



PEFA

Public Expenditure and Financial Accountability

Federal Democratic Republic of Ethiopia (Tigray National Regional State)



Performance Assessment Report

Final Report

December 11, 2019

Funded by



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Public Expenditure and Financial Accountability (PEFA) Assessment

Federal Democratic Republic of Ethiopia
(Tigray National Regional State)

Final Report - December 11, 2019

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

PEFA Secretariat
December 11, 2019

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Abbreviations and acronyms

ACSOT	Association of Civil Societies of Tigray
AFIF	Audit Findings Implementation Forum
AFROSAI	African Organization of Supreme Audit Institutions
AGA	Autonomous Government Agency
BAC	Budget and Audit Standing Committee
BAASC	Budget and Audit Affairs Standing Committee
BCC	Budget Call Circular
BCG	Budgetary Central Government
BI	Budget Institution
BoA	Bureau of Agriculture
BoC	Bureau of Construction
BoE	Bureau of Education
BoFEP	Bureau of Finance and Economic Planning
BoH	Bureau of Health
BoTVET	Bureau of Technical and Vocational Education and Training
BoW	Bureau of Water
BPR	Business Process Reengineering
BSC	Balanced Scorecard
CoA	Chart of Accounts
COFOG	Classification of the Functions of Government
COPCD	Channel One Projects Coordination Department
DFID	U.K. Department for International Development
DP	Development Partner
EC	Ethiopian Calendar
EBU	Extra Budgetary Unit
EFY	Ethiopian Fiscal Year
EHRC	Ethiopian Human Right Commission
EMCP	Expenditure Management and Control Program
EPSA	Ethiopia Pharmaceutical Supply Agency
ERCA	Ethiopia Revenue and Customs Authority
ESDP	Education Sector Development Plan
EU	European Union
FGE	Federal Government of Ethiopia
FTA	Financial Transparency and Accountability
FTAP	Financial Transparency and Accountability Program
GC	Gregorian Calendar
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Program
GFS	Government Finance Statistics
GRB	Gender Responsive Budgeting
GTP	Growth and Transformation Plan
HLG	Higher-level Government
HMIS	Health Management Information System
HR	Human Resource
HRD	Human Resource Department
HSTP	Health Sector Transformation Plan
IBEX	Integrated Budget and Expenditures
ICT	Information and Communication Technology
IDCT	Information and Database Case Team

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 Standards of Supreme Audit Institutions
IT	Information Technology
JRIS	Joint Review and Implementation Support
KPI	Key Performance Indicator
MDTF	Multi-donor Trust Fund
MEFF	Macroeconomic and Fiscal Framework
MoE	Ministry of Education
MoF	Ministry of Finance
MTEF	Medium-term Expenditure Framework
NA	Not Applicable
NGO	Nongovernmental Organization
NS	Not Scored
OFAG	Office of the Federal Auditor General
ORAG	Office of the Regional Auditor General
OT	Oversight Team
PAC	Public Accounts Committee
PARS	Public Accomplishment Revenue System
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFSA	Pharmaceutical Fund Supply Agency
PHCU	Primary Health Care Unit
PI	Performance Indicator
PPP	Public-Private Partnership
PSNP	Productive Safety Net Program
REAC	Regional Ethics and Anticorruption Commission
RPPPAD	Regional Public Procurement and Property Administration Directorate
SAI	Supreme Audit Institution
SDG	Sustainable Development Goal
SIGTAS	Standard Integrated Government Tax Administration System
SNG	Subnational Government
SNNPR	Southern Nations and Nationalities Peoples' Region
SoE	State-owned Enterprise
SWOT	Strengths, Weakness, Opportunities, and Threats
TOR	Terms of Reference
TRDA	Tigray Revenue Development Authority
TRG	Tigray Regional Government
TSA	Treasury Single Account
TTL	Task Team Leader
TVET	Technical and Vocation Education and Training
UNICEF	United Nations Children's Fund
UN Women	United Nations Entity for Gender Equality and the Empowerment of Women
USAID	U.S. Agency for International Development
VAT	Value Added Tax
ZBA	Zero Balance Account

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 Tigray 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 in developing a PFM reform strategy and provide the basis for a coherent PFM reform program that can be supported by development partners (DPs), as well as through the government's own initiatives.
2. The assessment covers the Tigray Region, which is separate and independent from the federal government and qualifies as a subnational government in the PEFA methodology context. The Tigray regional assessment covered regional government budgeted units, extra budgetary units, the Office of the Regional Auditor General (ORAG), regional council, Tigray Chamber of Commerce, and public enterprises. The list of stakeholders met is presented in Annex 3B.
3. The fiscal years for the assessments are Ethiopian Calendar (EC) 2008, 2009, 2010 (Gregorian Calendar [GC] FY2015/2016, 2016/2017, and 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 (April 25, 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 the parliament.
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, the U.K. Department for International Development (DFID), the European Union (EU), the United Nations Children's Fund (UNICEF), and the 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

Aggregate fiscal discipline

5. The aggregate expenditure of the Regional Government of Tigray for the last three completed fiscal years was not reliable. The expenditure budget outturn was between 105 percent and 119 percent of the approved aggregate budgeted expenditure in all three last fiscal years. Variance in expenditure composition by administrative classification was 11 percent, 9 percent, and 16 percent in EFY 2008, 2009, and 2010, respectively. In all the past three completed fiscal years, actual expenditure charged to the contingency vote was 0 percent.
6. Variation in the budget composition indicates inability to spend the budget according to the plan (originally approved budget). The same is true for revenue, as revenue outturn was not close to the budgeted figures in all three years. It was 111 percent, 113 percent, and 107 percent in EFY 2008, 2009, and 2010, respectively. The variance in revenue composition was more than 15 percent in all the last three years. The level of the stock of arrears is not a cause for concern, as it was less than 1 percent of total expenditure on average for the three years of assessment. Although there are no off-budget operations (PI-6), the fiscal risks are not monitored (PI-10) by the regional government. There is no debt management strategy.

7. The total amount of revenue arrears is limited (PI-19). The actual stock of revenue arrears for the year-end EFY 2010 is about 1.3 percent and the revenue arrears older than 12 months were less than 44 percent. Internal controls of the system concerned with budget execution (PI-23 and PI-25) are well functioning, even though they are not using the best practices of risk-based internal audit. The procurement domain (PI-24) performs very poorly. Overall, the performance of the indicators relevant to aggregate fiscal discipline does not contribute to its attainment.

Strategic allocation of resources

8. Three of the four indicators concerned with policy-based fiscal strategy and budgeting (PI-14, PI-16, PI-17, PI-18, and PI-15) did not receive good overall ratings, which demonstrates that the process to allocate budgetary resources is not in accordance with the regional government's strategic objectives.

9. Although the Regional Planning Commission prepares a Macroeconomic and Fiscal Framework (MEFF), which is developed for the budget year and two outer years, the budget does not have a medium-term focus (PI-16). The quality of the budget preparation process is impaired by the fact that the Cabinet only approves the budget allocations at the end of the preparation process and by the late submission of the draft budget to the regional council. Budget scrutiny (PI-18) performs fairly. It covers fiscal policy and aggregate for the coming year as well as details of expenditure and revenue. The procedures for budget scrutiny are approved before the budget hearings but do not include arrangements for public consultation, technical support, or negotiation procedures. The regional council has approved the annual budget rather late, within one month of the start of the fiscal year in each of the last three fiscal years.

10. Other indicators such as budget classification, which meets international standards that contribute to the strategic allocation of resources function, are relatively better though with certain weaknesses. The indicators related to revenue collection and administration (PI 19 and PI-20) perform well. That said, the exhaustiveness of budget documentation (PI-5) is extremely poor, as it fulfils only one additional element required by the PEFA Framework. Moreover, regarding public investment management (PI-11), project selection for inclusion into the annual budget is largely based on regional government priorities and not based much on the results of the feasibility studies conducted.

Efficient use of resources for service delivery

11. The use of resources for service delivery is not particularly efficient. This is demonstrated by the low scoring for the processes that plan services in public investment management (PI-11) and medium-term expenditure budgeting (PI-16), as well as a budget preparation process (PI-17) providing ceilings for budget estimates to the budget entities. The system of allocating transfers (PI-7) is good and determined by a transparent and rule-based transfer system.

12. Overall, the performance information for service delivery (PI-8) presents a mixed record. Performance plans for service delivery with objectives, key performance indicators (KPIs), and outcomes are published annually but produced for only some sectors. There are evaluations (not published) on the effectiveness of service delivery every two years covering a very few sectors. Public asset management (PI-12) is also rated weak (D+), which entails that there is too little transparency on what is effectively maintained by the Regional Government of Tigray.

13. Nevertheless, the mechanisms in place to reduce possible leakages in the system, such as internal controls on expenditure (PI-23 and PI-25), are good. The internal audit (PI-26) and external audit function (PI-30) are however weak and need improvement. Financial data integrity does not demonstrate good accounting controls (PI 27), and the public procurement function is still in the process of development and not transparent enough (PI-24). The oversight arrangements for legislative scrutiny of audit reports (PI-31) are effective. The Budget and Audit Affairs Standing Committee (BAASC) conducts hearings in the presence

of the executive of the audited officers and directly issues recommendations to each audited entity. Recommendations and hearings are accessible to the public.

Performance changes since last assessment

14. On the basis of the 2011 method, between the 2014 and the 2019 assessments, performance is largely unchanged. Most or 46 percent of PIs (13 out of 28, as the donor practices indicators have not been assessed) show no change in performance. There is a slight improvement in overall performance of PFM systems as 10 indicators, or 32 percent, have improved in performance and 6 indicators, or 21 percent, have deteriorated. One PI is not comparable. This is shown in Table 0.1, and Annex 4 gives the details of performance change for each PI and dimension.

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

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

Aggregate fiscal discipline

15. Aggregate fiscal discipline has not improved as the budget credibility indicators PI-1 and PI-3 deteriorated. The stock of arrears (PI-22.1) is low in both PEFA assessments.

Strategic resource allocation

16. The strategic allocation of resources has improved slightly owing to the development of an MEFF with forecasts of fiscal aggregates. There is no change in the transparency of intergovernmental fiscal relations. The horizontal allocation of lower government levels is executed as planned.

Efficient use of resources for service delivery

17. The performance of public services is not better managed, monitored, and controlled than during the previous assessment. Performance under the availability of information on resources received by service delivery units (PI-23), though good, is unchanged. Procurement (PI-19), which displays poor performance, has slightly deteriorated due to lack of information on procurement methods used.

Prospects for reform planning and implementation

18. The regional government's PFM reform initiatives over the years have largely been based on the federal government's overall reform program. Currently, there are no ongoing PFM reform activities, except for the usual and continuous training and capacity-building programs on internal audit and controls, procurement, asset management, treasury management, and accounting and reporting across all regional sectors and woredas.

Table 0.2: Overview of the scores of the PEFA indicators

PFM PI		Scoring method	Dimensions				Overall score
			i	ii	iii	iv	
HLG-1	Transfer from a higher-level government	M1	A	A	A		A
Pillar I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	C				C
PI-2	Expenditure composition outturn	M1	C	D*	A		D+
PI-3	Revenue outturn	M2	B	D			C
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	D				D
PI-6	Government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	A	A			A
PI-8	Performance information for service delivery	M2	B	B	B	D	C+
PI-9	Public access to fiscal information	M1	D				D
Pillar III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	C	D	D	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	C	C	D		D+
PI-18	Legislative scrutiny of budgets	M1	B	C	A	B	C+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	A	A	B	A
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in year resource allocation	M2	C	B	A	A	B+
PI-22	Expenditure arrears	M1	A	C			C+
PI-23	Payroll controls	M1	B	A	B	B	B+
PI-24	Procurement management	M2	D	D	C	D	D
PI-25	Internal controls on non-salary expenditure	M2	A	C	B		B
PI-26	Internal audit	M1	A	C	A	B	C+
Pillar VI. Accounting and reporting							
PI-27	Financial data integrity	M2	A	B	C	C	C+
PI-28	In-year budget reports	M1	A	C	C		C+
PI-29	Annual financial reports	M1	C	B	C		C+
Pillar VII. External scrutiny and audit							
PI-30	External audit	M1	B	C	A	A	C+
PI-31	Legislative scrutiny of audit reports	M2	A	A	A	A	A

1. Introduction

1.1. Background

1. On August 6, 2018, the development partners (DPs) received an official request from the Ministry of Finance (MoF) to conduct PEFA assessments for the federal government and selected regional governments including the Tigray Region. It was, therefore, the desire of the government to measure public financial management (PFM) progress since the 2015 PEFA assessment. Based on this request, DPs agreed to provide technical and financial support for the assessment. For the Tigray Region, the assessments were undertaken in 2007 and 2015. This is the third assessment.

1.2. Rationale and purpose

2. **Overall objectives.** The objective of the PEFA assessments is to review the current performance of the PFM systems, processes, and institutions of Tigray regional government (TRG) using the new 2016 PEFA Framework plus the 2016 Supplementary Guidelines on Subnational Government Assessments and track progress using the 2011 PEFA Framework since the last PEFA assessment, which was in 2015.

3. **Specific objectives.** The assessments are 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 assessments will assist in refining the Regional Government PFM Strategy that it has already developed but is yet to be approved by the federal government and provide the basis for a coherent PFM reform program that can be supported by DPs and through the government's own initiatives.

1.3. Assessment management, oversight, and quality assurance

4. Box 1.1 summarizes the assessment management, oversight, and quality assurance. The assessment was funded by the World Bank, Irish Aid, the U.K. Department for International Development (DFID), the European Union (EU), the United Nations Children's Fund (UNICEF), and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women). It was managed by the World Bank. The task team leader (TTL) was Rafika Chaouali (Lead Financial Management Specialist, Governance, World Bank), and Meron Tadesse Techane (Senior Financial Managements Specialist, Governance, 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.

5. A 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 the government PFM reforms and strategy and comprises a focused group of high-level representatives such as the Channel One Projects Coordination Department (COPCD), 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) Secretariat, selected line ministries, and selected state-owned enterprises (SoEs), although the actual participation of some was very much limited. Key donors of the task force include the World Bank, DFID, EU, Irish Aid, UNICEF, and UN Women. A focal person at the regional Bureau of Finance and Economic Planning (BoFEP), Hadush Gebremeskel, information technology (IT) and Integrated Budget and Expenditures (IBEX) coordinator, was responsible for arranging and coordinating meetings and data gathering, as well as the overall assessment implementation at the regional government level.

