Mineral, and Energy Resources	4,260.32	3,597.71	4,401.50	-784.57	784.57	17.8
Trade, Transport, and Investment	1,754.74	2,769.30	1,812.88	971.21	971.21	53.6
Urban Land Management	6,336.54	4,812.37	6,546.52	-1,708.45	1,708.45	26.1
Education and Training	11,946.71	14,118.87	12,342.60	1,851.68	1,851.68	15.0
Youth and Sport, Culture and Tourism, and Social Affairs	1,216.24	1,165.42	1,256.54	-84.89	84.89	6.8
Health Office	6,583.45	5,481.00	6,801.61	-1,291.33	1,291.33	19.0
Relief and Control	219.44	230.14	226.71	4.65	4.65	2.1
Allocated expenditure	45,529.83	46,788.67	47,038.60	0.00	7,786.34	
Grants - SDG	-3,894.00	-2,336.40				
Contingency	910.33	0.00				
Total expenditure	42,546.16	44,452.27				
Aggregate outturn (PI-1)						110.6
Composition (PI-2) variance						16.6
Contingency share of budget						0.00

Data for year = 2017/2018

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percent
Organs of the Government	2,170.61	2,496.61	1,950.32	561.50	561.50	28.8
Justice and Security	5,668.70	5,395.83	5,093.40	335.31	335.31	6.6
General Services	4,754.57	4,808.86	4,272.04	566.12	566.12	13.3
Agriculture and Natural Resources	4,501.73	4,330.79	4,044.86	312.32	312.32	7.7
Water, Mineral, and Energy Resources	3,796.51	3,249.60	3,411.22	-141.82	141.82	4.2
Trade, Transport, and Investment	2,845.76	2,007.81	2,556.95	-536.90	536.90	21.0
Urban Land Management	7,373.71	4,481.82	6,625.37	-2,116.24	2,116.24	31.9
Education and Training	15,280.05	14,756.76	13,729.32	1,117.34	1,117.34	8.1
Youth and Sport, Culture and Tourism, and Social Affairs	1,254.00	1,189.27	1,126.74	69.78	69.78	6.2
Health Office	7,223.97	6,258.13	6,490.83	-194.57	194.57	3.0
Relief and Control	268.79	267.06	241.51	27.17	27.17	11.3
Allocated expenditure	55,138.40	49,242.55	49,542.55	0.00	5,979.07	
Grants - SDG	-2,271.50	-1,929.76				
Contingency	670.89	0.00				
Total expenditure	53,537.79	47,312.79				
Aggregate outturn (PI-1)						92.5
Composition (PI-2) variance						12.1
Contingency share of budget						0.00

Summary calculation sheet for PI-3 (2011 methodology)**Figures in ETB, millions**

	2015/2016	2016/2017	2017/2018
Approved original budget	13,280.0	12,000.0	11,000.0
Actual aggregate revenue	11,274.3	11,377.8	14,158.6
Outturn	84.9%	94.8%	128.7%

Annex 7: Service delivery pilot

1. Context for the assessment

1. Oromia is one of the nine regions and two city administrations making up the Federal Democratic Republic of Ethiopia. It is the largest and most populous region with an estimated population of 40 million, about one-third of the entire country. The Bureau of Education and Bureau of Health are responsible for the implementation of the region's education and health policy, respectively. Both bureaus have a direct relationship with the respective federal government line ministries when it comes to national-level policies and strategies. There are two tiers of governments under the regional government: (a) zones and (b) woredas. There are 21 zones and 336 woredas and city administrations (290 rural and 46 urban). The zones are branches of the regional government while woredas and city administrations have their own jurisdictional power in managing their own budget. Both education and health sectors are operational at all levels. The regional government receives subsidies from the federal government and in turn allocates subsidies (block grants) to woredas and city administrations. Woredas approve their own budget and allocate their budget based on the respective woreda policies in line with the regional priorities.

2. Institutional Arrangements

2.1 Health

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

3. The Oromia health administration structure follows the administrative structure of the region, where there is a BoH at the regional level and Health Offices at zones and woredas. The PHCUs, that is, the woreda health centers report to the woreda health offices while the secondary and tertiary health care report to the regional BoH. Zonal health offices coordinate and support woreda health offices. Table A7.1 summarizes the structure.

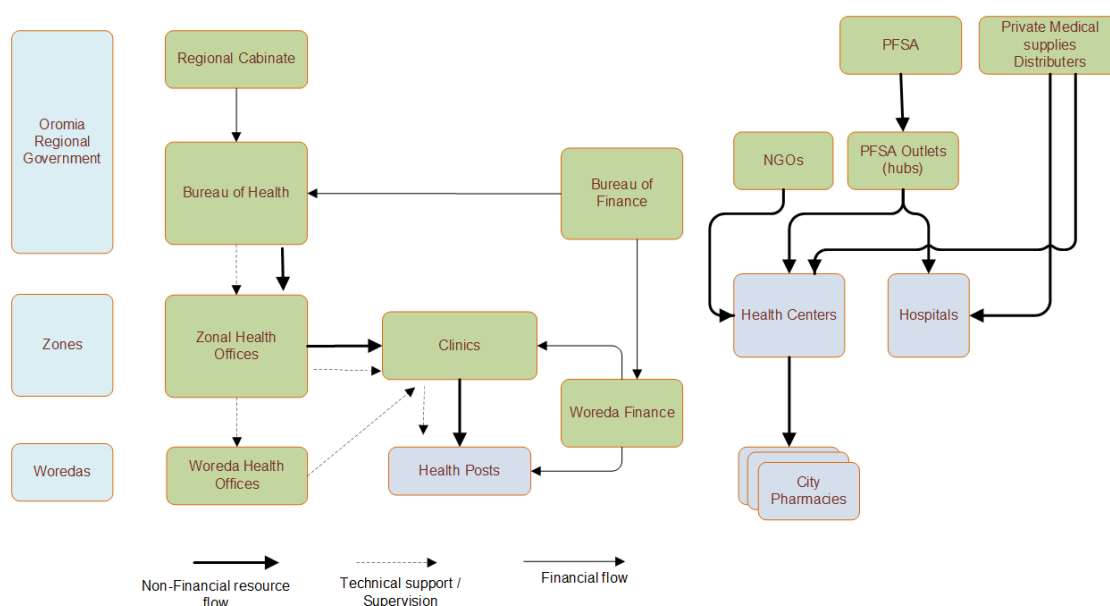
Table A7.1: Responsibilities in service delivery, health

No.	Entity	Responsibility
1	BoH	It is responsible for development of sector strategy for the region. The bureau is also responsible for capital projects including construction of health centers in the woreda.
2	Zonal health offices	They coordinate the health services issues within the zone; ensure implementation of health policies; and provide technical guidance to woreda health offices.
3	Woreda health offices	They provide technical advice and support to health centers, including supervision and coordination of health service delivery at their jurisdiction.
4	EPSA	This agency is a federal government entity. It supplies medical inputs to health facilities from its distribution hubs. It also supplies pharmaceutical products to health facilities (including health centers and hospitals). It provides pharmaceutical products on a commercial basis; other than those projects finance, (mainly donor funded). Health centers and hospitals buy

No.	Entity	Responsibility
		pharmaceutical products from other private suppliers when such supplies are not available at EPSA.
7	BoFED	BoFED is responsible for the overall public planning, budgeting, treasury management, accounting, and reporting of the region. It directly disburses the approved budget based on cash flow forecasts and on the request of the Bureau of Health, regional level agencies, zones, and woreda finance offices.
8	Zonal finance office	Zonal finance offices are responsible for all financial management functions of the zone. The financial management function is centralized (pooled) for all the offices.
9	Woreda finance office	Woreda finance offices are responsible for all financial management functions of the woreda. The financial management, procurement, and internal audit functions are centralized (pooled) for all the offices and handled by the finance office.
10	Health centers	They provide health services to the community. Their budgets and financial management functions are handled by the woreda finance office. They are also responsible for the procurement of medical supplies from EPSA and private suppliers. Their revenue streams are the budget from the woreda and their own source revenue.

4. Figure A7.1 shows the relationship across level of governments in the Oromia Region. The thick line shows the nonfinancial resource flows, the thin line shows the financial flow, and the broken line shows technical support.

Figure A7.1: Service delivery relationships across government



5. Zonal offices are basically branches of the regional offices, and their budgets are declared with the regional bureaus. Woredas have jurisdictional power and receive block grant (subsidy) from the regional government and allocate their budget based on their priority. The financial management function is centralized (pooled) at zonal and woreda levels where the finance office handles all financial matters and the Health Office and health centers do not involve in financial management. Procurement and internal audit functions are also handed by zonal and woreda finance offices. BoFED transfers approved budgets to the BoH regional agencies, and zonal and woreda finance offices.

6. Actual expenditure outturn of the health sector was lower than the approved budget in the last three years: between 13 percent and 17 percent. This low outturn is linked to the overall low expenditure outturn of the region in 2015/2016 and 2017/2018; while in 2016/2017 the overall regional expenditure outturn was good (1.3 percent above the budget), the health sector outturn was 17 percent less than the approved budget. The share of health budget remained constant between 12 percent and 14 percent in the last three years. Table A7.2 shows the share of the health sector budget compared to the regional budget.

Table A7.2: Regional health sector budget compared with the regional total budget (ETB, billions)

	2017/2018				2016/2017				2015/2016			
	Budget	Actual	Share of Health	Budget short	Budget	Actual	Share of Health	Budget short	Budget	Actual	Share of Health	Budget short
Region	55.81	49.54		88.8%	46.44	47.04		101.3%	42.95	38.74		90.2%
Health	7.22	6.30	13%	87.2%	6.58	5.51	12%	83.7%	6.76	5.33	14%	78.8%

Source: Budget Execution Report, Annual Accounts, BoFED, team calculations.

7. Table A7.3 shows the allocation of the health budget between bureaus and offices at regional and woreda levels and hospitals and health stations. The share of hospitals and health stations was between 85 percent and 87 percent of the total regional health budget for the three years under review, indicating that most resources from the health sector budget are directed toward primary health care services.