PEFA Check

6. The quality assurance framework was 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 June 3, 2019.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

- Oversight Team (OT) - see the table below
- Assessment manager: Demissu Lemma Wondemgezahu and Dawit Shimelis (former and present Director of the MoF EMCP, respectively)
- Assessment Team Leader: Elena Morachiello (international consultant)
- Assessment Team: Getnet Haile (local consultant) and Elisaveta Teneva (international consultant). Elena Morachiello and Getnet Haile participated in the mission and in the drafting of the report, whereas Elisaveta Teneva provided support with data analysis, assessing data-based PIs and sections, and overall sections.
- 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, Inspectorate Directorate
Office of Federal Auditor General	<ul style="list-style-type: none"> • Federal Auditor General
Ministry of Revenue (formerly ERCA)	<ul style="list-style-type: none"> • Commissioner General
Parliament	<ul style="list-style-type: none"> • Clerk of Parliament
Public Procurement Authority	<ul style="list-style-type: none"> • Director General
DPs	<ul style="list-style-type: none"> • World Bank • EU • DFID • Irish Aid • UN Women • UNICEF

Review of concept note and/or terms of reference (TOR)

- Date of reviewed draft concept note by the PEFA Secretariat: November 13, 2018
- Other invited reviewers who submitted written comments: Eric Brintet (Lead Financial Management Specialist, GGOLF, World Bank); Emmanuel Cuvillier (Sr. Public Sector Specialist, GGOMN, World Bank); Clara Molera Gui (Governance, Delegation of the European delegation to Ethiopia); Misrak Tamiru (Women's Economic Empowerment [WEE] Program Specialist, UN Women); and from the PEFA Secretariat.

Review of the assessment report

- Peer reviewers: Holy Tiana Rame (PEFA Secretariat), TRG, and World Bank staff, Irish Aid
- PEFA Secretariat's review: Date of the review - August 13, 2019; second review - November 10, 2019
- Irish Aid: Review date - December 3, 2019
- TRG: November 2019

1.4. Assessment methodology

7. The assessment applied the PEFA 2016 methodology in addition to the 2016 Supplementary Guidelines for Subnational Assessments, with seven key pillars of performance, which are a prerequisite to an open, well-functioning, and orderly PFM system to achieve government objectives. The assessment covered budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, as well as external scrutiny and audit. Meetings were held with key government officials and agencies, civil society organizations, and DPs. The assessment team reviewed and analyzed official government data.

8. 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.

1.5. Assessment coverage and timing

9. The Tigray Region PEFA assessment covered budget institutions (BIs) (education, health, water, and agriculture), the Office of the Regional Auditor General (ORAG), the Tigray Revenue Development Authority, the Tax Appeal Committee, the Anticorruption Commission, and the regional council, among others (see Annex 3B). The fiscal years of the assessment are EFY 2008, 2009, and 2010 and Gregorian FY2015/2016, 2016/2017, 2017/2018. The last budget submitted to Parliament is the EFY 2011 budget or Gregorian FY2018/2019 budget.

1.6. Field work

10. The field work for the overall exercise began on November 19, 2018, with a kickoff meeting held at the MoF with the OT, key government officials, and DPs. A two and a half days of (December 3 to 5, 2018) PEFA training workshop was conducted at the Hilton Hotel, Addis Ababa. Officials from the PEFA Secretariat conducted the training; government officials from the federal, city, and regional governments took part in the training. The half day was used as a high-level stakeholder meeting to elaborate on the PEFA methodology for directors of the MoF and selected key line ministries such as education and health. Discussions were held to clarify certain aspects of the process, such as the peer review process and the PEFA Check.

11. The larger conference and training event that lasted two days saw a total of 110–115 participants, including 5 from the Southern Nations and Nationalities 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 were from Oromia Region, the city of Addis Ababa, the federal government, DFID, the EU, Irish Aid, UNICEF, UN Women, and the World Bank. Although the other PEFA assessments that will be conducted in 2018 and 2019 besides the federal government will be for Addis Ababa City, Tigray, Amhara, Oromia, Somali, and SNNPR, other regions also attended the event to familiarize themselves with the new 2016 methodology in view of possible future assessments.

12. 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 gender responsive budgeting, to discuss the methodology for the inclusion of some selected indicators as pilots.

13. The field work for the Tigray regional assessment began on March 4, 2019, with a kickoff meeting held at BoFEP; present at the meeting were the focal person of the assessment and the Planning, Budgeting, and Monitoring and Evaluation Department. Rafika Chaouali (Lead Financial Management Specialist, Governance, World Bank), the task team leader (TTL) for the project envisaging the seven PEFA

assessments, joined the mission for March 13, 14, and 15, 2019. Fekadu Berhe, a local consultant who took part in the federal government and Addis Ababa assessments, had visited Tigray in January to explain the information needs for the mission and communicate meeting needs to the focal point.

14. The mission ended on March 15, 2019, with the presentation of an aide-memoire. The aide-memoire outlined a number of information elements and documents that were outstanding to score the dimensions, at the aide-memoire stage and at repeated stages until June 5, 2019. Some new information elements were received up to June 5, 2019, so that is the cutoff date at which the assessment reflects the status of PFM systems. Extended requests were made for comments up to November 18, 2019. Information received after this date couldn't be considered as the report has been deemed final and sent for the PEFA CHECK. Some elements were however not provided to the assessment team, resulting in few dimensions being rated D*. That said, the assessment was able to gather the documents listed in Annex 3A. Among the documents obtained from the units are (a) the budget call circular (BCC), (b) the annual financial statements, (c) audit reports from the Auditor General; (d) sector strategies; (e) the budget speech; (f), transfers to woredas and percentage of woredas that obeyed the rules/formula for transfers in EFY2010. Initially, the Tigray Region was not a pilot for service delivery. That said, a half-day meeting was scheduled for woreda-level visits to verify the tracking of funds to service delivery units. The results of the meeting and the related documentation collection raised interest in Tigray, which was selected as a pilot for service delivery. As a result, a second mission was planned for two experts between September 18 and 26, dedicated to service delivery and clarifying the questions raised through the comments on the draft version. The service delivery annex is found under Annex 7, and Annex 6 explains the sources of funding to the Tigray Region.

1.7. Pilot: Service delivery

15. The service delivery pilot in the health and education sectors has been carried out in Tigray Region. 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 1.1 in the health and education sectors. The approach employed for the expanded scope has been discussed and agreed with the World Bank Task Team.

16. The PEFA framework has been applied to review the PFM processes with implications for service delivery units in health and education sectors at the federal government level. 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 1.1: Service delivery indicators

Ethiopia PEFA Tigray Region Assessment 2018 Module for service delivery in health and education	
Indicator	
HGL-1: 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 Central government operations outside financial reports	
PI-7 Transfers to sub-national governments	
PI-8 Performance information for service delivery	
PI-9 Public access to fiscal information	
Pillar III: Management of assets and liabilities	

Ethiopia PEFA Tigray Region Assessment 2018 Module for service delivery in health and education	
PI-11	Public investment management
PI-12.2	Public asset management
Pillar IV: Policy-based fiscal strategy and budgeting	
PI-16.2 and 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 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

2. Country background information

2.1. Country economic situation

17. The gross domestic product (GDP) of TRG in 2016/2017 was ETB 102 billion at the current basic price, where the largest contribution was from the agriculture sector at 36.7 percent. As indicated in Table 2.1, the share of the agriculture sector is declining slightly over the years from 42 percent in 2012/2013 to 36.7 percent in 2016/2017. About 53.5 percent of the households in TRG were generally engaged in the farming activity. Households' average landholding is about 0.6 ha with 78 percent of them holding in the range of 0.01 ha to 1.0 ha. TRG has a number of popular tourist attraction sites contributing to its service sector.

Table 2.1: Summary table of economic indicators for Tigray at current basic price (ETB, millions)

	EFY 2005 (2012/2013)	EFY 2006 (2013/2014)	EFY 2007 (2014/2015)	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)
RGDP at current factor cost (Change or growth rate over previous years in percentage)	45,439 (18.7)	52,606 (19)	67,693 (30)	80,230 (18.5)	102,543 (27.8)
Contribution of sectors to total RGDP in %					
Agriculture	42	38.7	39.6	38.1	36.7
Industry	23.5	24.0	25.4	25.3	26.3
Service	34.5	37.3	35.0	36.6	37.0

Note: RGDP = Regional gross domestic product.

18. TRG does not have a record of import and export data. There is no external loan and the internal loan (recorded) of ETB 500 million is from the Federal Government of Ethiopia (FGE).

2.2. Fiscal and budgetary trends

19. Tigray Region has been continuously growing in the past decade and registered an average GDP growth of 23 percent for five years, that is, between EFY 1998 (FY 2005/2006) and EFY 2009 (FY 2016/2017). This growth helped the GDP grow from ETB 45 billion to ETB 102 billion in the same period. This has significantly contributed to poverty reduction in the region.

20. The total revenue of the region has grown from ETB 10 billion to ETB 13 billion between EFY 2008 and EFY 2010. The contribution of tax and other domestic revenue has been on average around 40 percent, while subsidy from the federal government constitutes 59 percent, on average for the three years, of the total revenue.

Table 2.2: Aggregate fiscal data

Regional government actuals (ETB, millions)			
	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Total revenue	10,166,178,406	12,432,542,177	13,169,631,823
Subsidy from the federal government	6,034,533,460	7,684,194,880	7,267,358,970
Revenue from tax, grants (external assistance), and other domestic revenue	4,131,644,947.5	4,748,347,297	5,817,724,793
External assistance	43,440,000	49,669,400	42,355,593
Total expenditure	10,402,927,057	13,875,052,768	14,719,224,220
Surplus	-236,748,651	-1,442,510,591	-1,549,592,397

Source: BoFEP.

21. TRG is dedicating a high share of its budget to education, water, and health. Table 2.3 shows the allocation of resources by sectors for the three years under review.

Table 2.3: Budget allocations by function

Actual budgetary allocations by sectors (as a percentage of total expenditures)			
	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Administration and general service	22	23	22
Organ of the state	6	7	6
Agriculture and natural resource	6	5	5
Water supply office	11	9	9
Trade industry and tourism	8	10	9
Mines and energy	0.11	0.12	0.11
Agency mining and energy	0.11	0.12	0.11
Construction and transport	13	9	10
Education office	20	22	22
Technical and vocation education and training (TVET) office	4	5	5
Health office	8	9	9
Other	1	0.37	2.91
Total	100	100	100

Source: BoFEP.

2.3. Legal and regulatory arrangements for PFM

22. Following their approval in FY2009/2010 (EFY 2002), the Financial Administration Proclamation and the Procurement and Property Administration Proclamation came into effect in 2011, with procurement effectively separated from financial administration. Financial Administration Regulations were issued in 2011, as the previous regulations had been in place for 14 years. Ten directives were subsequently issued for the effective implementation of these proclamations. Areas of increased focus include cash flow forecasting and the quality and timeliness of financial reports and procurement plans. The directives also took into account the business process reengineering exercises conducted during FY2007/2008 and FY2008/2009.

23. Regarding the tax system, tax laws closely follow federal legislation, and the regional government shares some taxes with the federal government. Woreda governments have no authority to raise tax revenues, but woreda bureaus collect some revenue on behalf of the regional government. They also collect nontax revenues in some areas (for example, market fees). The tax system is discussed in more detail under PI-19 in Chapter 3.

2.4. Institutional arrangements for PFM

Structure of the public sector

24. Tables 2.4, 2.5, and 2.6 outline the structure of the public sector and regional government operations. The regional government has 7 zones and 52 woredas under the zones. There are three public corporations but no extra budgetary units (EBUs).

Table 2.4: 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	EBUs		Nonfinancial public corporations	Financial public corporation
Subnational government (SNG) (Tigray)	1	0	0	3	0
1st tier subnational (zones)	7	0	0	0	0
2nd tier subnational (woreda)	52	0	0	0	0

Table 2.5: Financial structure of the regional government - budget estimates (ETB, millions)

2017/2018	Central government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	14,717	None	NA	14,717
Expenditure	14,717	None	NA	14,717

Source: BoFEP 2017/2018 budget.

Table 2.6: Financial structure of the central government - actual expenditure (ETB, millions)

2017/2018	Central government			
	Budgetary unit	EBUs	Social security funds	Total aggregated
Revenue	14,989	None	NA	14,989
Expenditure	13,078	None	NA	13,078
Transfers to (-) and from (+) other units of general government	2,929	None	NA	2,929
Liabilities	2,732	None	NA	2,732
Financial assets (cash + cash equivalent + receivables)	5,346	None	NA	5,346
Nonfinancial assets	No data	None	NA	No data

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

25. TRG is composed of the executive branch, led by the president; the legislative branch, which comprises the state council; and the judicial branch, which is led by the state supreme court. The Office of the Auditor General, which is accountable to the regional council, is also a key organ in the regional PFM system. The council has the power to levy taxes and duties as well as set service charges upon financial matters falling under the jurisdiction of the regional government in accordance with the constitution, approve the budget of the region, and approve long-term and short-term economic and social development plans of the region. It also has the power to allocate budgetary subsidy to woredas and city administrations according to the adopted formula.

26. The president is the chief executive officer of the region and is accountable to the regional council. The president is elected by the regional council from among the members for the same term as the council. The Cabinet is accountable to the president and is responsible to ensure that proclamations, regulations, resolutions, and standards adopted by the council and the federal government are implemented. The heads of bureaus are members of the regional cabinet. The regional cabinet formulates regional strategy

plan and annual budget and submit for approval to the regional council and implement them when approved. The regional cabinet reviewed interim and annual financial reports.

27. The budgetary institutions are responsible for the submission of draft budget and implementation of the approved budget in accordance with the applicable laws and regulations. Budgetary institutions are required to submit cash flow forecast reports and interim and annual financial reports and update their financial records using IBEX. The accounting system at BIs is interconnected with BoFEP and consolidated financial reports are available a few days after the end of each month. Internal control systems are in place through the various PFM laws, regulations, and directives. Each BIs has its own internal audit unit and is also audited by ORAG. Audit findings are followed by ORAG and the regional council, with an Audit Findings Implementation Committee composed of various government organs.

28. Most of the procurement and disbursement functions are decentralized at the BI level except for construction works that the Bureau of Construction of Roads and Transport executes on behalf of all BIs. A unit within BoFEP is responsible for regulatory function on procurement and property administration performances of BIs. Payroll processing and payments are decentralized at the BI level. The organizational structure, job grading, and payment schemes are standardized at a regional level and monitored by the Civil Service Bureau. ORAG has just recently been permitted to propose its own structure and pay scheme outside the standard set by the Civil Service Bureau.