Table A7.3: Share of the budget on health sectors going to service delivery units (health centers and hospitals)

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
Total health budget	7.22	6.30	6.58	5.51	6.76	5.33
Regional and woreda health bureaus and offices	0.94	0.91	0.86	0.84	0.82	0.79
	13%	15%	13%	15%	12%	15%
Hospitals and health stations	6.29	5.38	5.73	4.67	5.93	4.54
	87%	85%	87%	85%	88%	85%

2.2 Education

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

9. At the regional level, there are two bodies responsible for education: technical and vocational education training agency, which is responsible for technical and vocational training and the BoE, which is responsible for general education. There are also zonal and woreda education offices under

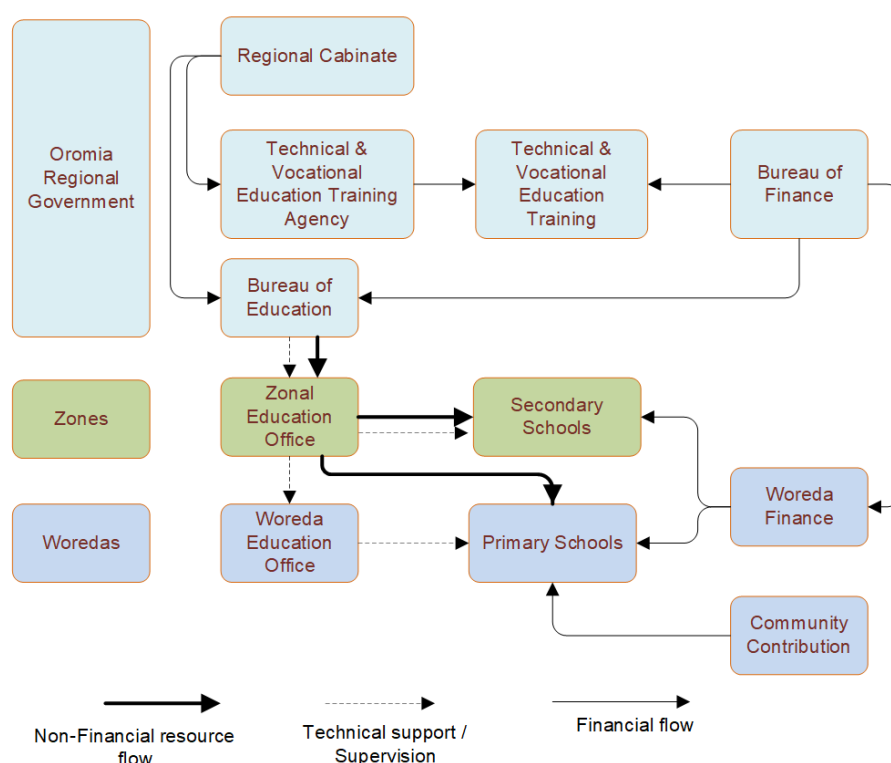
the BoE. Technical and vocational training institutions are managed by the BoE while secondary schools (general and preparatory schools) are managed by the zonal offices. Pre-primary and primary schools report to woreda education offices. Table A7.4 summarizes the structure.

Table A7.4: Responsibilities in service delivery, education

No.	Entity	Responsibility
1	BoE	It is responsible for development of education sector strategy for the region and setting of city-level education standards and policies. The bureau is also responsible for capital projects including construction of schools.
2	Zonal education offices	They coordinate and provide support to woreda education offices under the zone.
3	Woreda education offices	They provide technical advice and support to schools including supervision and coordination of education services within their jurisdiction.
4	BoFED	BoFED is responsible for the overall public planning, budgeting, treasury management, accounting, and reporting of the region. It directly disburses the approved budget based on cash flow forecast and on request of the BoE and zonal and woreda finance offices.
5	Zonal finance office	Zonal finance offices are responsible for all financial management functions of the zone. The financial management function is centralized (pooled) for all the offices.
6	Woreda finance office	Woreda finance offices are responsible for all financial management functions of the woreda. The financial management, procurement, and internal audit functions are centralized (pooled) for all the offices and handled by the finance office.
7	Primary schools	They provide primary school education to the community. Financial management, procurement, and internal audit functions are provided by the woreda finance office. Their revenue streams are from the budget allocated from the woreda and own revenue.

10. Figure A7.2 shows the relationship across level of governments in the region. The thick line shows the nonfinancial resource flows, the thin line shows the financial flow, and the broken line shows technical support.

Figure A7.2 Service Delivery relationships across government



11. Woredas receive block grants (subsidies) from the regional government and allocate their budget based on their priority. Financial, procurement, and internal audit functions are centralized (pooled) at zonal and woreda levels and handled by the finance office. The woreda education office and schools are not involved in financial management. BoFED transfers approved budgets to the BoE, regional agencies, and zonal and woreda finance offices.

12. Table A7.5 gives a general overview of education sector expenditure. The actual expenditure outturn of the education sector was good in 2016/2017 and 2017/2018 at 118.8 percent and 97.2 percent of the total regional budget, respectively, while it was under budget at 87.5 percent in 2015/2016. In 2015/2016 the regional expenditure outturn was also low at 90.2 percent while in 2016/2017 it was good at 101.3 percent. The education sector outturn matches the regional outturn in these years, while in 2017/2018 the regional outturn was low at 88.8 percent while the education sector outturn was good at 97.2 percent.

Table A7.5: Regional education sector budget compared with the regional total budget (ETB, billion)

	2017/18				2016/17				2015/16			
	Budget	Actual	Share of Education	Budget short	Budget	Actual	Share of Education	Budget short	Budget	Actual	Share of Education	Budget short
Region	55.81	49.54		88.8%	46.44	47.04		101.3%	42.95	38.74		90.2%
Educational	15.28	14.85	30%	97.2%	11.95	14.19	30%	118.8%	11.16	9.77	25%	87.5%

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

13. Table A7.6 shows the allocation of the education budget among the different service delivery units. Primary schools received between 56 percent and 59 percent of the total education budget; high schools, TVET, and colleges received between 23 percent and 25 percent; and 16 percent to 21 percent of the total budget was allocated to bureaus and offices at the regional and woreda levels.

Table A7.6: Share of the budget on the education sectors going to service delivery units (schools) (ETB, billions)

	2017/2018		2016/2017		2015/2016	
	Budget	Actual	Budget	Actual	Budget	Actual
Total education budget	15.28	14.85	11.95	14.19	11.16	9.77
Regional and woreda education bureaus	2.63	2.33	3.06	3.00	3.03	2.08
	17%	16%	26%	21%	27%	21%
High schools, TVET, and colleges	4.05	3.74	2.77	3.28	2.55	2.31
	26%	25%	23%	23%	23%	24%
Primary schools	8.61	8.77	6.12	7.92	5.58	5.38
	56%	59%	51%	56%	50%	55%

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

3. Objectives and scope

14. The entities selected for the standard PEFA assessment comprise the federal government, four big regions, one emerging region, and Addis Ababa city administration. The assessment covers the seven key pillars in PEFA and two additional components pertaining to impact of the prevailing PFM system on service delivery performance. The service delivery assessment, which is a pilot, is focused on the health and education sectors in the Federal Government of Ethiopia, Addis Ababa city, and Oromia and Somali regional governments. The pilot assessments review the flow and the efficiency of the use of funds in these sectors and between the levels of government to identify PFM strengths and weaknesses. This pilot assessment is on the Oromia regional government.

15. The following service delivery units were visited:

- Schools
 - Dhaka Boora primary school
 - Koka primary school
- Health centers
 - Dhaka Boora health center
 - Koka health center

16. The team also visited the Finfine (Addis Ababa) zone for having an expanded view of how service delivery works especially in the area of capital projects, procurement, and performance information for service delivery. The service delivery assessment focuses on the financial operations of the education and health sector and includes budgetary and extra-budgetary funds as well as oversight and accountability functions of mandated institutions. While own revenues and expenditures of health centers are budgeted and reported, those for primary schools are not. Table A7.7 shows the units covered by the service delivery assessment.

Table A7.7: Main government and public sector units of the education and health sectors to be covered by the service delivery assessment

Budgetary units	Extra-budgetary units	Public corporations ^a
Office of the regional government	Not applicable. Internal revenues are reported and are part of the budget.	Not applicable for service delivery.
BoF		
BoE		
BoH		
Health centers		
Primary schools		
Health centers		

Note: a. Only include institutional units within the scope of the assessment. For assessments of subnational governments, such units would only be those owned and controlled by the subnational government.

4. Methodology

17. The approach employed for this service delivery module has been requested, discussed, and agreed with the Task Team Leader, Rafika Chaouali, Lead Governance Specialist at the World Bank, and Ana Bellver, Senior Public Sector and Governance Specialist, World Bank. The fieldwork and drafting of this report were led by Charles Komla Hegbor (International PFM/PEFA expert) and ably assisted by Samuel Gebremedhin (National PFM/PEFA expert). Elena Morachiello, Elisaveta Teneva, and Getnet Haile also assisted in quality review. The team of independent consultants also developed the theoretical framework for the service delivery module under the guidance of Ana Bellver and with feedback from Rafika Chaouali and Meron Tadesse. The PEFA framework has been applied to review the PFM processes and their implications on service delivery units in the health and education sectors in the Oromia regional government. This involved visits, interviews, and documents review in primary service delivery units in both sectors. This service delivery assessment is focused on the financial operations with implication to services in the health and education sectors. The assessment presents the facts relevant to service delivery units through the application of selected PEFA PIs (as shown in Table A7.8) with appropriate conclusions. It should be noted that the sample taken is too small to provide overall conclusion for the sectors, however is able to provide insight into the situation at the service delivery unit level.

Table A7.8: PEFA PIs covered by the service delivery module

Pillars	Included	Not included
HLG		
I. Budget reliability	PI-1 and PI-2	PI-3
II. Transparency of public finances	PI-6; PI-7; PI-8; PI-9	PI-5
III. Management of assets and liabilities	PI-11 and PI-12.2	PI-10; PI-13
IV. Policy-based fiscal strategy and budgeting	PI-16.2 and 3, and PI-17	PI-14; PI-15 and PI-18
V. Predictability and control in budget execution	PI-21.3; PI-22; PI-23; PI-24; PI-25; PI-26	PI-19; PI-20
VI. Accounting and reporting	PI-29	
VII. External scrutiny and audit	PI-30	PI-31

5. Service delivery assessment

HLG-1: Transfers from a higher-level government

HLG-1.1 Outturn of transfer from higher-level government

18. The Oromia regional government transfers all the annual budgeted general purpose grant (subsidy) to woredas. Table A7.9 shows the budgeted and transferred grant to woredas for the three

years under review and 100 percent of the budgeted grant was transferred to woredas. This has significant positive impact for service delivery in the woredas since their major source of revenue is from the regional grant.

Table A7.9: Outturn of transfer from regional government

	2015/2016	2016/2017	2017/2018
Original budget	16,525,811,033.23	22,163,398,995.34	24,327,572,585.31
Actual transfer	16,525,811,033.23	22,163,398,995.34	24,327,572,585.31
% outturn	100	100	100

Source: Oromia BoFED.

HLG-1.2 Earmarked grants outturn

19. Not applicable. There is no earmarked grant allocated to woredas from the regional government.

HLG-1.3 Timeliness of transfer from higher-level government

20. BoFED records transfers to woredas and city administrations in account code 6411 and an analysis of this account shows that there is an even disbursement throughout the year. Visited woredas confirmed that under normal circumstances they request monthly for one-twelfth of the annual budgetary unless there are exceptional cases such as large procurements, in which case the additional money is deducted from the next month's transfer.

Pillar I: Budget reliability

PI-1 Aggregate expenditure outturn

Health

21. The aggregate expenditure outturn of the health sector was below the approved budget for the last three years under assessment. As shown in Table A7.10, the outturn was 79 percent, 84 percent, and 87 percent in 2015/2016, 2016/2017, and 2017/2018. The main reason for this low outturn is the unrealistic budgeting process, especially in capital budgeting where many planned capital projects are not carried out due to lack of sufficient preparation in the public procurement process. The low outturn in capital expenditure is also due to the lengthy procurement process, though legal. This affects completion of capital investment projects badly needed for efficient service delivery.

Table A7.10: Aggregate expenditure outturn of the health sector

Fiscal year	Original budget	Actual expenditure	Unused budget	Aggregate expenditure outturn % against the original budget
2017/2018	7,223,966,493.00	6,296,257,285.72	927,709,207.28	87
2016/2017	6,583,445,263.00	5,510,278,123.73	1,073,167,139.27	84
2015/2016	6,756,829,523.00	5,326,527,975.85	1,430,301,547.15	79

22. The expenditure outturn was better at Lume woreda, while lack of strict budget discipline was observed in Bishoftu woreda, where the outturn was 239 percent in 2016/2017. This was caused mainly by construction of two new health centers for which budget was not originally allocated (these new health centers were constructed out of emergency). The expense was covered by a supplementary budget approved in the middle of the year. This shows that the link with health policies

and priorities is weak. The total expenditure outturn in the visited health centers shows mixed results where Dhaka Boora health center's performance was better. The expenditure outturn of Oromia Special Zone was good in 2015/2016 and 2017/2018, while being significantly below budget in 2016/2017. This was due to capital budgets that were not implemented as planned because of lack of funds from the federal government. The capital budget outturn for the same year was only 26 percent while recurrent budget outturn was 99 percent. Tables A7.11, A7.12, and A7.13 show the expenditure outturn for the visited zone, woredas, and health centers, respectively (detailed calculation in appendix). Expenditure outturns at primary service delivery levels indicate better performance (refer to Table A7.11).

Table A7.11: Aggregate expenditure outturn of Oromia Special Zone

Ethiopian Fiscal Year	Original budget	Actual expenditure	Aggregate expenditure outturn % against the original budget
2017/2018	7,568,923	7,396,641	98
2016/2017	11,930,121	5,566,017	47
2015/2016	10,889,222	10,470,258	96

Source: Oromia Special Zone Finance Office.

Table A7.12: Aggregate expenditure outturn of the visited woredas (%)

Woreda	2015/2016	2016/2017	2017/2018
Lume	98%	113	103
Bishoftu	118%	239	83

Table A7.13: Aggregate expenditure outturn of the visited health centers (%)

Primary service delivery unit	2015/2016	2016/2017	2017/2018
Dhaka Boora Health Center	98	110	93
Koka Health Center	89	104	115
Bishoftu Health Center	94	117	83

Education

23. The actual expenditure outturn of the education sector deviated from the original budget between 3 percent and 19 percent, where the largest deviation was observed in 2016/2017. The link between budgets and policies and government priorities was observed to be weak where there are supplementary budgets approved to meet unforeseen expenditures. This is also demonstrated in Table A7.16 where the actual outturn of the visited woredas was significantly higher than the budget and in Table A7.15 where the actual expenditure outturn of Oromia Special Zone is significantly lower for the three years. The reason for the high outturn in woredas in 2016/2017 is that various school expansions were conducted in the year which were not part of the original budget but later covered by a supplementary budget; these school expansion projects were put on hold due to lack of funds during the preparation of the original budget. Table A7.14 shows the actual aggregate expenditure outturn of the regional education sector for the three years under review.

Table A7.14 Actual aggregate expenditure outturn in education sector

Fiscal year	Original budget	Actual Expenditure	Unused budget	Aggregate expenditure outturn % against the original budget
2017/2018	15,280,049,756	14,846,657,512	433,392,244	97
2016/2017	11,946,711,665	14,194,285,378	2,247,573,713	119
2015/2016	11,163,160,853	9,773,196,463	1,389,964,390	88

Source: Oromia BoFED.

Table A7.15: Aggregate expenditure outturn of Oromia Special Zone

Ethiopian Fiscal Year	Original budget	Actual expenditure	Aggregate expenditure outturn % against the original budget
2017/2018	17,822,591	9,269,689	52
2016/2017	19,309,669	13,972,218	72
2015/2016	19,814,482	16,033,301	81

Source: Oromia Special Zone Finance Office

Table A7.16: Aggregate Expenditure outturn of the visited woredas (%)

Woreda	2015/2016	2016/2017	2017/2018
Lume	97	126	99
Bishoftu	98	168	104

Source: Oromia BoFED.

PI-2 Expenditure composition outturn

24. Budget transfers from one line item to another budget line item are very common in all visited institutions. Transfer from the capital budget to the recurrent budget is not allowed. As a matter of fact, schools and health clinics do not have access to the capital budget as it is managed by the woredas. This indicator is not applicable because budget reallocations do not emanate from primary service delivery institutions.

Pillar II: Transparency of public finance

PI-6 Regional government operations outside financial reports

Education

25. Schools collect internal revenue from various sources such as rent of land, sale of grass, and parents' contribution. This revenue from schools is not budgeted for and is not part of the financial report of the schools. In Lume woreda there are 62 primary schools, 3 high schools, and 2 preparatory schools, and all schools except high schools and preparatory schools collect internal revenue. The practice is similar in Bishoftu city administration where there are 30 primary and 2 high schools. In Bishoftu woreda, an average of ETB 400 per family is collected per year and this fund is administered by the parents-teacher association (PTA). The money is collected using receipts printed by the Education Office. Schools use this money for various purposes such as maintenance of classrooms, fencing, purchase of stationery, duplicating of exam papers, purchase of books, and hiring of security guards. The board of the school PTA decides on the use and allocation of the schools' own revenue; this is properly accounted for.

26. Table A7.17 shows the amount of revenue collected by some of the visited schools for the three years under review. Since the revenue data are not consolidated for all schools found in the region, it is difficult to evaluate the proportion of revenue that is not reported. That said, officials have indicated that on average, each primary school collects about ETB 60,000 per year as own revenue. Therefore, one could conclude that Lume woreda's own revenue from primary schools not reported amounts to ETB 3.72 million (ETB 60,000 multiplied by 62 primary schools) and Bishoftu woreda's revenue amounts to ETB 1.8 million (ETB 60,000 multiplied by 30 primary schools).

Table A7.17: Internal revenue collected by visited schools

School	Year	Internal revenue (ETB)	Annual budget of school	Percentage of internal revenue
Bole junior school	2015/2016	629,396.63	No data	Not computed due to lack of data

School	Year	Internal revenue (ETB)	Annual budget of school	Percentage of internal revenue
	2016/2017	805,947.50	No data	Not computed due to lack of data
	2017/2018	156,995.40	No data	Not computed due to lack of data
Koka Negewo primary school	2015/2016 to 2017/2018	No data	No data	Not computed due to lack of data
Dhaka Boora primary school	2015/2016 to 2017/2018	No data	No data	Not computed due to lack of data

Health

27. Health centers collect internal revenue from various sources such as medical examination fee and sale of medicines. But all internal revenue of health centers is budgeted and reported. There is no unreported internal revenue collection. Unlike the regular budget which is managed by the woreda finance office, the internal revenue is managed by the health centers themselves and they have an accounting unit and bank account. They have an accountant, a cashier, and an assistant revenue collector. This fund is administered by a board chaired by the woreda administrator. Health centers receive project-funded medical supplies through EPSA; however, the financial reports of health centers do not contain information on the value of medical supplies received in kind. The financial reports contain only the value of medical supplies purchased from the operating budget of the health centers.

PI-7 Transfers to subnational governments

PI-7.1 System for allocating transfers

28. The regional council subcommittee on decentralization is responsible for approving the grant distribution formula for woredas; this is done after the regional cabinet endorses the formula proposed by the Budget Directorate in collaboration with the planning commission. The system of horizontal allocation of grants is transparent and rule based. The grant distribution formula is based on four main criteria: (a) population size of the woreda - this is also referred to as the number of beneficiaries of services in each woreda, (b) infrastructure deficit, (c) the per capita (unit) cost approach in terms of services provided in the woreda, and (d) the revenue-generating potential of the woreda - the more revenue generated, the more the grant received; this is used as an incentive. Also, actual distribution of the grant does not deviate from the approved formula. The utilization of woreda grants appears to have a more service-oriented focus, with little room to ignore regional government-approved annual plans. The woredas are also aware that failure to deliver on approved plans and/or deviation from original plans could have serious consequences in terms of allocation of future grants; therefore, they are bound to stick to the original plan.