29. The judiciary of the regional state is organized such that it comprises the regional supreme court, high courts, and first instance courts. The woreda court is the lowest subordinate first instance judicial organ of the regional state.

30. BoFEP is mandated by the Financial Administration Proclamation No. 315/2018 to supervise and monitor the financial administration of the region and oversee the internal audit functions of the public bodies. It reports the consolidated financial statement of the region and submits to ORAG for audit. BoFEP is responsible for managing the regional government cash resources, following up the timely collection of revenues, and transferring budgets to BIs in accordance with approved cash flow requirement requests. Tigray Revenue Development Authority (TRDA) is responsible for the timely collection of taxes and duties and transferring of this collection intact daily to the Treasury.

Institutional arrangement for internal control framework

31. **Control environment.** According to the Financial Administration Proclamation, BoFEP has a significant role in establishing PFM standards and ensuring that internal audit functions are in place in all public bodies, accounting and reporting are timely recorded, and reports and resources are safeguarded. The internal audit units of public bodies submit their reports to their respective head of public bodies and BoFEP Inspection Directorate. BoFEP has a responsibility of ensuring that public bodies implement audit recommendations. ORAG is independent from the executive and operates independently as prescribed in the Constitution of TRG and related proclamation and regulations. ORAG submits its reports to the regional council. The Budget and Audit Affairs Standing Committee (BAASC) of the regional council scrutinizes and conducts hearings on audit findings. The Audit Findings Implementation Forum (AFIF) is a multiple stakeholder platform from government institutions including ORAG, Bureau of Justice, BAASC, BoFEP, and others responsible for the follow-up of implementation of audit recommendations. The regional Ethics and Anti-Corruption Commission is also mandated to educate the public on ethics and conduct investigation and sue those engaged in corrupt practices.

32. **Risk assessment.** Generally, conducting risk assessment at a public body level as part of the internal control framework has not been well practiced. Weaknesses and threats may be assessed as part of sector strategy development but not to evaluate the efficiency of internal controls. Few of the internal

audit units conduct risk assessment as an input to their annual audit plan. TRDA conducts risk assessment to determine risk-prone sectors and taxpayers and develop a risk strategy.

33. **Control activities.** The Financial Administration Proclamation and Regulation, Procurement and Property Administration Proclamation, the various tax proclamations and regulations, the various PFM manuals, and directives are key control activities. The various PFM rules and regulations stipulate reconciliation of cash and bank balances, conducting of annual counts of property and other assets, and segregation of duties in disbursement, payroll, and procurement process.

34. **Information and communication.** PFM rules and regulations are published and disseminated to sector bureaus mainly through BoFEP. TRDA and ORAG have a well-functioning website where the public can access their reports and regulations. IBEX provides consolidated financial reports at the BoFEP level as all regional sector bureaus and woredas are interconnected. In addition, all public bodies submit printed reports to BoFEP and BoFEP submits quarterly reports to the regional cabinet. Annual budget proclamations are published. The legal framework does not clearly stipulate the need for public access to key fiscal information. In-year and annual budget execution reports, pre-budget statements, and macroeconomic forecasts are not published.

35. **Monitoring.** Heads of public bodies are required by law to submit performance reports to the regional council twice a year. Internal audit units are required to submit quarterly internal audit reports. Public bodies and the regional cabinet review quarterly reports and midterm sector strategies. BoFEP's Monitoring and Evaluation Directorate monitors the status of capital projects in collaboration with sector bureaus.

2.5. Other key features of PFM and its operating environment

36. TRG has 7 zones and 52 woredas. The zones are branches of the regional government and have only limited administrative functions. The woredas have legal status, prepare and approve their budgets, execute the budget, and report to the regional finance bureau (BoFEP) as well as their own councils. IBEX is used for budget management and financial reporting by all budgetary units at the regional, zonal, and woreda levels. IBEX has budget, accounts, budget adjustment, budget control, disbursement, and accounts modules. IBEX functions online and is a stand-alone system; monthly reports are submitted online by those BIs connected with BoFEP and soft copies of reports are submitted by those BIs using the stand-alone system.

37. There is little information on whether public participation forums or events are held in relation to the budget formulation. The same is true about the discussion of the external audit report at the regional council when representatives of civil societies are not invited to attend the hearings.

2.6. Institutional arrangements for service delivery

38. The Ethiopian health service is structured in a three-tier system: primary, secondary, and tertiary levels of care with defined catchment populations. The primary level of care includes primary hospitals (serve 60,000–100,000 people), health centers (serve 25,000 people), and health posts (serve 3,000–5,000 people in rural areas). The primary hospitals, health centers, and health posts form a primary health care unit (PHCU). Secondary-level health care or general hospitals serve 1–1.5 million people. They provide inpatient and ambulatory services and help as referral centers 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.

39. The education structure of Ethiopia is composed of three years of preprimary 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). Primary education and (in most cases) junior (general) secondary education are managed by the Woreda Education Office, accountable to the woreda cabinet and regional Bureau of Education (BoE). Regions manage senior (preparatory) secondary education, 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 for primary education, the choice of the language of instruction, and textbook provision at the primary level. The federal government is responsible for management of higher education, which is under the Ministry of Education (MoE). The MoE is also responsible for formulating education policy, development of curriculum for secondary and higher education, and training of teachers for secondary and higher education.

40. The Tigray health administration structure follows the administrative structure of the region, where there is the Bureau of Health (BoH) at the regional level and Health Offices at the zone and woreda levels. 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. At the regional level, there are two bodies responsible for education, the TVET office, 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. TVET institutions are managed by the BoE while secondary schools (general and preparatory schools) are managed by the zonal offices. Preprimary and primary schools report to the Woreda Education Offices.

3. Assessment of PFM performance

HLG-1 Transfers from a higher-level government

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
HLG-1 Transfers from a higher-level government	A	Scoring method M1
HLG-1.1 Outturn of transfer from higher-level government	A	Actual transfers were more than 99% compared to the original budget in two of the last three completed fiscal years.
HLG-1.2 Earmarked grants outturn	A	There is no difference between the original budget estimate and actual earmarked grants received for the three years of assessment.
HLG-1.3 Timeliness of transfer from higher-level government	A	Actual monthly disbursements of both recurrent and capital grants have been evenly spread within each of the last three years under review.

HLG-1.1 Outturn of transfer from a higher-level government

41. Generally, planned transfers have been received nearly in full from the federal government in all the three years. As shown in Table 3.1, the outturn was 99.6 percent in EFY 2008, 94.8 percent in EFY 2009, and 99 percent in EFY 2010. This performance helped the regional government to have a credible revenue budget and meet the overall planned regional government revenue, as federal grants constitute more than 70 percent of total revenue.

Table 3.1: Outturn of transfer from the federal government

	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Original budget	6,061,740,000	8,101,932,220	7,351,907,030
Actual transfer	6,034,533,460	7,684,194,880	7,267,358,970
% outturn	99.6	94.8	99
% deviation	0.4	5.2	1

Source: TRG Bureau of Finance and Plan.

Dimension score: A

HLG-1.2 Earmarked grants outturn

42. All grants received in Tigray Region are earmarked. The external assistance is multilateral (EU and UNICEF) and bilateral (Finland). As shown in Table 3.2, earmarked grants have been received in full in EFY 2008, 2009, and 2010.

Table 3.2: Outturn of transfer from earmarked grants

	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Original budget	43,440,000	49,669,400.00	42,355,593.00
Actual transfer	43,440,000	49,669,400.00	42,355,593.00
% outturn	100	100	100

Source: BoFEP.

Dimension score: A

HLG-1.3 Timeliness of transfer from higher-level government

43. There was an even disbursement of transfers (subsidy) to the region from the federal government for the last three completed fiscal years. The transfers are monthly, usually made at the beginning, in the middle, or in the end of the month. The disbursements are categorized into recurrent (account code 1601) and capital (account code 1602).

Dimension score: A

PILLAR I: Budget reliability**PI-1 Aggregate expenditure outturn***Summary of scores and performance table*

Indicator/Dimension	Score	Brief justification for score
PI-1 Aggregate expenditure outturn	C	Scoring method M1
PI-1.1 Aggregate expenditure outturn	C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three fiscal years—Ethiopian Calendar (EC) 2008 and EC 2010 with 105% and 113%, respectively.

44. Aggregate expenditure outturn for the last three completed fiscal years is not very reliable as shown in Table 3.3. It was 105 percent in EFY 2008, 119 percent in EFY 2009, and 113 percent in EFY 2010. As a result, aggregate expenditure outturn was between 107 and 123 percent of the approved aggregate budgeted expenditure in all the last three fiscal years. The calculations upon which the table is based are reported in Annex 3A. Annex 3 shows the sub functional classification as approved for the three fiscal years of assessment. These data also exist disaggregated by subfunction showing the detailed expenditure items.

Table 3.3: Total budget and actual expenditure

Year	Budget	Actual	% of outturn
2015 (EC 2008)	9,680,926,174.00	10,402,927,057.02	105
2016 (EC 2009)	11,310,756,583.00	13,875,052,768.47	119
2017 (EC 2010)	12,839,356,623.00	14,719,224,220.18	113

Source: BoFEP Budget Directorate.

45. In sum, aggregate expenditure outturn was between 105 percent and 119 percent of the approved aggregate expenditure in the three years, resulting in a score C.

Dimension score: C

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

Indicator/Dimension	Score	Brief justification for score
PI-2 Expenditure composition outturn	D+	Scoring method M1

Indicator/Dimension	Score	Brief justification for score
PI-2.1 Aggregate composition outturn by function	C	Variance in expenditure composition by administrative classification was less than 15% in at least two of the last three years (11% in EFY 2008, 9% in EFY 2009, and 16% in EFY 2010).
PI-2.2 Expenditure composition outturn by economic type	D*	Data of expenditure by economic classification was not provided.
PI-2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was on average 0%.

PI-2.1 Expenditure composition outturn by function

46. As shown in Table 3.4, variance in expenditure composition by administrative classification was 11 percent, 9 percent, and 16 percent in EFY 2008, 2009, and 2010, respectively. The composition variance was less than 15 percent only in two fiscal years, EFY 2008 and EFY 2009. Therefore, the score is C.

Table 3.4: Composition variance by functional and economic classification and contingency

Year	For PI-2.1 Composition variance by function	For PI-2.2 Composition variance by economic type	For PI-2.3 Contingency share
EFY 2008 (2015/2016)	11%	—	0.015%
EFY 2009 (2016/2017)	9%	—	
EFY 2010 (2017/2018)	16%	—	

Source: BoFEP Budget Directorate.

Dimension score: C

PI-2.2 Expenditure composition outturn by economic type

47. Data of expenditure by economic classification were not provided.

Dimension score: D*

PI-2.3 Expenditure from contingency reserves

48. Actual expenditure charged to the contingency vote was on average less than 1 percent. In all the past three completed fiscal years, actual expenditure charged to the contingency vote was 0.02 percent (refer to Table 3.4). The practice of the region is that the contingency budget is proclaimed only at the BoFEP level and transfer is made to budget bodies upon request. Contingency reserves are used to meet unforeseen expenditures that could not be included in their original budget or when it is ascertained that payments are not effectuated 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 regional government has consistently adhered to the practice of not spending beyond the approved contingency vote, which reflects a good budget practice.

Dimension score: A

PI-3 Revenue outturn*Summary of scores and performance table*

Indicator/Dimension	Score	Brief justification for score
PI-3 Revenue outturn	C	Scoring method M2
PI-3.1 Aggregate revenue outturn	B	Actual revenue was between 107% and 113% of budget revenue in all the last three years (111% in EFY 2008, 113% EFY 2009, and 107% in EFY 2010). In two of the three fiscal years, the revenue outturn was between 94% and 112%.
PI-3.2 Revenue composition outturn	D	Variance in revenue composition was more than 15% in all the last three years (19% in EFY 2008, 9% in EFY 2009, and 28% in EFY 2010).

PI-3.1 Aggregate revenue outturn

49. The regional government revenue budget is reliable as evidenced in Table 3.5. It was 111 percent in EFY 2008, 113 percent in EFY 2009, and 107 percent in EFY 2010. Transfers (subsidies) from the federal government, which account for more than 70 percent of the total revenue of the region, are excluded from the calculation as required by the SNG Adapted Field Guide. Apart from transfers, the major revenues collected by the region are tax, assistance and other (nontax revenue such as fees and charges, municipal services) revenues. The collection of tax revenue was higher than the budget in all three years. The assistance from other donors and other governments was received as planned. Nontax revenues were below target in two of the three years.

Table 3.5: Comparison of budgeted revenue against actual outturn (ETB, millions)

Economic head	EFY 2008 (2015/2016)			EFY 2009 (2016/2017)			EFY 2010 (2017/2018)		
	Budget	Actual	%	Budget	Actual	%	Budget	Actual	%
Tax revenue	2,548	3,068	120	3,039	3,390	112	3,674	4,095	111
Grants/assistance	43	43	100	50	50	100	42	42	100
Nontax revenue	1,121	1,020	91	1,097	1,309	119	1,734	1,680	97
Total revenue	3,712	4,132	111	4,187	4,748	113	5,450	5,818	107

Source: BoFED.

Dimension score: B

PI-3.2 Revenue composition outturn

50. External assistance represents grants from international organizations such as the EU, UNICEF, and the International Development Association as well as bilateral assistance from other international governments such as South Korea.

51. The total revenue budget outturn is not reliable as mentioned in PI-3.1, and therefore the revenue composition outturn was rather high at 19 percent in EFY 2008, 9 percent in EFY 2009, and 28 percent in EFY 2010 (refer to Annex 5). This occurred because of low collection of value added tax (VAT) and excise and the budget performance of other nontax revenue such as municipality revenue and capital revenue.

Dimension score: D

PILLAR II: Transparency of public finances

PI-4 Budget classification

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-4 Budget classification	B	
PI-4.1 Budget classification	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification at the level of Government Finance Statistics (GFS) standard (3 digits) and sub-functional classification of GFS/Classification of the Functions of Government (COFOG) that can produce consistent documentation comparable with those standards.