PI-7.2 Timeliness of information on the transfers

29. The annual budget calendar issued by the MoF (federal government) provides an indicative ceiling of transfers to subnational governments (regional governments) by February. The regional government received the approved initial ceilings on subsidies from the federal government on June 20, 2017, for FY2017/2018. Based on this initial ceiling which provides clear and sufficient details, woredas are notified to prepare their budget estimates in June, allowing only about two weeks to finalize their budget estimates. The woredas/city administration use the approved previous year's ceilings to prepare their budgets. The final ceilings are communicated to the woredas/city administration after the House of Representatives approves the federal government annual budget in early July, providing actual grant allocation to the region. This necessitates minor adjustments to

woreda/city administration budgets around mid-July but does not exceed 3 percent of the woreda's initial budget estimates

PI-8 Performance information for service delivery

30. Both the health and education sectors in the woredas prepare five-year medium-term strategic plans, that is, the 'Health Sector Transformation Plan'¹² for the health sector and 'ESDP V' for the education sector, each plan summarizing achievements in previous medium-term strategies as well as detailed activities with key performance indicators (KPIs) for the current period.

Health

31. Some examples of key PIs for the new fiscal year, FY2018/2019, as contained in the Lume woreda health annual plan include improvement in maternal and child health care from 80 percent in 2017/2018 to 95 percent in 2018/2019, enhancement of disease control activities from 78 percent in 2017/2018 to 85 percent in 2018/2019, improvement in community-based insurance from 50 percent in 2017/2018 to 90 percent in 2018/2019, and improvement in clinical supervision from 66 percent in 2017/2018 to 80 percent in 2018/2019. The Bishoftu city administration health office also prepares annual action plans with KPIs; some of these include: improve antenatal care from 90 percent in 2017/2018 to 100 percent in 2018/2019 and increase polio vaccination from 70 percent in 2017/2018 to 85 percent in 2018/2019. The planned activities with their KPIs are published on the woreda (Lume and Bishoftu) noticeboards; the Dhaka Boora and Koka health centers also post their annual performance plans on their noticeboards.

32. Similar observations were made at Lume and Bishoftu (including their respective primary health centers) in terms of preparation and publication of monthly, quarterly, and annual performance reports; these performance reports on planned outputs and outcomes are prepared, they are neither published nor posted on public noticeboards. That said, each of the woredas holds public forums to discuss annual performance. Both the regional BoH and the federal ministry of health conduct annual and biannual performance evaluations of the woreda health sector; these reports are not published but a public forum is organized to discuss key findings and suggestions for future improvement in service delivery. A number of challenges were observed within the Bishoftu health sector; these include shortage in manpower, shortages in medicine, and insufficient clinical rooms, all these having a negative impact on efficient service delivery. Similar challenges have been encountered in Lume woreda health sector; these include stockout of medical supplies and medicines, late delivery of drugs, insufficient clinical rooms, and inadequate medical staff. The challenges that came out of the evaluations have not been addressed; patients have to be turned away as a result of these challenges.

33. In terms of tracking and reporting on resources received in kind, the Lume woreda performs better than the Bishoftu city administration. The woreda finance office uses 'Module 22' (GRN) to track and receive goods. For instance, in EFY 2010 (FY 2017/2018), the woreda health sector received two Yamaha motorbikes from the regional BoH, one pickup 4x4 vehicle, and two ambulances. The woreda education office also received one Yamaha motorbike. These were properly captured in the consolidated asset register maintained by the woreda office. The Bishoftu health office received one medical kit from EPSA; this was not properly recorded and accounted for.

Education

34. In the education sector, some key PIs outlined in the 2018/2019 annual action plan of Lume woreda include: increase access to equitable education of grades 1–8 pupils from 76.2 percent in

¹²Covering 2015/16 to 2019/20.

2017/2018 to 80 percent in 2018/2019 and improve student performance of grades 7–8 students from 42.1 percent in 2017/2018 to 47 percent in 2018/2019. The 2018/2019 annual action plan of the Bishoftu city education office also outlines key PIs, some of which include net enrolment rate of grades 9–10 from 59.7 percent in 2017/2018 to 78.7 percent in 2018/2019 and apparent intake rate of grade 1 from 98 percent in 2017/2018 to 100 percent in 2018/2019.

35. Both woredas (Lume and Bishoftu) and their respective primary schools post their annual performance plans (with KPIs) on their respective noticeboards. Though woreda education offices (Lume and Bishoftu) prepare monthly, quarterly, and annual performance reports, they are not published, likewise external evaluation reports done by the regional and federal education offices. Challenges at Bishoftu education sector that were identified as part of the annual evaluation include insufficient training and capacity building for teachers and delays in the distribution of teachers' guide. The challenges observed in Lume woreda were more aggravating; these include overcrowded pupil population with inadequate school infrastructure resulting in a student-teacher ratio of 100:1 as well as inadequate teaching staff. The Koka primary school presently has a pupil population of 1,513; it plans to admit an additional 1,700 pupils for the new academic year which begins in September 2019 in spite of the poor and inadequate school infrastructure. This needs urgent attention as no immediate plans have been put in place to address these serious challenges.

PI-9 Public access to fiscal information

36. Transparency at the woreda and primary service delivery unit level (schools and clinics) is much better than at the regional government level. While websites are not the main means of information dissemination, the woredas and the primary service delivery units use the public noticeboards to inform the public. The team visited two schools and two health centers in Lume and Bishoftu, as well as the woreda finances of Lume and Bishoftu plus the woreda health and education offices. The public noticeboards displayed the approved budget allocated to each woreda sector office and primary service delivery units. Also each quarter, a summarized copy of the quarterly budget execution report is posted on the noticeboard. The annual financial statements are also posted. There are no separate audit reports for woredas. The education and health offices display information on service delivery indicators as well as actual performance of their planned outputs/outcomes on their noticeboards.

Pillar III: Management of assets and liabilities

PI-11. Public investment management

37. Primary service delivery units (primary schools and health centers) do not directly undertake public investment projects; all such projects are initiated and implemented either by the woreda administration or the regional administration. Project feasibility studies, costing, selection, implementation, and monitoring and evaluation are all done by the woreda finance and/or regional government authorities.

38. Officials of the Bishoftu city administration have confirmed receipt of a draft World Bank/DFID manual and guidelines on PIM; they have also been trained on how to use the PIM manual and guidelines. The Lume woreda does not have this manual and has also not been trained on PIM. A number of capital investment projects for the education and health sectors at Bishoftu city administration have been ongoing; others have been completed and handed over to the service delivery units for use. Some of these projects include the construction and completion of 11 school blocks in EC 2010 and 2 other school blocks that are currently ongoing. In the health sector, two new health centers have been completed in EC 2011, two health centers expanded in EC 2010, and an additional two health facilities are currently under expansion.

39. Tables A7.18 and A7.19 provide an analysis of budget allocation for recurrent and capital expenditure over the last three completed fiscal years, FY2015/2016 to 2017/2018, for the education and health sectors. In the education sector, the data show that the capital budget is at least six times as much as recurrent expenditure which shows a positive sign and commitment toward expanding the school infrastructure base to improve access to education. That said, only 65 percent of the budget is actually used. Officials attribute this to delays in the public procurement approval system (which includes an approval process for technical bid evaluation). In the health sector on the other hand, the capital budget is just about twice as much as the recurrent budget, also with a 65 percent utilization rate, mainly due to the same delays in the procurement system. These delays pose a significant risk to ensuring the timely completion of projects badly needed for improved service delivery.

Table A7.18: Recurrent versus capital expenditure for education for three years

Budget year (EC)	Recurrent			Capital		
	Approved budget	Actual expenditure	% usage	Approved budget	Actual expenditure	% usage
2008	1,937,993.00	1,917,238.64	99	17,876,489.00	14,116,061.86	79
2009	2,382,788.00	2,252,816.47	95	16,926,881.00	11,719,401.08	69
2010	3,097,715.00	2,955,111.80	95	14,724,876.00	6,314,577.45	43
Total for three years						
2008–2010	7,418,496.00	7,125,166.91	96	49,528,246.00	32,150,040.39	65

Source: BoFED.

Table A7.19: Recurrent versus capital expenditure for health for three years

Budget year (EC)	Recurrent			Capital		
	Approved	Actual expenditure	% usage	Approved	Actual expenditure	% usage
2008	2,506,331.00	2,490,294.01	99	8,382,890.92	7,979,964.29	95
2009	3,423,615.00	3,357,483.64	98	8,506,506.00	2,208,533.39	26
2010	4,810,106.00	4,774,828.06	99	2,758,817.00	2,621,812.79	95
Total for three years						
2008–2010	10,740,052.00	10,622,605.71	99	19,648,213.92	12,810,310.47	65

Source: BoFED.

PI-12. Public asset management

40. Available evidence from both Lume and Bishoftu woredas suggests that a fixed asset register is maintained but does not include information on land and buildings. While the Lume woreda finance office maintained a more comprehensive and consolidated fixed register (all resources received in kind by the Lume woreda sector offices are properly recorded and tracked by the woreda finance office in a consolidated asset register) which shows the age and usage of fixed assets (except land and buildings), the Bishoftu city administration fixed asset register is not properly kept and updated frequently; the last update was in FY2015/2016. At the primary service delivery levels (Dhaka Boora primary school and health center and Koka primary school and health center), a fixed asset register exists with a list of assets but has no information on age and usage.

41. A well-functioning asset management framework makes provision for maintenance to ensure the continuous use of these assets for improved service delivery. In both cases, the woreda finance offices make provision (in terms of budget) for maintenance of fixed assets but this is inadequate. The maintenance budget mostly covers fixed assets at woreda offices but not at the level of primary service delivery institutions. The primary service delivery units heavily rely on community

donations/contributions (which is woefully inadequate) to support the maintenance of fixed assets in their custody; the breakdown of these fixed assets in most cases negatively affect primary service delivery. The regional government's guidelines on fixed asset disposal also apply to woredas and primary service delivery units; there were no disposals at Lume woreda and its respective primary service delivery units. Bishoftu woreda, however, disposed 10 used vehicles through public auction after the bids were advertised in the local newspaper. Proceeds from the disposal were paid to the regional bureau of finance treasury and also reported in the annual financial statements.