PI-4.1 Budget classification

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

53. In TRG, the budget classification and chart of accounts (CoA) for revenue and expenditure include the following categories: (a) administrative (at every administrative level as the sub-agency code is included), (b) economic, and (c) functional. The functional classification is subdivided into sub-functional classification. Whereas the functional classification is aligned with the international COFOG and GFS standards at the main function level (10 main functions, three-digit level), the sub-functional classification (four-digit level) is not. A standard bridge table is used, at the functional classification level, to convert the classification in use into the GFS system. The economic classification follows GFS 2001 standards and the GFS 3-digit disaggregation is used.

Dimension score: B

PI-5 Budget documentation

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-5 Budget documentation		Scoring method M1
PI-5.1 Budget documentation	D	Budget documentation fulfils no basic element and only one additional element.

PI-5.1 Budget documentation

54. This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements.

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

Table 3.6: Summary box for checklists

No.	Element/requirements	Met (Yes/No)	Evidence used/comments
Basic elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result	No	
2	Previous year's budget outturn presented in the same format as the budget proposal	No	The previous year's budget outturn is presented but not in the same format as the budget proposal.
3	Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	No	The current fiscal year's budget outturn is presented but not in the same format as the budget proposal.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years with a detailed breakdown of revenue and expenditure estimates	No	The data are only presented for the current year.
Additional elements			
5	Deficit financing, describing its anticipated composition	No	
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	Yes	Budget Speech
7	Debt stock including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard	NA	
8	Financial assets including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard	No	
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts and so on.	No	
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 met	The explanation of budget implications on new policy initiatives and major new public investments are included in the Budget Speech, but not the estimates of the budgetary impact of all major revenue policy changes and major changes to expenditure programs (refer to PI-15.1).
11	Documentation on the medium-term fiscal forecasts	No	
12	Quantification of tax expenditures	NA	

56. Budget documentation fulfils no basic element and only one additional element.

Dimension score : D

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

Indicator/Dimension	Score	Brief justification for score
PI-6 Regional government operations outside financial reports	A	Scoring method M2
PI-6.1 Expenditure outside financial reports	A	Expenditure outside government financial reports is less than 1% of total Budgetary Central Government (BCG).
PI-6.2 Revenue outside financial reports	A	Revenue outside government financial reports is less than 1% of total BCG.
PI-6.3 Financial reports of extra budgetary units	NA	There are no extra-budgetary units or funds in Tigray.

PI-6.1 Expenditure outside financial reports

57. The budgets and actual expenditures of autonomous bodies are included in the proclaimed budgets and budget execution reports of Tigray. There are no off-budget accounts. The spending of nontax revenues collected and retained by BIs (permissible in the case of health sector-related BIs) has to be and is included in the proclaimed budget.

Dimension score: A

PI-6.2 Revenue outside financial reports

58. Revenues collected by BIs in excess of the approved spending must be and are surrendered to TRG's treasury account reports.

Dimension score: A

PI-6.3 Financial reports of extra-budgetary units

59. There are no extra-budgetary units or funds.

Dimension score: NA

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

Indicator/Dimension	Score	Brief justification for score
PI-7 Transfers to subnational governments	A	Scoring method M2
PI-7.1 System for allocating transfers	A	The horizontal allocation of all transfers to woreda and town administration from the regional government is executed as planned and according to clear rules.
PI-7.2 Timeliness of information on transfers	A	Information on transfers is provided to lower SNGs before the beginning of the new fiscal year allowing at least six weeks for preparation of budget plans.

PI-7.1 System for allocating transfers

60. The horizontal allocation formula is revised annually. The regional council reviews the formula after review by the Budget and Finance Standing Committee. The horizontal allocation of transfers to woredas and town administrations is transparent, and rule based. The regional government uses the unit cost approach for recurrent budget and selected development indicators for capital budget. The spending capacity of the woredas is also considered. The assessment teams analyzed the transfers to woredas and town administrations for EFY 2010 and found that all transfers were executed as planned (refer to Table 3.7).

Table 3.7: Transfers to woredas and town administrations for EFY 2010

Year	Budgeted annual transfer to lower regional administrations (ETB)	Actual (ETB)	%
EFY 2010 (2017/2018)	3,215,069,582.21	3,215,069,582	100

Source: BoFEP.

61. The transfer to woredas and Tigray town administrations is 100 percent compliant with the budget.

Dimension score: A

PI-7.2 Timeliness of information on transfers

62. The federal government provides block grants to TRG. Table 3.8 shows all transfers to TRG from the federal government with the respective approved budgeted transfers and outturns actually transferred.

Table 3.8: Block grants to Tigray from the federal government for three fiscal years

Year	Budget (ETB)	Actual (ETB)	%
EFY 2008 (2015/2016)	6,061,740,000	6,034,533,460	99.6
EFY 2009 (2016/2017)	8,101,932,220	7,684,194,880	94.8
EFY 2010 (2017/2018)	7,351,907,030	7,267,358,970	98.8

Source: BoFEP.

63. TRG sends the BCC, which includes an indicative ceiling, to woredas and town administrations in March, after the indicative ceiling is received from the federal government. TRG applied the budget calendar of the federal government. It provides clear rules and is generally adhered to, though in Tigray not all BIs kept the deadline for submission of budget proposals (explained in detail in PI-17.1). The BCC was issued in March for EFY 2010 to woredas and the budget proposals were submitted in June. The woredas had about six weeks to complete their budget planning on time. The regional council approved the budget for EFY 2010 on July 7, 2009, just before the beginning of the fiscal year.

64. Table 3.9 shows the share of block grants received from the federal government that are transferred to lower regional government structures.

65. There are various sources of funding of TRG and they are briefly described in Annex 6.

Table 3.9: Share of subsidy from the central government transferred to lower subnational-level administration (woredas and towns) for three fiscal years

Year	Transfers from federal government to Tigray (ETB)	Subsidy to woreda and town (ETB)	%
EFY 2008 (2015/2016)	6,034,533,460	3,215,069,582.21	53
EFY 2009 (2016/2017)	7,684,194,880	4,781,461,586.47	62
EFY 2010 (2017/2018)	7,267,358,970	5,050,741,574.36	69

Source: BoFEP and team calculations.

66. The information on transfers to woredas and towns is managed through the budget calendar which allows at least four weeks providing information for budget preparation.

Dimension score: A

PI-8 Performance information for service delivery

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-8 Performance information service delivery	C+	Scoring method M2
PI-8.1 Performance plans for service delivery	B	Information is published annually on policy and program objectives, key performance indicators (KPIs), and outcomes to be produced for most Sectors.
PI-8.2 Performance achieved for service delivery	B	Information is published annually on the outcomes achieved by most Sectors.
PI-8.3 Resources received by service delivery units	B	Information on resources received by frontline service delivery units is collected and recorded annually for the BoH and BoE. A report compiling the information is prepared annually.
PI-8.4 Resources evaluation for services delivery	D	Internal evaluations on the effectiveness of service delivery are carried out every two years for very few ministries. These are not published.

PI-8.1 Performance plans for service delivery

67. The BoH and BoE prepare KPIs, outputs to be produced, and outcomes. These are included in the annual plans of each sector. Examples of KPIs for education include the number of all primary school teachers by zone and sex (urban/rural), enrollment of students in general secondary school by grade and woreda, and enrollment of students by grade and woreda in all primary schools. Examples of KPIs for health include maternity and child care support, provision of vaccine, and infant nutrition. The indicators are published annually. The actual expenditure for the social sectors in EFY 2010 was ETB 5,804,798,566. The actual expenditure for the education sector in EFY 2010 was ETB 3,274,765,119 and for the health sector it was ETB 1,355,978,855. The share of expenditure of the health and education sectors over the social sectors in EFY 2010 was thus 80 percent. The information is however not disaggregated by program or function.

Dimension score: B

PI-8.2 Performance achieved for service delivery

68. As indicated above, the BoH and BoE prepare annual reports on the outcomes achieved. These are issued in the annual performance reports which are published. The actual expenditure for the social sectors in EFY 2010 was ETB 5,804,798,566. The actual expenditure for the education sector in EFY 2010 was ETB 3,274,765,119 and for the health sector it was ETB 1,355,978,855. The share of expenditure of the health and education sectors over the social sectors in EFY 2010 was thus 80 percent. The information is however not disaggregated by program or function.

Dimension score: B

PI-8.3 Resources received by service delivery units

69. Routine data collection or accounting systems provide reliable information on resources received both in cash and in kind by primary schools and health primary units. General Education Quality Improvement Program (GEQIP) funds to primary schools through their bank accounts are reported in the BoE's computer system, while manual ledgers maintained by Health Offices capture the flow of resources to health units. GEQIP and the Financial Transparency and Accountability Program (FTAP) have greatly contributed to tracking of resources. The information is not disaggregated by source of funds, but the information is compiled annually in the annual performance reports. This situation is applicable to all the past three completed fiscal years.

Dimension score: B

PI-8.4 Performance evaluation for service delivery

70. Only the BoH carries out internal evaluations on the effectiveness of service delivery every two years. These are not published. The expenditure of the bureau was 23 percent (that is, less than 25 percent) of the total social sector expenditure (was ETB 1,355,978,855 over ETB 5,804,798,566).

Dimension score: D

*PI-9 Public access to fiscal information**Summary of scores and performance table*

Indicator/Dimension	Score	Brief justification for score
PI-9 Public access to fiscal information	D	Scoring method M1
PI-9.1 Public access to fiscal information	D	The government does not meet the criteria for the score 'C' as it does not make available to the public at least four basic elements within the specified time frames. Only one basic element and one additional element are met.

PI-9.1 Public access to fiscal information

71. Table 3.10 shows the information for the completed fiscal year 2018 against the five basic and four additional elements required.

Table 3.10: Budget documentation benchmarks

No.	Element/requirements	Met (Yes/No)	Evidence used/comments
Basic elements			
1	Annual executive budget proposal documentation	No	
2	Enacted budget	Yes	The Budget Proclamation is published after it has been approved by the regional council, within two weeks of passage of the law. The annual approved budget is distributed to civil societies, universities, and selected residents from the general public in hard copy after the budget is enacted. The budget speech is publicized on radio and TV.
3	In-year budget execution reports	No	
4	Annual budget execution report	No	
5	Audited annual financial report, incorporating or accompanied by the external auditor's report	No	Though the speech of the Auditor General is fully broadcast on both national and regional TV channels, and summary reports are presented on FM radio, the audit reports were not posted on the website of ORAG (http://tigotag.com) at the time of the assessment.
Additional elements			
6	Pre-budget statement	No	
7	Other external audit reports	No	
8	Summary of the budget proposal	Yes	The Citizen's Budget is issued and distributed to the public within one month of the budget's approval.
9	Macroeconomic forecasts	No	

72. The government does not meet the criteria for the score 'C' as it does not make available to the public at least four basic elements within the specified timeframes. Only one basic element and one additional element are met.

Dimension score: D

Ongoing reforms

73. None.

PILLAR III: Management of assets and liabilities

PI-10 Fiscal risk reporting

74. 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 SNGs, and dimension 10.3 measures the level of central government contingent liabilities and other fiscal risks.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-10 Fiscal risk reporting	D	Scoring method M2
PI-10.1 Monitoring of public corporations	D	Public corporations do not submit their financial reports to TRG.

Indicator/Dimension	Score	Brief justification for score
PI-10.2 Monitoring of subnational governments	D	Financial position and performance reports of woreda governments are not published.
PI-10.3 Contingent liabilities and other fiscal risks	D	Central government entities do not quantify contingent liabilities in their financial reports.

PI-10.1 Monitoring of public corporations

75. TRG has three public corporations:

- (a) Tigray Water Works Construction Enterprise
- (b) Water Construction Design and Supervision Enterprise
- (c) Tigray Road Construction Enterprise

76. The public corporations have their own governing board. The board members are officials of the regional government.¹ The board members are accountable to President of TRG. Investment in public corporation is reported as expenditure in the year the investment is made. Public corporations do not pay dividends to the regional government. Public Corporations' management reports to the regional council about their performances annually. No public corporation submitted their annual financial statements to BoFEP. Information was not available to the assessment team to determine how many of them were audited, and whether their financial reports disclosed contingent liabilities. Public corporation can borrow from commercial banks independently. There is no fiscal risk posed by these public corporations to TRG as the government does not provide guarantees for loans. All of the public corporation are mainly doing business with TRG sector Bureaus and are in a privileged position for a direct solicitation from public procurement (PI-24).

Dimension score: D

PI-10.2 Monitoring of subnational governments

77. SNGs, in this case woreda administrations, submit financial reports to the regional government monthly. As all woredas are interconnected with Woreda net (a wide area network) and financial transactions of woredas are available at the BoFEP central server as data are entered at woreda finance offices. Monthly transaction processing is updated within 7 to 20 days from the end of each month. The woreda finance data entry into IBEX includes financial transactions of schools and health centers which are using a non-automated accounting system. Hence, the regional government can monitor the budget execution performance of woredas centrally.

78. According to Proclamation No. 65/1995, cities are allowed to borrow money from regional government sources, banks, and the FGE and other regional governments. Cities are allowed to sell bonds to raise funds. Nonetheless, cities should get a prior approval from TRG before receiving any loans and total borrowing should not exceed 25 percent of the total budget of the city that intends to borrow. The Financial Administration Proclamation indicated that TRG can borrow from domestic sources with the approval of the regional council. TRG budgeted ETB 100 million for the repayment of loan received from the Commercial Bank of Ethiopia (2018/2019) in connection with housing development projects.² The financial statements of TRG for EFY 2017/2018 did not disclose this loan. There is no information whether

¹ There is no a supervising agency in TRG that monitors its operation (FGE and Oromia and Amhara regional states each have a supervising agency).

² Housing developments in TRG is managed by Tigray Housing Development Agency.

cities exercised their right to borrow. Neither the consolidated audit reports of TRG nor the unaudited financial reports of woredas are published.

Dimension score: D

PI-10.3 Contingent liabilities and other fiscal risks

79. Various proclamations issued by TRG indicate that loan guarantees have been approved by the regional council for loans to be received by farmers' cooperative unions and different youth and women enterprises. TRG paid about ETB 236 million (out of about ETB 500 million claim) in FY2018/2019 for bad loans where unions failed to repay the Commercial Bank of Ethiopia. Information on outstanding warranties issued by TRG is not available.

80. Information is not available on any PPP arrangements that TRG may have entered into and any associated fiscal risk they may pose to the government. TRG does not report contingent liabilities in its annual financial statements.

Dimension score: D

PI-11 Public investment management

81. 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 and has four dimensions.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-11 Public investment management	D+	Scoring method M2
PI-11.1 Economic analysis of investment projects	C	Economic analysis is conducted for some of the investment projects. Results of the analyses are not published.
PI-11.2 Investment project selection	C	Project selection is based on regional priorities and takes into account results of feasibility studies. There are no standard criteria used at the regional level to prioritize project selection.
PI-11.3 Investment project costing	D	The budget document only includes the capital budget expenditure for the budget year. It does not contain information on capital costs for forthcoming years.
PI-11.4 Investment project monitoring	D	There is no report or information available on the total cost and physical progress of investment projects by the implementing entities.

82. The economic analysis of investment projects is conducted in respective sector bureaus. The Planning and Budget Department at BoFEP receives all feasibility studies from the sector bureaus and submits them to the Monitoring and Evaluation Department to make physical inspection and monitor the progress of projects and report to the council about the performance each quarter.

PI-11.1 Economic analysis of investment projects

83. The total capital budget for EFY 2010 (2017/2018) represents 36 percent of the total budget of TRG.³ The major investment projects by total investment cost for some of largest regional sector bureaus are shown in Table 3.11. Capital projects are supported by feasibility studies. Political decisions also matter in the selection of projects. Feasibility studies are not published.

Table 3.11: List of major capital investment projects FY2017/2018 (budget less than 1% of regional budget)

Name of the project	Budget for the year (ETB, millions)	Percentage of total regional budget (ETB 13,537 million)
Park development	361.0	2.7
Existing road projects	213.5	1.6
Existing water projects—drilling wells, construction of four small dams, originally planned for irrigation but due to water problems redesigned for potable water; there is no wastewater treatment	195.0	1.4
Total	769.5	5.70

Source: Budget proclamation for EFY 2011.

Dimension score: C

PI-11.2 Investment project selection

84. The relevant sector bureau officers often visit woreda sector offices when the latter request capital projects (for example, water dams, schools, health centers' maintenance, or new projects). Experts are consulted to assess whether requests should be included in the capital project budget proposal of the sector bureau. The sector bureaus prepare feasibility studies and submit a summary of the studies and a proposal to BoFEP in a standard template to support their request for a capital project. Project selection is mainly based on regional government priorities as indicated in the regional growth and transformation plan (GTP) and sector strategy plans. No standard criteria are used for project selection.

Dimension score: C

PI-11.3 Investment project costing

85. Feasibility studies are prepared for each investment project by the respective sector bureau. Each project comes to BoFEP for evaluation and monitoring with projections of life-cycle cost. The feasibility studies indicate the total project costs and duration. However, the budget documents do not show the medium-term forecasts for capital projects.

Dimension score: D

PI-11.4 Investment project monitoring

86. Each investment project implementing entity is responsible for project monitoring. Investment project monitoring is largely focused on physical inspection. The Budget, Planning, Monitoring and Evaluation Directorate monitors capital projects with a joint field visit together with representatives of sector bureaus and the regional council. The report is comprehensive and provides information on the timeliness and quality of project implementation. The report includes anecdotal evidence on the findings

³ Actual capital expenditure of TRG out of the total expenditure during the 2017/18 budget year was 30.47 percent (ETB 3.98 billion/ETB 13.07 billion).

of the physical inspection. The monitoring and evaluation are conducted quarterly, and a report is produced. The report does not include the financial progress of the reviewed projects. Annual financial reports contain actual expenditure of investment projects for the reporting period only. Information on progress of major investment projects is not available. The monitoring and evaluation team consists of a specialist from the Monitoring and Evaluation Department at BoFEP, a sector specialist from the respective bureau, one person from the woreda where the project is implemented, and a representative from the community beneficiary of the project. All projects funded by the regional government or directly by nongovernmental organizations (NGOs) or donors are subject to this monitoring carried out by BoFEP.

Dimension score: D

PI-12 Public asset management

87. 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. The assessment of this indicator covers central government budget entities and EBUs.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-12 Public asset management	D+	Scoring method M2
PI-12.1 Financial asset monitoring	C	TRG maintain records of its holdings in major categories of financial assets including cash and receivables. Other financial assets including shareholding or investment in public corporation are not recorded.
PI-12.2 Nonfinancial asset monitoring	D	The regional government does not maintain a consolidated register of its fixed assets; there are no records of government land and natural resources. Decentralized records at the bureau level provide information on fixed assets available and usage of the assets.
PI-12.3 Transparency of asset disposal	C	Clear procedures are established for the transfer and disposal of nonfinancial assets. Information on disposal of nonfinancial assets is provided in the budget document but does not include transfers.

PI-12.1 Financial asset monitoring

88. The consolidated annual financial statements of TRG contain information on some of the financial assets including cash and cash equivalents, advances, and receivables. As of July 7, 2018, the total financial assets reported in the consolidated financial statements of TRG were worth ETB 5.34 billion in total. TRG has three public enterprises. Investment in these enterprises was not reflected or disclosed in the consolidated financial statement of TRG. No dividend was received by TRG from these enterprises. Credit risks were not reflected or accounted in the possible impairment loss of financial assets, especially for relatively long outstanding receivables. Tax receivables (tax arrears) are not disclosed in the consolidated financial statement of TRG (PI-20).

Dimension score: C

PI-12.2 Nonfinancial asset monitoring

89. According to Proclamation No. 255/2015, fixed assets are defined as a property, plant, and equipment that have a useful life of one year or above, and with a historical cost of at least ETB 2,000. Fixed

assets include office equipment, computers, heavy machinery, vehicles, buildings, roads, sewerage systems, bridges, irrigation systems, and dams. Land is outside the scope of this proclamation. The definition in the proclamation excludes other nonfinancial assets including inventories, minerals, and other naturally occurring items. The proclamation requires a head of each public body to put in place a system where fixed assets are used efficiently and maintained properly. Public bodies are required to maintain a fixed asset register. Some of the bureaus, such as the BoH and Bureau of Agriculture (BoA), use software to record fixed assets. Others use a non-automated register book and an Excel spreadsheet. Records show the historical cost of the assets and date of acquisition and asset number. BoFEP does not maintain a consolidated fixed asset record. Directive 09/2018 provides guidance on fixed assets and inventory recording, maintenance, physical count, disposal, and internal control. Acquisition of fixed assets are evidenced by a stock receiving voucher (also called Model 19) that is issued to users using store transfer voucher called Model 22. In all visited bureaus, fixed assets are counted annually, and a count report is prepared and submitted to the executives. Public bodies maintain stock control cards. The BoH uses a software called Health Management Information System (HMIS) to track the movement of pharmaceutical supplies.

90. Though the proclamation considers them as fixed assets, sewerage systems, bridges, and dams are not recorded and reported. Information is not available on the records of land and natural resources that the region has.

Dimension score: D

PI-12.3 Transparency of asset disposal

91. Procurement and Property Administration Proclamation No. 255/2015 of TRG and Directive No. 09/20184 provide the guidance on the disposal of properties. Fixed assets which are no longer used by the bureaus are required to be disposed on time. Bureaus are responsible for the disposal of fixed assets (except vehicle and heavy machinery) with an estimated value of up to ETB 1 million. The Property Disposal Unit at BoFEP is responsible for disposal of the assets with estimated disposal value of above ETB 1 million and all vehicles regardless of the estimated disposal value.

92. At the bureau level, assets are disposed with the involvement of three committees with different roles. The first committee determines whether the assets can be repairable for use or should be destroyed, transferred, or sold. The next committee is responsible to estimate whether to proceed with disposal. The last committee is a tender committee responsible for floating and managing the tender for the disposal of the assets. There is a clear threshold for the selection of the announcement modality of purchase opportunities. Assets with estimated value of above ETB 200,000 are to be floated using the media (radio, television, and newspaper) that have regional coverage. Disposal value below ETB 200,000 is advertised at public notice boards.

93. Disposal proceeds are transferred to the BoFEP Treasury. The Property Disposal Unit at BoFEP reports on assets disposed semiannually. The unit also shares information on the budgeted proceed from disposal of assets. According to the report of the Procurement and Property Disposal Directorate at BoFEP, the budgeted proceed from disposal of property in 2017/2018 was ETB 70 million and actual receipt was ETB 62.59 million. However, the consolidated financial statement of TRG for the same year indicated that the budgeted revenue from sales of movable and immovable properties was ETB 166.6 million and the actual receipt was ETB 12.87 million. There are no legal provisions on the disposal of financial assets. New owners of fixed assets disposed are not disclosed in the financial reports.

⁴ Formally referred as Directive No. 09/2010, issued in EC June 2010, which is GC 2018.

Dimension score: C

PI-13 Debt management

94. There are three dimensions under this indicator: dimension 13.1 assesses the integrity and comprehensiveness of reporting 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.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-13 Debt management	D	Scoring method M2
PI-13.1 Recording and reporting of debt and guarantees	D	No record is maintained for guaranteed debts. No reconciliation performed on debt guarantees.
PI-13.2 Approval of debt and guarantees	D	The regional council grants authorization to borrow and issue guarantee. However, there are no documented policies and procedures to provide guidance for undertaking borrowing and debt-related transactions.
PI-13.3 Debt management strategy	D	TRG does not have a debt management strategy

PI-13.1 Recording and reporting of debt and guarantees

95. According to Financial Administration Proclamation 315/2018 of TRG, the regional government may borrow from internal sources up to the authorization of the regional council. The proclamation also indicates that the loan amount should not exceed the loan ceiling to be provided by the BoFEP.

96. TRG budgeted (2018/2019) for a repayment of a loan from the FGE (ETB 500 million) and a loan from the Commercial Bank of Ethiopia for the construction of condominium buildings (ETB 100 million) in EFY 2011 (2018/2019). The loan from the FGE (ETB 500 million) was reflected in the consolidated financial statement of TRG. However, the liability to the Commercial Bank of Ethiopia was not included in the financial statement of TRG.

97. TRG does not record guarantees and liabilities which may arise from loan guarantees. In 2018/2019, the FGE withheld from the TRG budget transfer for bad debts, which was guaranteed by TRG. The total amount of bad debt was about ETB 500 million. The FGE deducted about 236 million from the current year subsidy transfer to TRG. Reports on the debt guarantees provided by TRG and borrowing (if any) by the city administrations are not available (PI-10.3).

Dimension score: D

PI-13.2 Approval of debt and guarantees

98. The regional council should authorize to borrow and provide guarantees. The Financial Administration Proclamation No. 315/2018 (Article 37) requires registration of the government loans and guarantees provided, the number of principals, the outstanding loan payable, interest paid, and any administrative fees paid for financial agents. However, there is no comprehensive guidance to borrow and issue guarantees. There is no procedure for monitoring of loans and guarantees.

Dimension score: D

PI-13.3 Debt management strategy

99. TRG does not have a debt management strategy.

Dimension score: D

PILLAR IV: Policy-based fiscal strategy and budgeting*PI-14 Macroeconomic and fiscal forecasting*

100. 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.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-14 Macroeconomic and fiscal forecasting (M2)	B	Scoring method M2
PI-14.1 Macroeconomic forecasts	B	The Regional Planning Commission prepares an MEFF that is part of the medium-term regional strategic plan known as GTP II 2016/2017–2020/2021. The budget document submitted to the regional council contains the forecasts from the MEFF. The projections cover the budget year and at least the two outer years.
PI-14.2 Fiscal forecasts	B	The Regional Planning Commission prepares medium-term macro-fiscal forecasts, with assumptions on GDP and investment rates. The forecasts, for the budget year and the two outer years, include aggregate revenues by type and expenditures. These are submitted to the regional council for information purpose only.
PI-14.3 Macro-fiscal sensitivity analysis	C	The Regional Planning Commission prepares a simulation of different scenarios of macro-fiscal forecasts to ascertain the impact on the annual budget and the regional economy as a whole. These qualitative analyses are for internal use only and are not contained in the budget documents submitted to the regional council.

PI-14.1 Macroeconomic forecasts

101. The Regional Planning Commission prepares an MEFF which is part of the medium-term regional strategic plan known as GTP II 2016/2017–2020/2021. The budget document submitted to the regional council also contains the MEFF forecasts. The underlying assumptions are submitted to the regional council together with the key macroeconomic indicators. The Regional Planning Commission has the capacity to forecast only GDP and investment rates. The forecasts for the other macroeconomic indicators (such as inflation, exchange rate, global market price, and interest rates) are developed by the federal government. The projections cover the budget year and at least two outer years. The commission prepares annual updates of both GDP and investment rates, which are reviewed and approved by the regional cabinet. Both the MEFF and the annual updates of macro projections (GDP and investment rate) are forwarded to the regional council, for information purpose only, as part of the budget documentation. This practice has been undertaken for the past three completed fiscal years.

Dimension score: B

PI-14.2 Fiscal forecast

102. The Regional Planning Commission prepares a medium-term macro-fiscal forecast, with assumptions on GDP and investment rates. The forecasts, for the budget year and the two outer years, include aggregate revenues by type and expenditures and the budget balance, which is usually zero, as the government cannot borrow to finance any budget deficit. Any difference between its own revenues and projected expenditure is financed by the federal government in the form of subsidies (transfers/grants). However, the documentation submitted, for information purpose only, to the regional council as part of the budget documentation, does not include an explanation of the differences between forecasts and the current year's budget. This practice has been undertaken for the past three completed fiscal years.

Dimension score: B

PI-14.3 Macro-fiscal sensitivity analysis

103. The Regional Planning Commission prepares a simulation of different scenarios of macro-fiscal forecasts to ascertain the impact on the annual budget and the regional economy at large. These qualitative analyses are for internal use only and are not contained in the budget documents submitted to the regional council. Therefore, legislators are not informed of the impact of government policies on the economy. This practice has been undertaken for the past three completed fiscal years.

Dimension score: C

PI-15 Fiscal strategy

104. 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 FGE.

Summary of scores and performance table

Indicator/Dimension	Score 2018	Brief justification for score
PI-15 Fiscal strategy	D	Scoring method M1
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	TRG does not produce a fiscal strategy.
PI-15.3 Reporting on fiscal outcomes	NA	The regional government does not prepare an internal report on the progress made against its fiscal strategy.

PI-15.1 Fiscal impact of policy proposals

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

Dimension score: D

PI-15.2 Fiscal strategy adoption

106. TRG 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

107. The regional government does not measure performance against fiscal targets.

Dimension score: NA

PI-16 Medium-term perspective in expenditure budgeting

108. 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.