42. With respect to Bishoftu, they do not maintain a consolidated asset register that captures all resources received in kind. The Bishoftu sector offices also use 'Module 22' to receive goods but they do not compile a comprehensive list of these resources received in kind. In EC 2010, the Bishoftu education office received 5 office tables, 5 sound systems, and 60 student desks from the Republic of Korea. They also received a number of student clothing from Germany and resources for construction of 8 classroom blocks for the school. The Bishoftu education office also received 89 teacher desks, 24 arm chairs, 24 cupboards, 24 drawers, and 2,235 student desks from the regional BoE. Lume woreda finance office maintains a proper record of all resources received in kind by the various sector offices.

Pillar IV: Policy-based fiscal strategy and budgeting

PI-16 Medium-term perspective in expenditure budgeting

43. Budget planning and formulation in each of the woredas visited (Lume and Bishoftu) are bottom-up approaches where primary service delivery units make inputs into the woreda sector (education and health) strategies. The primary service delivery units visited (Dhaka Boora primary school, Dhaka Boora health center, Koka primary school, Koka health center) have no medium-term strategic plans, let alone a costed strategy. They, however, prepare annual action plans from which the annual budgets are prepared. There is no MTEF; the budget is only for one year and has no estimates for the two outer years.

44. Medium-term expenditure ceilings are approved by the regional cabinet after the BCC is issued. For 2018/2019, these were approved around the first week of March 2019 after the issuance of the first BCC (the first BCC was issued on February 8, 2019). In terms of alignment of annual budgets and annual action plans to medium-term strategies as well as consistencies of current budget to previous year's estimates, there is no information to adequately assess this dimension.

PI-17 Budget preparation process

PI-17.1 Budget calendar

45. The budget calendar for the woreda education and health offices is as shown in Table A7.20. It allows six weeks for the BIs to complete the submissions.

Table A7.20: Budget calendar (Oromia regional government - also the same for woredas)

Cycle/Part/Stage	Executing body	Time of execution
Plan preparation		
1. MEFF		
1.1 Preparation of MEFF	BoFED	August 15–October 30
1.2 Approval of MEFF	BoFED	November 1–15
2. PIP		
2.1 Call for PIP	BoFED	November 16–20
2.2 Submit sector PIPs	BoFED	Before December 30
2.3 Analyze PIPs	BoFED and PBs	January 1–30
3. Announce three-year budget subsidy	BoFED	Before February 10

Cycle/Part/Stage	Executing body	Time of execution
4. Annual physical activity plan		
4.1 Prepare annual physical activity plans	PBs	Before February 28
4.2 Analyze annual physical activity plans	BoFED	March 1–30
4.3 Approve annual physical activity plans	Oromia Council	Before May 30
Annual budget		
5. Analyze annual block grant subsidy allocation criteria	BoFED	January 5–February 20
6. Announce initial ceiling	BoFED	Before February 28
7. Approve annual block grant subsidy allocation criteria	Oromia Council	May 1–10
8. Call for budget preparation and announce ceiling	BoFED	Before February 28
9. Allocate budget based on the ceiling and forward the budget request to BoFED	PBs	April 1–15
10. Organize budget requests and present to the council	BoFED	April 15–May 20
11. Approve the endorsed budget	Oromia Council	Before May 30
12. Announce the final ceiling to PBs	BoFED	July 1–10
13. Announce the final ceiling to woredas	BoFED	July 1–7
Official approval		
14. Approve the budget officially	Oromia Council	Before July 30
Implementation		
15. Prepare budget using IBEX	BoFED and PBs	Before July 7
16. Announce budget to PBs using budget preparation forms	BoFED	Before July 7
17. Prepare and present physical and financial implementation plan	BoFED and PBs	Before July 20
18. Budget implementation and administration	BoFED and PBs	July 1–June 30

Source: BoFED.

Note: PB = Public body.

46. Available evidence from Bishoftu city administration indicates that while the Education Office submitted its 2018/2019 budget proposal to the finance office on June 12, 2019, the Health Office submitted its estimates on June 20, 2019; this is about two to three weeks late when compared with the budget calendar. There is, however, no information for Lume woreda.

PI-17.2 Guidance on budget preparation

47. The woreda finance offices issue the BCC, covering both capital and recurrent expenditure for the full fiscal year. The BCC is clear and comprehensive but does not include approved ceilings; the practice is that woreda sector offices are instructed to use the previous year's actual ceilings for preparation of the current year's budget. The final (woreda cabinet approved) ceilings for the current budget year are, however, issued before the completion and submission of their final budget estimates.

PI-17.3 Budget submission to the legislature

48. The assessment team has no data (both from Bishoftu and Lume woredas) to assess this dimension.

Pillar V: Predictability and control in budget execution

PI-21 Predictability of in-year resource allocation

49. Primary service delivery units visited in this pilot maintain bank accounts for own revenues; however, bank accounts for subsidies (budget support also known as general purpose grant) from the woredas are controlled and managed by the woreda finance office as all financial management functions are centralized. Other than health centers, primary schools' own revenue accounts are not part of the woreda financial management system; they are neither budgeted nor reported. Consolidation of woreda (treasury managed, which is at least 90 percent) bank accounts is done monthly; accounts managed by health centers are not part of the monthly cash consolidation system.

50. Another evidence gathered at primary service delivery units in Lume and Bishoftu woredas is the preparation of annual cash flow plans, but the service delivery units do not update their respective cash flow plans. That said, the Lume woreda finance office prepares a consolidated cash flow forecast which is updated quarterly based on actual cash inflows and outflows. Transfers from the region are requested monthly and one-twelfth of the annual budget is transferred monthly, in exceptional cases where there are large payments such as for procurement, in which case, it is deducted from the next month's transfer. However, unlike other woredas, Bishoftu woreda does not prepare a cash flow, the reason being that there is no cash shortage; this is a weakness in cash management.

51. Once the woreda council approves the annual budget, the woreda finance office issues monthly expenditure commitment ceilings to woreda sector budgetary units. IBEX is used to manage the budget at the woreda finance offices. It limits commitments only at the approved budget level but not in relation to actual cash available. All primary service delivery expenses out of the approved budget are done by the woreda finance offices; therefore, commitment is controlled by the finance office. The health centers are allowed to use their own revenues to support their operations (usually for maintenance and stationery) and report the same to the finance office; however, this framework does not exist at primary schools. In-year budget virements are rampant and significant mainly due to numerous demands from the community and necessities of primary service delivery units such as additional medical supplies for health centers and books and stationery for primary schools.

PI-22 Expenditure arrears

52. The team visited two primary schools and two health centers in Lume woreda and Bishoftu city administration. In all cases, there were no stock of expenditure arrears. The primary service delivery units receive timely cash releases from the finance office in their respective jurisdiction for payment of recurrent expenditure as they fall due. Capital expenditure (which may accumulate arrears as a result of insufficient funds) is not the remit of primary service delivery units; these are directly handled by the woreda finance offices in collaboration with the respective woreda sector offices for health and education. Primary schools and health centers submit monthly financial reports to woreda finance offices; these reports include statements on payables but the balances are zero.

PI-23 Payroll controls

53. Payrolls of the primary service delivery units (schools and health centers) are managed by the woreda finance office. The staff data are maintained with the respective sector offices, that is, education and health offices. These offices have their own personnel department. Hiring of staff is done by these offices. At the end of the month, attendance sheets are submitted to the finance office and payroll is prepared and paid by the finance office. Staff changes such as new or terminated staff are immediately communicated to finance to make the payroll changes. There is no delay in the payment of payroll for new and existing staff as a result of the payroll system in place. Strong internal controls over payroll expenditure contribute to the quality of service delivery.

54. Staff turnover is low in both visited woredas because these woredas are close to towns (Bishoftu woreda is a city). Most of the turnover happens due to transfers from the schools and health centers to higher service delivery units such as hospitals. It is not difficult to replace the positions due to the proximity of the woredas to cities. Teachers are transferred only when schools are on holidays to avoid interruption to the teaching process. In Lume woreda about 5–8 staff were transferred in the last year while there was no transfer in Bishoftu woreda. In 2017/2018, 9 teachers left the Bishoftu woreda education service; and in 2018/2019, 18 teachers left, out of the total 981 teachers in the woreda, which is less than 2 percent in terms of staff turnover. Low staff turnover in primary service delivery units positively affects the quality of service delivery to the community.

55. Payroll transaction audits are conducted as part of the financial audit mainly focusing on the accuracy of payroll computation and sometimes including a random verification of personnel records. However, no comprehensive payroll audit was conducted by external and internal audit staff. The effectiveness of payroll controls in place is not subject to audit. The manual attendance system widely used does not guarantee that employees were on duty at the required time for delivering services.

PI-24 Procurement

56. The legal framework for public procurement at the regional government level is still applicable at the woreda and service delivery levels, with the following thresholds:

- NCB and ICB
 - Works: ETB 20,000,000 and above
 - Goods: ETB 6,000,000 and above
 - Consultancy: ETB 4,000,000 and above
 - Other services: ETB 2,000,000 and above
- ICB
 - Works: ETB 100,000,000 and above
 - Goods: ETB 30,000,000 and above
 - Consultancy: ETB 5,000,000 and above
 - Other services: ETB 14,000,000 and above
- Request for proposal (consultancy): ETB 900,000 and above
- Restricted bid

Method	ETB		
	Region	Zone and Urban Administration	Woredas
Works	5,000,000	4,000,000	3,000,000
Goods	1,200,000	1,000,000	800,000
Consultancy	700,000	600,000	500,000
Other services	1,000,000	750,000	500,000

- Request for quotation

Method	ETB		
	Region	Zone and Urban Administration	Woredas
Works	500,000	300,000	200,000
Goods	200,000	100,000	80,000

Consultancy	120,000	60,000	50,000
Other services	150,000	75,000	50,000

- Direct bidding: Up to ETB 5,000.00

57. Currently, there are no statistics both at the service delivery levels and woredas that show detailed information on procurement in terms of who won a contract, the contract value, and the purpose of the contract. Competitive procurement method at both primary schools and health centers visited averaged 65 percent when compared with planned procurement for EC 2010 as indicated in Table A7.21. That said, public access to procurement information is weak as very little information is made public; except bidding opportunities that are advertised, procurement plans, contract awards, and data on resolution of procurement complaints are not made public. The procurement complaint management system is not independent as a majority of members on the appeals board are directly or indirectly involved in public procurement.

58. The two health centers visited (Dhaka Boora health center and Koka health center) confirmed shortages of medical supplies from EPSA of between 25 percent to 40 percent. Where shortages from EPSA are encountered, health centers purchase from the private sector, and usually are less competitive since the medical needs become more urgent.

Table A7.21: Competitive procurement method in primary education and health centers

Procurement method	Name of schools	2010
Local competitive bid	Tokuma	5,014,472.93
Local competitive bid	Darara	4,696,876.59
Local competitive bid	Kara Hora	4,317,897.27
Local competitive bid	Kenenisa	4,851,488.49
Local competitive bid	Dhibayu	5,718,769.50
Local competitive bid	Kurkura	7,566,215.83
Local competitive bid	Bole A	4,990,432.82
Local competitive bid	Bole B	4,797,960.28
Local competitive bid	Bole C	5,393,637.95
	Name of health center	
Local competitive bid	Kurkura Denbi	11,700,311.57
Local competitive bid	Chalalakaka	3,225,507.69
Local competitive bid	Ketta	536,540.60
Total competitive bid		62,810,111.52
Planned procurement		96,630,940.80
% competitive		65%

59. There are delays in the procurement system; these include delays in approval of the technical bid evaluation process.

PI-25 Internal control on non-salary expenditure

60. The financial management function of the woreda is centralized (pooled) at the finance office and the budget control, expenditure management, recording, and reporting is done by the finance office. Sector offices manage the expenditure payment processed for primary service delivery units; primary service delivery units are not directly involved in the financial management function. Requests for payment are submitted by the woreda sector offices (such as education and health) on behalf of primary schools and clinics to the woreda finance office for processing and payment. The finance office checks the request for availability of budget before processing. After checking for budget availability,

the request is approved and payment is done. Approval of payment is done by any two of the Head of Finance or Finance Director or Disbursement Coordinator. The woreda uses the regional proclamations such the financial and procurement proclamations. There are also different directives and manuals used. Training on these manuals is provided at the regional training center on an annual basis. The training topics include planning, finance, procurement, reporting, internal audit, and so on.

61. Once the annual budget is approved by the woreda council, it is uploaded into IBEX (financial management software). IBEX only limits expenditure commitment for most types of expenditure to the approved budget and also based on the cash flow forecast (projections), but not to actual available cash.

62. The internal and external audit reports of the woreda do not identify any major non-compliance issues; however, given the low capacity of the internal audit function in the woredas, it is difficult to fully rely on the reports.

PI-26 Internal audit

63. The internal audit function of the woreda is centralized (pooled) at the woreda finance office. The sector offices and service delivery units do not have a separate internal audit unit. Since the financial management and procurement functions of the woreda are centralized in the finance office, the activities of the internal auditors are focused on the finance offices except in cases of internal revenue audits that are conducted in schools and health centers. The internal audit units used to face shortage of manpower but currently they are staffed with the required number of staff but the capacity remains weak. The internal auditors report directly to the woreda council and zone internal audit unit.

64. The internal auditors prepare annual internal audit plans. The internal audits focus on financial audit and internal controls are not given enough emphasis. In 2017/2018, Lume woreda auditors covered 10 schools and all the 5 health stations for internal revenue audit in addition to the finance office of the woreda. In Bishoftu, 100 percent of the health centers and 50 percent of the schools were audited. As can be seen in Table A7.22, the major finding in Bishoftu woreda for 2016/17 to 2018/19 is cash shortage in schools and health centers. There were no findings on the woreda finance office. In the three years, 91 percent of the planned audits were conducted in Bishoftu woreda; the assessment team has no consolidated data for Lume woreda in terms of planned and implemented audit.

Table A7.22: Planned and implemented audits in Bishoftu woreda

Year	Audited sector	Plan	Performance	Finding
2009	Schools	8	5	ETB 6,233.33 cash shortage ETB 4,260 is refunded
	Finance office	12	14	
	Health centers	2	1	ETB 39,478.01 cash shortage
2010	Schools	6	5	ETB 14,373 cash shortage ETB 3,126.74 refunded
	Health centers	2	1	
	Finance office	12	12	
2011	Finance office	12	12	Absence of supported document (The document is not found)
	Schools	6	6	Cash shortages in all schools ETB 20,027.32
	Health centers	2	1	ETB 494.66 cash shortage
	Kebeles	4	3	ETB 73,391.42 Cash shortage ETB 29,723.22 refunded
Total		66	60	
% completion		91%		

Source: Bishoftu Woreda Finance and Internal Audit Office.

65. Management responses from the finance office are good while the responses from the other sectors on the audits of schools and health centers remain low. Internal auditors indicate that since the management does not consider the internal audit reports to take corrective action in terms of strengthening internal control systems or making the staff accountable, similar findings keep recurring every year.

Pillar VI: Accounting and reporting

PI-29 Annual financial reports

66. Primary service delivery units prepare monthly and annual financial reports. Consolidated monthly and annual financial reports are prepared by the woreda finance office for all the BIs in the woreda. The finance office uses IBEX to record and report the financial transactions. The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. They also contain some financial assets such as cash and bank balances, advances, and receivables. However, the reports do not include tangible assets (fixed assets and inventory) and any contingent liabilities.

67. Federal government accountings standards are applicable at the regional and woreda levels (primary service delivery units prepare separate financial reports on their own revenues; financial reports on government subsidies are prepared by the woreda finance offices since they directly manage these funds). The woredas submit their monthly reports to the respective zone and the zones consolidate the reports of the woredas and submit on a quarterly basis to BoFED. The financial reports contain budget execution report, revenue, ledger summary for transfer, receivable and payable accounts, capital and recurrent expenditure report, and trial balance. It also does not contain an ageing profile for payables and receivables, list of properties, plants and equipment, and information on contingent liabilities. Primary schools, however, do not report their own revenues.

Pillar VII: External scrutiny and audit

68. Out of the two visited woredas, the accounts of Bishoftu woreda were audited for the three years under review by ORAG while Lume woreda was not audited. The regional PEFA revealed that the current audit coverage is 63 percent (by value for both revenue and expenditure). The audits are performed in accordance with ISSAI standards issued by INTOSAI, and ORAG uses AFROSAI-E auditing manuals. An unqualified audit report was issued for Bishoftu woreda and there were no audit findings for the last three years; this is, however, surprising as it appears inconsistent with PI-26 in terms of weak internal audit standards and technical capacity of internal auditors.

69. ORAG met five of the eight principles of independence. The principles which were not fully met were (a) the right and obligation to report its work, and the freedom to decide the date and timing of audit reports and to publish and disseminate them; (b) the freedom to decide the content and timing of audit reports and to publish and disseminate them; and (c) financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources. In practice, ORAG has full and timely access to public data.

6. Conclusions

Pillar I: Budget reliability

70. Budgets and transfers from the regional government to woredas are reliable as evidenced by results indicated under HLG-1. The regional government transferred all budgeted general purpose grants to the woredas visited (Lume and Bishoftu). This trend denotes a positive trend in making resources available on time for the delivery of critical services at the local (woreda) level. In spite of

this, actual budget outturns for the period under review witnessed considerable credibility issues. While aggregate expenditure outturn was more than 15 percent in two out of the last three completed fiscal years (actual outturns were 79 percent, 84 percent, and 87 percent in 2015/2016, 2016/2017, and 2017/2018, respectively) in the woreda health sector, indicating unreliable trend, the education sector showed better results with aggregate expenditure outturn of between 85 percent and 115 percent of the approved aggregate budgeted expenditure in at least two of the last three years (actual outturns were 88 percent, 119 percent, and 97 percent in 2015/2016, 2016/2017, and 2017/2018, respectively). The main reason for these deviations was that capital projects were either not originally budgeted for or there was low absorption capacity (low budget utilization, sometimes from delays in the public procurement process). At the primary service delivery units, expenditure outturns indicate better performance (refer to Table A7.23). It has been observed that significant delays in the procurement approval process (that is, lengthy procurement process, though legal) negatively affect the timely execution of capital projects which are badly needed for improved service delivery. These delays contribute to either overspending or underspending in capital expenditure, thereby negatively affecting budget credibility.

The aggregate expenditure budget is less reliable from the service delivery assessment point of view than the regional government assessment, when comparing the results of the analyses of the main regional government PEFA assessment and that of the service delivery at woredas.

Pillar II: Transparency of public finance

71. The horizontal allocation of transfers to woredas is rule based and transparent. Actual transfers also follow agreed procedures and rules. Woredas do not transfer funds to primary service delivery units; their budgets and actual expenditures are directly covered by the woredas. Performance information on service delivery to the public is mainly through public noticeboards and forums. Annual action plans indicate KPIs. Performance reports are also disseminated either through the noticeboards or public forums. While Lume woreda keeps good track and records for resources in kind, Bishoftu woreda does not. Own resources from primary schools are not accounted and reported in the woreda financial reports; though the amount may be insignificant compared with woreda revenues, it denotes poor accountability and lack of transparency. Public access to fiscal information is at average performance, with the approved budget and the quarterly budget execution reports posted on public noticeboards. The woreda education and health offices as well as the primary service delivery units visited displayed information on their key PIs and actual performance of planned outputs/outcomes.

It is interesting to note that information dissemination with regard to fiscal data is much better at service delivery (and woreda) levels than it is with the regional government. Service delivery units use noticeboards and public forums to disseminate fiscal information and other service delivery benchmarks, outputs, and outcomes; this is not the case with the regional government.

Pillar III: Management of assets and liabilities

72. Primary service delivery units do not manage public investments; this is the responsibility of either the woreda administration and/or the regional government. Officials of Bishoftu city administration have been trained on a World Bank/DFID PIM manual and guidelines; the same cannot be said for Lume woreda. Fixed assets management shows mixed results; the asset register is not consistently updated by service delivery units. Also, while Lume woreda maintains a more comprehensive and updated fixed asset register, Bishoftu woreda does not. Proceeds from asset disposals are always paid directly into the treasury account.

The relatively small size of service delivery units affords them the opportunity to better manage their assets and liabilities. Though there are mixed results referencing fixed asset management (some service delivery units keep proper records; others do not), all service delivery units visited have no liabilities and fiscal risks. The regional government has no clear picture of the level and volume of fiscal risks, as confirmed by the regional government PEFA assessment.