Summary of scores and performance table

Indicator/Dimension	Score 2018	Brief justification for 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 medium-term budgets	C	At least 25% (by value) of sectors prepare fully costed medium-term strategic plans. The annual expenditure policies are aligned to annual action plans and the medium-term strategy.
PI-16.4 Consistency of budgets with previous year's estimates	NA	The government does not prepare a medium-term expenditure framework (MTEF); therefore, it is not possible to analyze the consistency of budgets to the previous year's estimates.

PI-16.1 Medium-term expenditure estimates

109. Although sectors prepare an MTEF and a costed strategy, the regional government does not prepare an overall detailed MTEF on a rolling basis. It prepares detailed annual budget estimates that show expenditure according to administrative, functional, and economic classifications. Program budgeting has not yet been introduced.

Dimension score: D

PI-16.2 Medium-term expenditure ceilings

110. For FY2018/2019 (EC 2011), the last budget submitted to the regional council, the MEFF, and the aggregate expenditure estimates were submitted to the regional cabinet for approval, including budgetary

units (sector bureaus) ceilings. For FY2018/2019, these were approved after the issuance of the first BCC.

Dimension score: D

PI-16.3 Alignment of strategic plans and medium-term budgets

111. The BoH and BoE prepare fully costed medium-term strategies that are aligned to the overall medium-term regional strategic plan known as GTP II 2016/2017–2020/2021. In addition to the medium-term strategies, the two sectors prepare annual action plans from which the annual budget estimates are derived. The sector budgets are aligned to the medium-term strategy and annual action plans. The health and education sectors represent 34 percent of total expenditure.

Dimension score: C

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

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

Dimension score: NA

PI-17 Budget preparation process

Summary of scores and performance table

Indicator/Dimension	Score	Brief Justification for Score
PI-17 Budget preparation process	D+	Scoring method M2
PI-17.1 Budget calendar	C	An annual budget calendar exists and some budgetary units comply with it and meet the deadlines for completing estimates.
PI-17.2 Guidance on budget preparation	C	A budget circular is issued to BIs, including ceilings for administrative areas. The total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by the Cabinet after they have been completed in every detail by budgetary units.
PI-17.3 Budget submission to the legislature	D	The executive has submitted the annual budget proposal to the council less than one month before the start of the fiscal year in all three years.

PI-17.1 Budget calendar

113. As with other regions, Tigray follows the federal government guidelines with regard to budget preparation, as described in the Federal Budget Manual (January 2007). The calendar allows six weeks for the submission of budget requests after the issue of the BCC in February/March.

114. As can be seen from Table 3.12, even though BIs are granted sufficient time to elaborate their requests, only 59 percent in value of expenditure (>25 percent) budgetary units comply with the deadline and submit their budget proposals on time. This corresponds to a 'C' rating, as 75 percent of units in terms of expenditure size submitting on time are required for a 'B' score.

Table 3.12: BIs that submitted before and after the deadline for the preparation of the EFY 2011 budget

N o.	Name of the public body	Date		Budget request submitted				
		BCC	Budget ceiling	Before deadline	Approved budget (ETB)	After deadline	Approved budget (ETB)	
	Total	—	—	—	(59%) 7,671,229,223	—	—	(41%) 5,251,238,374
1	Bureau of Construction and Transport	February 6, 2017 GC ^a	February 8–April 8, 2017 GC	March 12, 2017	987,669,109	—	—	—
2	Agency Small-scale Enterprise Development	—	—	March 12, 2017	125,992,234	—	—	—
3	House of the Speaker	—	—	March 21, 2017	2,930,037,387	—	—	—
4	Agency Information Communication Technology	—	—	April 5, 2017	55,116,938	—	—	—
5	Agency Environmental and Land Use Adm.	—	—	April 5, 2017	47,252,845	—	—	—
6	Marketing Agency	—	—	April 7, 2017	7,080,315	—	—	—
7	Bureau of Women's Affair	—	—	April 7, 2017	50,474,748	—	—	—
8	Bureau of Science and Technology	—	—	April 7, 2017	14,825,090	—	—	—
9	Agency Expansion Cooperative Development Purchasing	—	—	April 7, 2017	92,724,794	—	—	—
10	Institute Agriculture Research	—	—	April 7, 2017	107,133,053	—	—	—
11	Administration Office	—	—	April 7, 2017	2,930,037,387	—	—	—
12	BoFEP	—	—	April 8, 2017	322,885,323	—	—	—
13	BoE	—	—	—	—	August 4, 2009 EC	April 12, 2017 GC	3,168,297,355
14	Trade Industry and Urban Development	—	—	—	—	August 12, 2009	April 20, 2017	1,175,481,655
15	Anti-Corruption Commission	—	—	—	—	August 18, 2009	April 26, 2017	24,916,899

N o.	Name of the public body	Date		Budget request submitted				
		BCC	Budget ceiling	Before deadline	Approved budget (ETB)	After deadline	Approved budget (ETB)	
16	Water Resource Development Bureau	—	—	—	—	August 20, 2009	April 28, 2017	873,549,193
17	Industrial Park Development Corporation	—	—	—	—	August 22, 2009	April 30, 2017	8,993,272
	Memo items: total approved budget	12,922,467,597						

Source: TRG Bureau of Plan and Finance.

Note: a. All years are in GC.

Dimension score: C

PI-17.2 Guidance on budget preparation

115. A comprehensive and clear budget circular is issued to BIs covering capital and recurrent expenditure for the full fiscal year. The circular includes ceilings detailed at the administrative level. The bureaus visited by the assessment team (the BoH, BoE, Bureau of Water [BoW], and BoA) confirmed that the guidelines in the circular were clear and complete. That said, the budget estimates are reviewed and approved by the Cabinet only after they have been completed in every detail by the budgetary units.

Dimension score: C

PI-17.3 Budget submission to the legislature

116. In all the past three fiscal years, the budget was submitted to the council less than one month before the end of the fiscal year, which is July 7 (refer to Table 3.13).

Table 3.13: Dates of submission of the budget to the regional council

Budget (FY EC)	Submission date
2011 EC	June 18, 2018
2010 EC	June 14, 2017
2009 EC	June 13, 2016

Source: Tigray regional council.

Dimension score: D

PI-18 Legislative scrutiny of budgets

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-18 Legislative scrutiny of budgets	C+	Scoring method M1
PI-18.1 Scope of budget scrutiny	B	The legislature's budget scrutiny covers fiscal policy and aggregate for the coming year as well as details of expenditure and revenue.

Indicator/Dimension	Score	Brief justification for score
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.
PI-18.3 Timing of budget approval	A	The legislature has approved the budget before the start of the new fiscal year in all the past three years.
PI-18.4 Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments by the executive and are adhered to in most instances (> 75% in value). Extensive administrative reallocations are permitted.

PI-18.1 Scope of budget scrutiny

117. As mentioned in PI-5, the budget documentation sent to the council consists of the Draft Budget Proclamation and the Budget Speech. The regional council does not thus receive any document covering medium-term fiscal forecast and medium-term priorities. The Budget and Audit Standing Committee (BAC) of the regional council reviews the documentation it receives, and, for the draft budget proclamation, it examines the details of expenditure and revenue. The documentation it receives includes the Budget Speech that covers fiscal policies. As a result, the legislature's budget scrutiny covers fiscal policy and aggregate for the coming year as well as details of expenditure and revenue.

Dimension score: B

PI-18.2 Legislative procedures for budget scrutiny

118. The regional council's procedures to review budget proposal are approved in advance of budget hearings and are adhered to. The procedures for the BAC include arrangements for public consultation and technical support if needed. They do not include negotiation procedures. The BAC is a specialized committee responsible for budget scrutiny and the review of audit reports.

Dimension score: C

PI-18.3 Timing of budget approval

119. As shown in Table 3.14 the regional council has approved the annual budget before the start of the fiscal year in all the last three fiscal years. The fiscal year in Ethiopia begins on July 8.

Dimension score: A

Table 3.14: The regional council's approval of the budget for the past three approved budgets

Approved budget	Date of approval by the council in GC
Budget for EFY 2009	July 7, 2016
Budget for EFY 2010	July 7, 2017
Budget for EFY 2011	July 7, 2018

Source: Regional council.

PI-18.4 Rules for budget adjustments by the executive

120. The Financial Administration Proclamation stipulates that the executive cannot increase total expenditure during the year without the regional council's approval. Transfers are not allowed from the capital to the recurrent budget. This provision gives BoFEP the flexibility to transfer budget allocations between sectors, programs, and economic items.

121. There is no limit to the number of budget amendments. In-year adjustments may be requested and approved any time except for the last month in the budget year, which is June. Any reallocations to be made in June are to be approved by BoFEP. The types of in-year adjustment stipulated in the legislation are as follows:

- (a) Adjustments within the budgetary units' own budget ceilings that do not require prior BoFEP approval—the sector bureaus (line ministries) can reallocate only within the economic classification category, for example, within operating expenditure and personnel service (salaries and wages)
- (b) Adjustments that require prior BoFEP but not Cabinet or legislative (council) approval—adjustment from one category of economic classification to another or from one sector bureau to another
- (c) Adjustments that require Cabinet but not legislative approval are from one woreda to another
- (d) Adjustments that require legislative approval—supplements of budget of the Cabinet

122. Therefore, clear rules exist for in-year budget adjustments by the executive. They allow extensive administrative reallocations. The in-year transfers in EFY 2010 were ETB 1,879,867,597; that is, 15 percent of the original budget expenditure. About 75 percent of the transfers adhered to the rules.

Table 3.15: Percentage of transfers that adhere to the rules for in-year budget adjustments, EFY 2010

In-year transfers for EFY 2010 (ETB)	% of transfers that adhere to the rules
1,879,867,597.00	75

Source: Data provided by the Budget Directorate.

Dimension score: B

PILLAR V: Predictability and control in budget execution

PI-19 Revenue administration

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-19 Revenue administration	A	Scoring method M2
PI-19.1 Rights and obligations for revenue measures	A	TRDA uses different channels to educate the taxpayers. It has an active website in the local language where taxpayers can read tax laws and directives and download tax return forms. Procedures for tax registration, completing of tax return, and redress are clearly indicated.
PI-19.2 Revenue risk management	A	TRDA uses a comprehensive, structured, and systematic approach for assessing and projecting risk as it is stipulated in its Risk Management Policy, tax audit strategy manual and tax audit manual. Taxpayers are categorized by their annual turnover and the sector they are in to determine the type of tax audit to use.
PI-19.3 Revenue audit and investigation	A	TRDA, which collects more than 92% of the regional revenue, implemented 93% of its audit plan (as part of compliance improvement plan).
PI-19.4 Revenue arrears monitoring	B	The stock of arrears at the end of the last completed fiscal year was about 1.3% and the revenue arrears older than 12 months were less than 44% of the total revenue arrears by the end of the year.

Background

123. TRDA was reestablished in 2010 as per Proclamation No. 210/2003 (issued in 2009). It collects revenue from 53 urban and rural woredas. Its headquarters are based in Mekelle. The head of TRDA is a member of the regional cabinet. TRDA has full control of revenue collection. TRDA is responsible to implement tax proclamation and regulations, collect revenue of TRG, collect FGE revenue based on delegated power from the FGE, enhance the revenue of the region based on research, lead the regional tax reform initiatives, educate taxpayers, conduct audits of the accounts of taxpayers, collect information for tax assessment, study and research for improvement, investigate tax frauds, and sue tax evaders and may waive tax penalties up to ETB 50,000. The following are the major tax proclamations, regulations, and directives applicable to TRG. The years indicated in the proclamation number are in EC.

- Proclamation No. 283-2009: Income Tax
- Proclamation No. 284-2009: Tax Administration
- Regulation No. 91-2009: Income Tax
- Regulation No. 92-2009: Tax Administration
- Proclamation No. 298-2010: Revenue Stamp
- Directive 10/2006: Property Seizure on Tax Default
- Directive 12/2006: Provision of Tax Clearance
- Directive 30/2010: Tax Penalty
- Directive 34/2011: Tax Assessment Estimation
- Directive No. 11/2006: Receipt Printing Guideline
- Directive No. 19/2007: Manual for Tax Audit
- Directive No. 9/2006: Directive for Rewards on Tax Fraud

124. TRDA operates in 52 branches throughout the region.

PI-19.1 Rights and obligations for revenue measures

125. TRDA uses different media to educate the public, including brochures (distributed to taxpayers when coming for tax return filing), distributes biannual and annual bulletins, conducts annual tax meetings (in collaboration with the Chamber of Commerce), and publishes tax information using a regular column at a regional newspaper every 15 days. In addition, it has a monthly TV program on two regional TV channels (Dimste Woyane and TV Tigray), which air regular programs for about 20 minutes every week on three regional radios. It has live question-and-answer sessions to allow the public to raise concerns and questions about the tax law and tax administration. TRDA also sponsors and coordinates school clubs called 'Tax for development'. It supports 1,729 school clubs throughout the region. TRDA provided training to accountants and auditors operating in the region on tax laws. It also provided training on tax awareness to media people.

126. The website of TRDA (<http://trda.gov.et/index.php/tg/>) provides comprehensive information for taxpayers. Taxpayers can download and read tax laws, regulations, and directives. Frequently asked questions and their answers provided information on how to get a taxpayer identification number and processes and timing of tax declaration. Tax declaration forms are available on the website.

127. The regional revenue consists of (a) a block subsidy transferred by the FGE and (b) revenue

collected by the regional revenue entities. The regional revenue constitutes 43 percent of the total revenue. The regional revenues include tax revenue (ETB 4.28 billion), municipal revenue (ETB 1.15 billion), and nontax revenue (ETB 475 million). Nontax revenues are mainly collected by hospitals, TVET colleges, mass media agency, and other institutions. About 92 percent of the regional revenue is collected by TRDA.

Table 3.16: Total regional revenue and collection by Tigray Region for FY EC 2010 (2017/2018)

	Revenue for FY EC 2010	Share (%)
Total	13,669,631,920	
Subsidy from the federal government	7,267,359,000	53
Total collection in Tigray Region	5,902,272,850	43
Revenue collected by TDTA		
Tax revenue	4,276,842,430	72
Municipal revenue	1,149,997,030	19
Total revenue collected by TDTA	5,426,839,460	92
Nontax revenue	475,433,400	8

Source: BoFEP and team's calculation.