Pillar IV: Policy-based fiscal strategy and budgeting

73. Just as observed at the regional level, woredas and primary service delivery units do not prepare expenditure estimates with a medium-term perspective; only the coming fiscal year's estimates are prepared. The woreda sector offices (education and health) prepare medium-term strategies but these are not costed. There is insufficient information to assess the alignment of primary service delivery medium-term strategies and also whether the previous year's estimates are consistent with medium-term plans. A clear budget calendar exists, allowing at least six weeks for woreda sector institutions to prepare their estimates but delays of between one to two weeks are experienced in terms of actual submission of annual budget estimates to woreda finance offices. The annual budget estimates of primary service delivery units are part of the woreda sector (health and education) offices; therefore, they do not directly submit estimates to woreda finance office. The woreda cabinet's approval takes place after the distribution of the BCC to budgetary units but before budgetary units had completed their submissions. The same circular is sent to service delivery units and it also includes ceilings (not yet approved by the woreda cabinet).

Referencing policy-based fiscal strategy and budgeting, there is no difference between service delivery units and the regional government performance; neither of them prepare a MTEF. Also, sector strategies are not costed.

Pillar V: Predictability and control in budget execution

74. Primary service delivery units prepare annual cash flows but these are not updated. The woredas consolidate the sector cash flows; it is updated based on actual cash inflows and outflows. There were no reported instances of cash shortages especially for recurrent expenditure, a prerequisite for better service delivery. Expenditure commitment is monthly. In-year budget virements are rampant (mainly from capital budgets due to delays in completion of capital projects and supplementary budget allocations) and significant, as confirmed by primary service delivery units and woreda sector offices. There were no expenditure arrears for recurrent expenditures; they, however, exist for capital expenditures but these are not the remit of primary service delivery units.

75. Payroll controls are generally good as relatively small numbers of staff are managed, which makes it easier to identify any irregularities, even though a comprehensive payroll audit has never been conducted across Lume and Bishoftu woredas as well as the selected primary service delivery units. Procurement management is weak as important procurement information (such as contracts, procurement plans, and data on complaints) is not made public. On average, 65 percent of procurement at primary service delivery levels is done through competitive means. The existing PFM laws (proclamations) from the regional government provide adequate segregation of duties across the expenditure process at all levels (woredas and primary service delivery units). Expenditure commitment controls exist through IBEX (primary service delivery units do not have direct access to IBEX); it limits commitment to approved budget and cash flow projections for most types of expenditure but not to actual cash available. Compliance levels with regard to payment rules and procedures are deemed to be good as evidenced by internal and external audit reports for Bishoftu woreda.

76. Internal audit functions are pooled (centralized) at the woreda finance offices and responsible for internal audit at primary service delivery units; therefore, coverage is not always adequate even though implementation of the planned audit averaged 91 percent. There is also weak technical capacity across woredas. One main issue identified in the internal audit reports is cash shortages.

Cash shortages (for payment of recurrent expenditure) have not been recorded at service delivery units, indicating a good sign of continuity to delivery primary service; that said, capital projects have suffered from delays and lack of funds for timely execution. Just as observed at the regional government level, dissemination of procurement information is poor. Payroll management remains satisfactory at both service delivery unit and regional government levels.

Pillar VI: Accounting and reporting

77. The same accounting standards used by the federal government apply to the regional government, likewise to woredas and service delivery units. Service delivery units prepare monthly and annual reports that are consolidated by the woreda finance offices. The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. They also contain some financial assets such as cash and bank balances, advances, and receivables. However, the reports do not include tangible assets (fixed assets and inventory) and any contingent liabilities.

The weaknesses observed at the regional government are also replicated at the service delivery unit levels; these include nondisclosure of tangible assets (and contingent liabilities - only for the regional government) in the financial statements.

Pillar VII: External scrutiny and audit

78. While the independence of the Auditor General is guaranteed in terms of appointment, termination, and remuneration, its staff and operational budget are under the whims and caprices of the regional government in terms of staff appointment which is under the civil service and ORAG budget approved by BoFED. ORAG has unlimited access to records but publication of its audit report is limited.

79. Overall ORAG audit coverage across the regional government is 63 percent; while it has conducted external audit of Bishoftu woreda financial records, Lume woreda has not been audited. ORAG selects institutions to be audited based on available resources and staff strength (in terms of numbers).

The general financial, human, and technical capacity constraints of ORAG have affected its ability to effectively undertake its constitutional mandate of holding the executive government accountable. The same can be said for both regional and service delivery units; in fact, it appears to be worse at service delivery units because ORAG focuses its attention on bigger spending units rather than small primary service delivery (spending) units.

Appendix to Service Delivery Module

KPIs - Bishoftu woreda

No.	Main activities	Unit	Base 2007/2008	Five-year plan 5 (2008–2012)	Plan vs. achievements 2010			Plan vs. achievements 2011		
					Plan	Achievement	%	Plan	Achievement	%
1	Gross enrolment pre-primary	%	105.6	104.2	100.4	167.5	167.5	104.2	186.8	179.2
2	New intranet for grade1	%	195.2	172.35	176.16	142.7	81	172.35	142.7	82.7
3	Apparent intake rate grade 1	%	90.1	100	98.02	218	222	100	139.1	139.1
4	Gross enrolment rate grades 1–4 (GER)	%	141.1	132.88	134.5	231	171.7	132.88	231	173.8
5	Net enrolment rate grades 1–4 (NER)	%	103.3	102.64	162.77	222	136.3	102.64	163.2	159
6	Gross enrolment rate grades 5–8 (GER)	%	99.3	99.4	99.4	127.9	127	99.4	132.1	132.8
7	Net enrolment rate grades 5–8 (NER)	%	72.2	100	94.44	91.9	97.3	100	91.9	91.9
8	Gross enrolment rate grades 1–8 (GER)	%	118.9	100	103.8	165.5	165.6	100	171.9	171.9
9	Net enrolment rate grades 1–8 (NER)	%	103.5	100	100.7	152.4	151.3	100	142	142
10	Gross enrolment rate grades 9–10 (GER)	%	95.7	99	97.2	105	108	99	109.7	110
11	Net enrolment rate grades 9–10 (NER)	%	73.4	78.72	94.62	56.5	59.7	78.72	58.3	74
12	GPI (gender parity index)/pre-primary GPI/equity	%	0.83	0.86	0.96	0.97	101	0.86	.92	106.9
13.	GPI grade 1	%	1	1	1	0.97	97	1	1.17	85.4
14.	GPI grades 1–8	%	1	1	1	0.98	98	1	0.97	97
15.	GPI grades 9–10	%	0.91	0.928	0.98	0.73	74.4	0.928	0.8	86.2
16.	GPI grades 11–12	%	0.78	0.824	0.95	0.71	74	0.824	0.8	97.08
17.	Dropout rate grade 1	%	5	2	1	11.6	8.6	2	11.6	8.8
18.	Dropout rate grades 1–8	%	0.8	2	2	3.6	55.5	2	3.6	55.5
19.	Dropout rate grades 9–10	%	4	2	2	2.08	96.1	2	2.08	96.1

No.	Main activities	Unit	Base 2007/2008	Five-year plan 5 (2008–2012)	Plan vs. achievements 2010			Plan vs. achievements 2011		
					Plan	Achievement	%	Plan	Achievement	%
1	New primary school construction	No.	—	1	1	2	200	1	2	200
2	New secondary school construction	No.	—	1	1	—	—	1	—	—
3	New preparatory school construction	No.	1	—	—	—	—	—	—	—
4	Additional class room construction	No.	12	51	51	123		51	123	
5	Special need education grades 1–8	No.	449	551	678	613	90.41	521	502	96.3
6	Special need education grades 9–10	No.	121	149	108	95	87.96	149	113	75.8
7	Special need education grades 11–12	No.	122	149	24	21	87.5	149	38	25.5
8	Student-teacher ratio grades 1–4	Ratio	54:1	50:1	50:1	31:1	100	50:1	31:1	100
9	Student-teacher ratio grades 5–8	Ratio	54:1	50:1	50:1	35:1	100	50:1	35:1	100

No.	Main activities	Unit	Base 2007/2008	Five-year plan 5 (2008–2012)	Plan vs. achievements 2010			Plan vs. achievements 2011		
					Plan	Achievement	%	Plan	Achievement	%
10	Student-teacher ratio grades 9–10	Ratio	64:1	40:1	40:1	37:1	100	40:1	37:1	100
11	Student-teacher ratio grades 11–12	Ratio	79:1	40:1	40:1	27:1	100	40:1	27:1	100
12	Student-class ratio grades 1–4	Ratio	54:1	50:1	50:1	48:1	100	50:1	31:1	100
13	Student-class ratio grades 5–8	Ratio	54:1	50:1	50:1	49:1	100	50:1	35:1	100
14	Student-class ratio grades 9–10	Ratio	44:1	40:1	40:1	37:1	100	40:1	37:1	100
15	Student-class ratio grades 11–12	Ratio	99:1	40:1	40:1	27:1	100	40:1	27:1	100
16	Student-textbook ratio grades 1–4	Ratio	2:1	1:1	1:1	2:1	50	1:1	2:1	50
17	Student-textbook ratio grades 5–8	Ratio	2:1	1:1	1:1	2:1	50	1:1	2:1	50
18	Student-textbook ratio grades 9–10	Ratio	2:1	1:1	1:1	1:1	100	1:1	1:1	100
19	Student-textbook ratio grades 11–12	Ratio	2:1	1:1	1:1	1:1	100	1:1	1:1	100
20	Promotion rate grade 5	%	98.5	100	100	93.6	93.6	100	93.6	93.6
21	Promotion rate grade 5 (male)	%	95.5	100	100	94.5	94.5	100	94.5	94.5
22	Promotion rate grade 5 (female)	%	41.5	65	100	95.4	95.4	100	95.4	95.4
23	Adult education	No.	2,054	12,107	5,265	4,354	82.6	12,107	4,354	35.9
24	Pre-primary education	No.	7,518	10,174	10,072	9,244	92.3	10,174	10,456	102.7
25	Gross enrolment grade 1 all	No.	5,094	5,111	4,638	4,760	102.6	5,111	5,878	115
26	Grade 1 net enrolment age 7	No.	2,351	3,203	2,950	2,642	89.5	3,203	2,037	63.6
27	Gross enrolment grade 1–4 all	No.	16,950	19,816	16,796	16,664	99.2	19,816	18,551	93.6
28	Net enrolment of student grades 1–4	No.	11,485	13,639	13,091	13,110	100.1	13,639	13,110	96.12
29	Gross enrolment grades 5–8 all	No.	13,548	16,800	14,352	14,599	101.7	16,800	15,770	93.8
30	Net enrolment grades 5–8	No.	9,033	15,364	14,745	10,974	74.4	15,364	10,974	71.4
31	Gross enrolment grades 9–10	No.	7,347	6,612	7,646	7,994	104.5	7,898	7,994	101.2
32	Net enrolment grades 9–10	No.	6,361	7,807	7,493	4,251	56.7	7,898	4,251	53.8
33	Gross enrolment grades 11–12	No.	3,178	1,555	2,455	2,632	107.2	3,340	2,630	78.7