128. There are two levels of tax appeal procedures where taxpayers lodge their complaints. The first one is the Tax Appeal Committee within TRDA where taxpayers should submit their complaints within 10 days from the receipt of tax assessment letter from TRDA. If taxpayers are not happy with the decision of the Tax Appeal Committee, they have to pay 50 percent of the tax liability assessed by TRDA to lodge their complaints to the Tax Appeal Committee available at their jurisdiction. Tax Appeal Committees are decentralized and available in each woreda (in each sub-city in the case of the city of Mekelle). The Tax Appeal Committees has seven members composed of representatives from the woreda administration, trade and industry, TRDA, Chamber of Commerce, Women and Children Affairs Office, Bureau of Justice, and Bureau of Finance. The committee members are functioning on a part time basis (after 5:00 p.m.). The assessment team visited one of the Tax Appeal Committees. The committee reviewed 92 complaints (89 of them were from category C taxpayers) within nine months. According to the committee members, 84 out of 92 decisions were made in favor of the taxpayers. The Tax Appeal Committee decides within 30 days. Complicated tax appeal issues come from category A and B taxpayers and may be prolonged to 60 days before getting a decision by the committees. The decision of the appeal committee is final, but taxpayers have the option to appeal to the court.

129. Taxpayers are classified as category A, B, and C. Taxpayer classification is mainly based on the annual sales turnover. Taxpayers with an annual turnover of up to ETB 500,000 are category C. Taxpayers whose annual sales turnover is between ETB 500,000 and ETB 1,000,000 are category B. Taxpayers with a sales turnover of above ETB 1 million are category A taxpayers. Private limited companies and share companies fall under category A regardless of the size of their annual sales turnover.

Dimension score: A

PI-19.2 Revenue risk management

130. TRDA has developed a Risk Management Policy in January 2019. The Risk Management Policy (equivalent to the Compliance Improvement Plan) identifies risks by category of taxpayers. The usual weaknesses and noncompliance with tax payment and collection are identified by category A, B, and C taxpayers. The audits are planned based on this Risk Management Policy. The policy is at the draft stage. Currently, TRDA's guiding document for revenue risk management is the Tax Audit Strategy Manual issued in 2015 (Manual No. 19/2007). The risk management case team is responsible for the

management of revenue risks. Risk assessment guidelines are prepared by TRDA for the use and application by Woreda Government Offices.

Table 3.17: Tax audit types and composition on the overall tax audit

Tax audit type	%
Desk audit	50
Spot audit	30
Comprehensive audit	14
Special audit	1

131. The risk management team also identified the level of risk by the sector that the taxpayers are in. According to TRDA, the most revenue risk-prone sectors for the region for tax evasion are construction, import and export businesses, and machinery rentals businesses.

132. Category C taxpayers are assessed twice a year, based on physical inspection of their businesses by a tax officer. The tax assessment of category C involves community participation including representatives of the Chamber of Commerce to enhance transparency. Some members of Tax Appeal Committee indicated that a less than 30 minutes of observation of taxpayer business is too short to estimate the daily income of a taxpayer. To minimize the tax payment burden of category C taxpayers, TRDA has developed a system of advance payment where taxpayers pay their annual tax on a monthly basis instead of paying a large sum at once.

133. TRDA periodically performs assessments to ensure that businesses are operating with trade licenses and have paid their taxes on time. To enhance compliance, trade licenses are renewed by trade departments against a tax clearance certificate issued by TRDA. To minimize unlawful VAT return claims, TRDA conducts spot checks on the legitimacy of VAT invoices submitted by taxpayers. TRDA identified some illegal (forged) receipts.

Dimension score: A

PI-19.3 Revenue audit and investigation

134. All taxpayers in the region are registered in the in-house developed tax system. The system captures the bio data of taxpayers and their tax records. TRDA conducts fraud investigation. To discourage fraud and tax evasions, TRDA broadcasts court verdicts on tax evasions. Based on findings from revenue audit and investigation, it periodically reviews tax proclamation, regulations, and directives. TRDA will start risk-based tax audit practice from the next fiscal year (2019/20). With the objective of improving compliance to the tax laws, TRDA institutes an advance tax collection scheme from category C taxpayers. According to TRDA, 90 percent of category C taxpayers are now paying their taxes on time. The improvement is partly the contribution of advance tax payment scheme. Some of category A and B taxpayers do not submit tax returns on time. TRDA prepares an annual compliance improvement plan.

135. TRDA conducted tax intelligence activities to see whether taxpayers are issuing legal receipt for the goods or services they are selling. In 2017/2018, TRDA inspected 1,398 taxpayers and found that 384 of them fully comply with the tax laws, 351 of them are not consistently issuing official receipts, and 219 of them did not issue invoices at all. Warning letters were provided to 219 and 58 were penalized (ETB 4.46 million collected from penalty). In 2017/2018 TRDA recovers ETB 42.2 million by court decision from 391 taxpayers.

136. TRDA achieved 93 percent of its audit plan by conducting audit of 15,513 taxpayers in 2017/2018. Table 3.18 shows the audit performance of TRDA by the various types of tax audits. TRDA achieved above 90 percent of its plan for desk and spot audits. The lowest performance is on comprehensive and special

audits about 72 percent and 60 percent, respectively.

Table 3.18: Tax audit performance in 2017/2018

	Audit types										
	Desk audit		Spot audit		Comprehensive audit		Special audit		Total		
Taxpayer category	A	B	A	B	A	B	A	B	A	B	Total
Planned audit	4,381	3,783	3,172	2,729	1,732	910	5	0	9,290	7,422	16,712
Actual performance	4,381	3,714	2,995	2,539	1,230	651	3	0	8,609	6,904	15,513
Percentage	100	98	94	93	71	72	60	0	93	93	93

Source: TRDA.

Dimension score: A

PI-19.4 Revenue arrears monitoring

137. Tax arrears refer to tax receivables that are overdue. Following tax assessments, taxpayers are required to pay the outstanding tax liability within 30 days. Taxpayers are allowed to lodge their complaints within 10 days from the receipt of the tax assessment report. The taxpayers are required to pay 50 percent of the tax assessment if they wish to appeal. If they continue with the appeal process, the unpaid 50 percent is recorded as tax arrears remaining outstanding until paid, unless a decision is made in favor of the taxpayer.

138. The stock of arrears at the end of 2017/2018 was ETB 57.02 million, which represents 1.3 percent of the total revenue collection for the same year (which is ETB 4.54 billion). TRDA has written off ETB 73.9 million of tax arrears. The balance of ETB 99.3 represents tax arrears from prior periods. Details of arrears by age were not available to the team at the time of assessment. However, the data provided show that the maximum outstanding arrears of the prior years out of the ending arrears balance are ETB 25.3 million (57.02 million – [99.3 million – 73.9 million]), which is 44 percent. See Table 3.19.

Table 3.19: Arrears movement (ETB)

Arrears balance as of July 7, 2017	99,319,582
Tax assessed during the year	95,727,607
Total arrears available	195,047,189
Arrears collected	64,046,064
Arrears balance as of July 7, 2018	131,001,126
Arrears written off during the year	73,976,743
Closing balance	57,024,383
Revenue collected during the year (excluding municipality tax)	4,544,078,028
Arrears percentage from the total revenue collected during 2017/2018	1.3

Source: Revenue authority.

139. Outstanding arrears are composed of profit tax from trading (51 percent), VAT (14 percent), penalty and interest from late payments (28 percent), and taxes from rental income (5 percent).

Dimension score: B

PI-20 Accounting for revenue

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-20 Accounting for revenue	C+	Scoring method M1
PI-20.1 Information on revenue collections	A	TRDA provides a quarterly report to BoFEP on revenue collection. The treasury has access to up-to-date information on revenue collection by type as revenue collections are directly deposited into the accounts of the Treasury, and transactions are captured in IBEX. In addition, TRDA reconciles its revenue records against BoFEP's IBEX report monthly.
PI-20.2 Transfer of revenue collections	A	TRDA that collects more than 92% of the regional revenue transfers the collection daily—collections are deposited in the treasury account.
PI-20.3 Revenue accounts reconciliation	C	TRDA and BoFEP reconcile revenue quarterly. Reconciliation does not include arrears.

PI-20.1 Information on revenue collections

140. TRDA uses a revenue reporting system called the Public Accomplishment Revenue System (PARS) in addition to the Standard Integrated Government Tax Administration System (SIGTAS). The system captures all revenue collection daily and generates revenue reports by type of revenue. Each of the 52 woredas reconciles their revenue collection against revenue report produced by IBEX monthly. In addition, TRDA reconciles its records with BoFEP quarterly. The Treasury at BoFEP obtains revenue data from TRDA. Revenue is reversed on a monthly basis into the treasury single account (TSA) through SIGTAS (management information system on tax revenue), which integrates all central government revenues. TRDA provides the monthly electronic data on paper each quarter. Table 3.20 shows the amount of tax budgeted and actually collected and tax arrears by revenue groups as of March 9, 2019, that is, at the time of the assessment. Table 3.20 shows the data on collection of revenue at the time of assessment.

Table 3.20: Tax collection by group as of time of assessment (March 9, 2019) (EFY 2011) (ETB, millions)

Group (description)	Budget	Arrears collected	Current tax collection	Total collection
Domestic revenue				
1. Direct tax	2,057,664,034	2,205,913	2,043,798,487	2,046,004,400
2. Indirect tax	1,091,022,557	1,010,097	948,142,126	949,152,224
3. Nontax	302,053,344	393,596	171,341,040	171,734,636
4. Capital revenue (sales on stock, royalty on public assets)	40,380,742	—	8,878,022	8,878,022
Total	3,491,120,676	3,609,607	3,172,159,675	3,175,769,282

Source: TRDA.

Dimension score: A

PI-20.2 Transfer of revenue collections

141. TRDA, which collects most of the revenue, transfers all the revenue collected directly to the central account of BoFEP.

Dimension score: A

PI-20.3 Revenue accounts reconciliation

142. TRDA reconciles the revenue collection report generated by its system (PARS) against the IBEX report monthly for all 52 revenue branch offices. In addition, TRDA and BoFEP reconcile their revenue reports quarterly. BoFEP does not receive revenue arrears information. Therefore, revenue reconciliation does not include revenue arrears.

Table 3.21: Revenue collection performance for EFY 2010 (2017/2018)

Revenue collected by TRDA	Plan (ETB)	Actual collection (ETB)			% performance
		From arrears	Current	Total collection	
Tax revenue	4,330,000,000	9,071,437	4,535,006,592	4,544,078,029	104.94%
Municipality	755,935,970	9,076,509	843,751,729	852,828,238	112.82%
Total	5,085,935,970			5,396,906,267	106.11%

Source: BoFEP.

Dimension score: C

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

Indicator/Dimension	Score	Brief justification for score
PI-21 Predictability of in-year resource allocation	B+	Scoring method M2
PI-21.1 Consolidation of cash balances	C	Cash balances are consolidated monthly.
PI-21.2 Cash forecasting and monitoring	B	A cash flow forecast is prepared annually and updated quarterly. BoFEP collects monthly cash flow forecasts from bureaus.
PI-21.3 Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for one year in advance in accordance with the budgeted appropriations and commitment releases.
PI-21.4 Significance of in-year budget adjustments	A.	Significant in-year adjustments to budget allocation take place no more than twice a year and are done in a transparent and predictable way.

PI-21.1 Consolidation of cash balances

143. All bank accounts are opened at the Commercial Bank of Ethiopia in local currency. BoFEP has a central treasury bank account used for revenue collection and disbursement of budget allocation. Bank accounts are opened with the authorization of BoFEP. The following types of bank accounts are maintained:

- (a) **Zero balance accounts (ZBAs).** They are used to transfer budget allocation from BoFEP to regional sector bureaus and agencies. BoFEP sets a drawing limit to each sector bureau based on their cash flow forecast (and approved budget) on a monthly basis. ZBA account holders can withdraw to the extent of the approved drawing limits. The daily payments from each ZBA are set off against the central treasury account held at BoFEP. There are 68 ZBAs. ZBAs are disbursement accounts and not used for deposit.
- (b) **B Accounts.** They are used to collect internal revenues and refunds. Each bureau and its branches have B accounts. Schools and health centers also have B accounts. Unlike ZBAs, B

accounts are not consolidated daily. The BoFEP Treasury knows the balance monthly after transactions on IBEX are updated. By the end of the fiscal year, balances from B accounts are transferred into the BoFEP central treasury account. BoFEP may pool balances from 'B' accounts held at bureaus on a need basis.

- (c) **Aid accounts (A accounts).**⁵ Bureaus including BoFEP maintain separate bank accounts for each donor-funded project. The number of A accounts depends on the number of donor-funded projects that each public body is implementing. For example, the BoA and BoH have 10 and 17 type 'A' bank accounts, respectively. Some of Channel 1 donor funds (which come through the MoF) including the Productive Safety Net Program (PSNP) and GEQIP are recorded using IBEX and hence, the BoFEP Treasury does know the balance after records are updated every month but cannot pull such ring-fenced bank balances held at bureaus for meeting its immediate cash shortages. Channel 2 sources of donor funds (which come through FGE line ministries) are often captured using a separate accounting software and balances are only known during preparation of annual consolidated financial statement of TRG.
- (d) **Type 'C' bank accounts.** There are 52 type 'C' bank accounts maintained at the woreda level. Consolidated balance of these accounts is known monthly after transaction in IBEX is updated. Woredas use this account to receive and disburse payments. Subsidies received from the BoFEP Treasury are also transferred onto this account.
- (e) **Type 'D' bank accounts.** These are money held in trust, (for example, bid bonds paid by contractors, court order deposits). The amount is held until the payments are paid to the beneficiary. The balance on 'D' accounts is known by BoFEP monthly after transactions are updated monthly on IBEX.
- (f) **Sustainable Development Goal (SDG) account.** A separate account is maintained for SDG funds by implementing bureaus.

144. Only the ZBA at sector bureaus are part of the TSA. Other B accounts held by sector bureaus are outside the TSA, which represents about 96 percent of the total cash available at the central regional government level (as of February 7, 2019) and 78 percent (as of July 7, 2018). Cash balances including woredas, zones, and sector bureaus are available monthly from IBEX following the monthly update. The annual financial statement provides a summary of cash balances. Table 3.22 shows the percentage of cash balance within the TSA.