Community participation (work/activity) per school 2011 - Bishoftu city administration

No	Name of the school	Plan	Achievements	%
1	G/Gorbaa	30,000	26,000	86.7
2	Qaallittii	50,000	46,300	92.6
3	Dambii	35,000	35,000	100.0
4	Qurquraa lakk. 2	50,000	25,000	50.0
5	B/Gabaabee	30,000	15,600	52.0
6	Bakkalchaa	120,000	89,000	74.2
7	K/Horaa	300,000	300,000	100.0
8	Qur.Laaftoo	250,000	300,000	120.0
9	Garbicha	30,000	25,000	83.3
10	Daraaraa	150,000	140,000	93.3
11	Migiraa	30,000	15,000	50.0
12	Calalaqaa	300,000	290,000	96.7
13	Qananiisaa	250,000	200,000	80.0
14	Raqicha	65,000	53,700	82.6
15	Qurquraa lakk. 1	30,000	44,600	148.7
16	Qaallitii Saroobaa	50,000	54,000	108.0
17	H/Arsadii	80,000	60,000	75.0
18	B/Gaayyaa Lakk.3	25,000	17,000	68.0
19	Bishooftuu Sad. 1ffaa	20,500	11,250	54.9
20	Tokkummaa	200,000	162,866	81.4
21	Fooqaa	95,000	85,000	89.5
22	Miliiniyeem	145,800	133,420	91.5
23	Fedhii Addaa	6,000	6,600	110.0
24	Dhibaayyuu	97,520	97,520	100.0
25	Biiftuu	199,712	130,929	65.6
26	Maaraanaataa	120,000	84,500	70.4
27	Kattaa	195,000	135,000	69.2
28	Boolee	500,000	500,000	100.0
29	B/Gaayyaa Lakk.2	50,000	25,000	50.0
30	Istiilii	257,700	132,000	51.2
31	Ada'aa Moodeel	600,000	436,730	72.8
32	Bishooftuu Sad. 2ffaa	365,000	330,000	90.4
	Ida'ama	4,727,232	4,007,015	84.8

Additional people met for the service delivery assessment

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Annex - PI-1 calculation sheet

Health centers

	2008			2009			2010		
Health Centers	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn
Dhaka Boora health center	1,018,587.00	998,689.02	98%	1,163,430.00	1,280,773.86	110%	1,608,179.00	1,496,292.65	93%
Koka health center	1,551,493.00	1,375,685.69	89%	1,660,404.00	1,722,877.47	104%	2,055,121.00	2,366,348.76	115%
Bishoftu health center	3,271,014.00	3,071,969.10	94%	3,497,514.00	4,074,734.15	117%	5,819,382.00	4,829,908.96	83%

Education budget woredas

	2008			2009			2010		
Woredas	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn
Lume	24,304,377.00	23,634,961.02	97%	26,956,226.00	34,098,087.75	126%	36,507,991.00	36,080,168.09	99%
Bishoftu	42,325,961.00	41,357,635.28	98%	47,154,457.00	79,189,191.18	168%	74,568,509.00	77,305,465.29	104%

Health budget woredas

	2008			2009			2010		
Woredas	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn	Original budget	Actual expenditure	Outturn
Lume	9,878,955.00	9,643,833.45	98%	10,558,736.00	11,928,494.16	113%	13,778,513.00	14,191,456.81	103%
Bishoftu	12,878,554.00	15,183,954.14	118%	11,015,209.00	26,371,412.96	239%	24,088,535.00	20,014,575.65	83%

Annex 8: Gender-responsive budgeting pilot

Background

1. The Federal Government of Ethiopia began working toward mainstreaming GRB into PFM more than a decade ago, with assistance from development partners mainly UN Women and UNICEF. The government, with assistance from development partners, developed a training manual in August 2012 as well as a national guideline on GRB in November 2012. So far, training and capacity building for federal sector BIs and regional governments including the Oromia regional government have been provided on how to incorporate gender responsiveness into the planning, budget formulation, and preparation phases. Nonetheless, no concrete output has been achieved in this direction except the training programs. Of importance to note is that the regional government's PFM legal framework makes provision for the inclusion of gender issues into the planning and budgeting process; this is yet to be accomplished.

No.	Pillar	Disaggregation of data required	Responses/information gathered
1	Pillar II Transparency of public finances PI-9 Public access to fiscal information	Segregated data reports from the FTA on access to information for women	No. There are no such reports.
		Information, if any, on how many women attend the open public hearings on budgets and to what extent their questions or needs were considered and addressed	Yes, information is available that women attend the public hearings but not on how many women attend nor on what extent their questions and needs are considered.
2	Pillar IV Policy-based fiscal strategy and budgeting PI-15 Fiscal strategy PI-15.2 Fiscal strategy adoption PI-17 Budget preparation process PI-17.2 Guidance on budget preparation	Does published fiscal strategy include quantitative fiscal goals and qualitative objectives from GEWE?	No. There is also no published fiscal strategy. However, the seventh pillar of GTP II is focused on gender issues. GTP II provides quantitative data on gender parity in the education sector and sets quantitative targets. The strategy document also mentions targets for gender on certain health indicators including pre- and post-natal care coverage. The GTP II document indicates gender elements in other sectors as well. The GTP also provides quantitative targets to increase women's roles in political leadership and decision making.
		Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting?	Yes. Proclamation No. 209/2018 Article 8 (which is an amendment to the Proclamation to Re-establish the Financial Administration of Oromia National Regional State Proclamation No. 88/1997) does include a provision which requires the inclusion of gender during the MEFF preparation and budget preparation and submission.
		Does the guidance on budget preparation request for breakdown of outputs/activities and their budgets by gender and to what extent is that complied with?	No, the BCC does not address gender issues. The strategic plans do, and they ask for the budget submissions from bureaus to benefit every segment of society, and women in particular. The

No.	Pillar	Disaggregation of data required	Responses/information gathered
			strategic plan requests are complied with in the budget submissions.
		Is gender equality incorporated into overall budget guidelines (budget call and budget manual) and directives from the MoF?	No, the overall budget guidelines such as the budget manual and budget directive do not incorporate gender equality but the BCC gives an instruction to consider gender equality while preparing the budget. The Gender Budgeting Guideline prepared by MoF is translated into Oromiffa and training has also been provided based on this.
		Do implementing entities prepare their annual action plan and budget report as per the guidance provided on gender segregation?	No, the budget guidelines do not have gender-specific requirements; however, some implementing entities (such as BoE) prepare annual action plan with disaggregated data on gender. A visit to the Dhaka Boora health center revealed that data on service delivery are disaggregated in their annual action plan; for instance (a) the number of women to receive maternal health care—pre-natal and post-natal care and (b) number of women to receive birth control and birth prevention health care. The assessment concludes that except the development of the GRB training manual and guidelines, in addition to provision of training, not much has been achieved in terms of actual implementation of GRB.
		Integrated and reflected gender equality and equity government commitments on a budget speech.	No, the budget speeches do not include specific gender issues.
3	PI-18 Legislative scrutiny of budgets PI-18.1 Scope of budget scrutiny	Does the scope of budget scrutiny include the budget allocated for gender?	No, the scope of budget scrutiny does not include the budget allocated to gender since there is no specific line item on gender; however, there is a specialized committee on women, children, and youth at the regional council that considers the interest of gender and women during the budget scrutiny process. There are eight members of the standing committee on gender. The budget review process encourages women participation.

No.	Pillar	Disaggregation of data required	Responses/information gathered
		To what extent are women, children, and youth standing committees in parliaments and regional councils involved in analyzing the budget from a gender perspective?	The budget passes two levels of review at the council. The first is by a coordination committee comprising 12 members (the heads of the 8 standing committees of the council, the speaker, deputy speaker, 1 BoFED representative, and 1 representative from the concerned sector). The head of the women, children, and youth standing committee is a member of this committee and is involved in analyzing the budget at this stage. UN Women in collaboration with the MoF prepared and published the GRB toolkit for members of parliament that will enable parliamentarians to review sectoral plans from a gender perspective and make proposals on possible interventions.
		To what extent are their feedback considered in revision of draft plans and budget?	The head of the women, children, and youth standing committee indicated that his/her feedback is considered during the budget scrutiny.
4	Pillar VII External scrutiny and audit PI-30 External audit	Are gender-based performance audits conducted?	No gender-based performance audit was conducted in the last completed fiscal year.
	PI-30.1 Audit coverage and standards	If yes, for which sectors was it conducted and how were the findings used to strengthen programs of sectors?	

Other relevant information

Woreda community budget literacy training				
EFY	FTA workshop participants			
	Male	Female	Total	% of female participants
2008	8,908	5,733	14,641	39.15
2009	8,494	6,725	15,219	44.18
2010	9,542	8,394	17,936	46.79
Total	26,944	20,852	47,796	43.62
Pre-budget discussion				
EFY	Participants on Pre-budget discussion			
	Male	Female	Total	% of female participants
2008	7,951	5,227	13,178	39.66
2009	5,189	2,699	7,888	34.21
2010	9,346	5,040	14,386	35.03
Total	22,486	12,966	35,452	36.57