Table 3.22: Volume of cash in and outside TSA in ETB for year-end for EFY 2009 and 2010

	February 7, 2019 (EFY 2011)	July 7, 2018 (EFY 2010)
TSA (4105) - regional BoFEP account	19,331,820	84,703,200
Cash balance at the sector bureau	524,871,550	308,712,960
Total cash at the regional sector level	544,203,370	393,416,160
% of cash outside the TSA at the central government level	96	78
Cash balance including woreda	2,450,812,440 (99%)	2,072,710,490 (96%)

⁵ According to the annual consolidated financial statement of BoFEP, the unused cash balance as of July 7, 2018, from the 9 Channel 1 funds was ETB 232.5 million (ETB 2 billion – ETB 1.8 billion).

	February 7, 2019 (EFY 2011)	July 7, 2018 (EFY 2010)
Donor-funded accounts - Channel 1	NA	232,540,327
Donor-funded accounts - Channel 2	NA	173,096,885.89
Share of TSA cash balance		

Source: BoFEP.

Dimension score: C

PI-21.2 Cash forecasting and monitoring

145. The budget entities are required to submit an annual cash flow plan to BoFEP soon after they are notified about the approved annual budget. Their cash flow plan is reviewed by BoFEP and may be revised. The legal framework requires bureaus to submit quarterly revised cash flow forecast. In practice, the bureaus are submitting monthly cash flow forecast. Depending on the availability of cash, the bureaus may be asked to postpone if they request a huge sum. In certain cases, BoFEP sends experts to review the urgency of the disbursement, such as a receipt of payment certificate from a contractor. BoFEP prepares a quarterly cash flow forecast to monitor its cash flow.

Dimension score: B

PI-21.3 Information on commitment ceilings

146. Budgetary units are able to plan and commit expenditure for one year in advance in accordance with the budgeted appropriations and commitment releases. The Budget Directorate at BoFEP grants the budgetary units' authority to commit expenditure for one year at the start of the fiscal year.

Dimension score: A

PI-21.4 Significance of in-year budget adjustments

147. The largest in-year adjustment during EFY 2010 was ETB 7 million, that is of insignificant materiality being less than 0.5% of total expenditure. The transfer was in line with the rules on virements explained under PI-18.4. A significant in-year adjustment to budget allocations took place only once a year and in a transparent and predictable way.

Dimension score: A

PI-22 Expenditure arrears

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-22 Expenditure arrears	C+	Scoring method M1
PI-22.1 Stock of expenditure arrears	A	The stock of expenditure arrears is less than 1% of total expenditures.
PI-22.2 Expenditure arrears monitoring	C	Data on stock of expenditure arrears are generated at the end of each year and referred as 'grace period payable'.

PI-22.1 Stock of expenditure arrears

148. Each BI is responsible for executing its own budget. The accounting basis of TRG, like the FGE, is modified cash basis accounting. Most of the expenditures are recorded when payment is made. There is no practice of purchase on a credit basis. Usually, the payment requests are often paid within one to two weeks. Unpaid bills for capital expenditures for which goods and services are received but not paid are only recorded by the end of the fiscal year. In-year invoices submitted by vendors are only recorded when paid. All bureaus indicated that approved invoices are paid within 15 days. Salaries and wages are paid timely.

149. There is no legal definition of arrears provided in the Public Financial Administration of TRG. For the purpose of this assessment, arrears are payables which were outstanding for more than 30 days. Approved but unpaid invoices in the last month of the fiscal year are accrued and recorded as 'grace period payable'. Bureaus are allowed to effect payments within 30 days from the end of the fiscal year for payables recorded as 'grace period payable'. In principle, the balance of grace period payable should be nil by the end of the first month of the following fiscal year, if not by the end of the second month of the following fiscal year.

Table 3.23: Stock of arrears and total budget expenditures for EFY 2008–2010 (2016–2018) in ETB million

	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Stock of arrears: expenditure not paid at the end of the budget year EFY June 30 (fiscal year ends on July 7)	177	166	148
Grace period payables (balance as of September 6—two months after year-end)	NA	4.3	12.6
Share: grace period payables	0.04%	0.79%	0.09%
Total budget expenditure	9,597	12,482	13,078

Source: BoFEP.

150. Other payables that may often remain outstanding beyond 12 months are deposits (for example, bid bonds, court orders) and retention payables in connection with capital projects. The balances of deposit and retention payables as of July 8, 2018, were ETB 253 million and 293 million, respectively. These payables are not qualified to be regarded as arrears as they are awaiting condition of payments to be met for payment.

Dimension score: A

PI-22.2 Expenditure arrears monitoring

151. Payment requests by vendors are controlled at the bureau level. Bureaus incorporate anticipated payments (for example, payment certificate submission by contractors) into their monthly cash flows. Only invoices received and payment requests submitted toward the end of the fiscal year are captured and reported by bureaus to BoFEP. Bureaus are allowed to accrue unpaid invoices related to capital projects as 'grace period payables' to the extent approved by BoFEP. The annual consolidated financial statement (the trial balance) shows the total grace period payables. As shown in Table 3.23, 99 percent of the grace period payable is paid within two months from the end of the fiscal year. Data on stock of arrears are generated annually, and there is no age profile.

Dimension score: C

PI-23 Payroll controls

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-23 Payroll controls	B+	Scoring method M1
PI-23.1 Integration of payroll and personnel records	B	Payroll is supported by full documentation issued by the Human Resource Department (HRD). The HRD updates changes to personnel data. Only approved positions with supported budget are included in the HRD list.
PI-23.2 Management of payroll changes	A	Payroll changes are updated on the same day or in the subsequent couple of days. Retrospective adjustment is very rare.
PI-23.3 Internal control of payroll	B	There is a segregation of roles in maintaining personnel records and payroll preparation. Payroll records are reviewed against the document received from the HRD by the head of finance. As part of the finance audit, internal audit units review monthly payroll sheets.
PI-23.4 Payroll audit	B	Though there is no comprehensive audit on payroll, internal audit units and ORAG conduct a payroll audit as part of their financial audits. Payroll sheets are reviewed against personnel records on a sample basis.

PI-23.1 Integration of payroll and personnel records

152. The regional civil service commission is responsible to oversee organizational structures, positions, manning, compensation, and salary scales of TRG. The HRD of every public body is responsible for the employment, promotion, and termination of employees and maintenance of personnel records. Finance departments of bureaus are responsible for the preparation of payroll and payment of salaries and wages. Personnel records are not automated and there is no electronic integration between the personnel database and payroll. The payroll units, under finance departments, are updating payroll based on written and approved records from the HRD.

153. HRDs issue copies of official letters of employment, transfer, promotion, and termination to the finance departments. The practice of maintaining attendance lists was discontinued for the last couple of years in most of the visited bureaus. Instead, department heads submit the staff attendance list to the HRD for review. The HRD consolidates the staff list report and forwards the information for payroll preparation. Payroll is prepared on the 24th of each month. Salaries are transferred onto the bank accounts of the employees once the payroll is approved by the head of finance of the respective bureaus. Senior accountants check the payroll summary against the previous month payroll and human resource (HR) data. A budget clearance is required when departments request for filling a vacant position. Hence, no payroll is prepared for personnel who are not supported by an approved budget.

Dimension score: B

PI-23.2 Management of payroll changes

154. Payroll changes are updated based on the information received from the HRD. The HRD provides official and written letters when staff are employed, terminated, transferred, promoted, or demoted on the same day or following days. All payroll changes including absenteeism are updated in the same month the change has taken place. Rarely, staff may be terminated after the last two days of a month after payroll is transferred into his/her account. When this happens, the staff is required to refund the payment for the extra days.

Dimension score: A

PI-23.3 Internal control of payroll

155. There is a segregation of duties between maintaining personnel records, preparation of payroll, review of payroll sheets, and signing of bank transfers to employees' accounts. Payroll is prepared by an accountant and approved by the head of finance. Payroll is prepared in an Excel spreadsheet. Most of the visited bureaus do not use passwords to protect the Excel spreadsheet. However, computers that are used for payroll preparation are password protected. Salary transfer to the accounts of the employees is approved by cheque signatories. As part of quarterly financial audits, internal auditors review the correctness of payroll computation and changes are supported by appropriate documents from the HRD. To strengthen the attendance management system, the BoA introduced a biometric attendance system.

Dimension score: B

PI-23.4 Payroll audit

156. A comprehensive payroll-specific audit was not conducted. However, ORAG and internal audit units conduct a payroll audit as part of their financial audit. In the course of their audit, they review sample personnel records to see whether payroll is prepared based on valid documentation. With the existing internal audit practices, all payroll payments are reviewed by internal audit units of the respective bureaus. Finance teams and internal audit units of visited bureaus and ORAG indicated that the system does not allow paying salary for a ghost worker and no incidence ever reported.

Dimension score: B

PI-24 Procurement

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-24 Procurement	D	Scoring method M2
PI-24.1 Procurement monitoring	D	No procurement database is maintained. Reports are prepared from source documents and were not verified by an independent body.
PI-24.2 Procurement methods	D	The information provided is not complete and comprehensive on the extent of procurement on open competitive bids for all procurement types (services, works, and goods).
PI-24.2 Public access to procurement information	C	Three key procurement elements are fulfilled.
PI-24.3 Procurement complaints management	D	Criterion (1), which is the independence of the appeal committee, is not met.

Background

157. Proclamation No. 255/2015 on Public Procurement and Property Administration provides the guidance on procurement operations of TRG. The Regional Public Procurement and Property Administration Directorate (RPPPAD) is responsible to oversee the procurement operation at a regional level. The proclamation allows special procurement methods other than the conventional six procurement methods in connection with security-related goods and services. BoFEP has established a compliant administration team composed of government staff from various bureaus and representatives from the Chamber of Commerce. The RPPPAD conducts procurement audit and is mandated for suspension of procurement process when it believes that the procedure is not in line with the law. The new proclamation requires procuring entities to consider environment in the procurement process. The proclamation also

considered the implementation of an electronic-based public procurement system.

158. Procurement guidelines are issued for procurement of goods (04/2007), works (03/2007), and small and medium enterprises (10/2010).

159. Composition of procurement out of total expenditures is about 36.6 percent at a regional level (including sector bureaus and woredas). Procurement is largely decentralized. However, vehicles and machineries are acquired centrally by the RPPPAD. About 169 complaints were received from procuring agencies on suppliers, which are not complying with the procurement laws. During EFY 2010, 35 of them were barred from participation of public procurement for six months, 95 of them were provided with written warning, and 26 of them were found to have acted properly, 13 of the cases were resolved amicably.

PI-24.1 Procurement monitoring

160. Among the visited bureaus, the BoA maintains a register book to record procurement transactions. Others (BoE, BoH, Bureau of Construction [BoC], and BoE) do not maintain a register. They produce quarterly and annual reports on procurement from the source documents. However, a procurement specialist employed as a focal person for World Bank-funded projects is maintaining a well-structured register in an Excel spreadsheet. The RPPPAD prepares consolidated procurement reports based on reports it collects from bureaus, which do not include procurement operations of certain bureaus. The annual procurement report was not verified by external body such as ORAG.

Dimension score: D

PI-24.2 Procurement methods

161. There are seven types of procurement methods allowed in the procurement proclamation: open competitive bidding, restricted tendering, two stage bidding, request for proposal, and request for quotation, single sourcing, and special procurement. Procurement is decentralized at the public body level except certain items indicated earlier. Thresholds and conditions for the use of the various procurement methods are indicated in the respective procurement directives (for goods, services, and works). The procurement proclamation clearly indicates that the procurement proclamation is not applicable if the procurement is between government agencies.

162. The RPPPAD prepares a procurement report that covers only the procurement of goods and services. The report does not cover procurement of works, which is mainly executed by the BoC. Most of the procurement of the BoC is direct sourcing from public corporations, including Tigray Water Works Construction Enterprise, Tigray Water Works Study, Design and Supervision Enterprise, and Tigray Road Construction Enterprise (PI-10.1).⁶ Table 3.24 shows the share of open bidding on procurement of goods and services by regional sector bureaus, woredas, and zones.

Table 3.24: Procurement volume and share of open competitive bid (other than the BoC and BoW)

	Open tender	Proforma and restricted tender	Direct procurement	Special procurement	Total
Regional sector bureaus	3,022	62.5	6.8	18.3	3,110
Zones	482.37	25.34	5.07	13.44	526

⁶ The Chamber of Commerce complained about the privilege where public corporations are awarded without competitive bidding methods.

Total	3,504.87	87.9	11.9	31.78	3,636
% of methods use	96.4	2.4	0.3	0.9	100.0

163. The data are incomplete and do not show the magnitude of competitive methods used in the two sector bureaus that execute significant capital projects, most of which are awarded to SoEs⁷ through the direct sourcing method. The report is also not verified by an independent body. A procurement report on procurement KPIs for three sector bureaus indicated that open competitive bidding for goods represents 83 percent, 95 percent, and 28 percent for the BoA, BoH, and BoE, respectively. Open competitive bidding for non-consultancy services represents 4 percent at the BoA and 11 percent at the BoE (Table 3.25). The table does not include the BoC, which is responsible for the execution of all construction projects of all sector bureaus.

Table 3.25: Procurement volume and share of open competitive bid (for three sector bureaus)

Category	BoA	BoH	BoE
All types of contracts	125,168,365.00	18,573,466.95	44,881,801.70
Goods	83%	95%	28%
Non-consultancy services	4%	—	11%

Dimension score: D

PI-24.3 Public access to procurement information

164. This dimension reviews the level of public access to complete, reliable, and timely procurement information. The summary table (Table 3.26) shows the requirements or elements for public access and whether these are met. Three key procurement information elements are made available to the public. Government procurement plans were prepared by the public bodies but are not accessible to the public. Three key elements are complete and available to the public.

Table 3.26: Key procurement elements on public access to procurement information

Element/requirements	Met (Yes/No)	Evidence used/comments
(1) Legal and regulatory framework for procurement	Yes	The Public Procurement and Property Administration Proclamation No. 255/2015 and the various manuals are available from the regional council. BoFEP also shares the proclamation and procedures with the Chamber of Commerce. Proclamations are available for a small price (less than US\$0.50). The Chamber of Commerce indicated that the procurement laws and guidelines are clear and understandable by the business community.
(2) Government procurement plans	No	All visited public bodies prepared annual procurement plans. The RPPPAD received the annual procurement plan from each public body. The RPPPAD issues comments to the public bodies on the procurement plan they submitted. However, the procurement plans are not available to the public. The Chamber of Commerce also indicated that there is no access to the procurement plans of bureaus.
(3) Bidding opportunities	Yes	Bidding opportunities are published through different media. National procurements are advertised on nationally broadcasted medias and newspapers. Regional procurements are advertised through regional TV and

⁷ As explained by procurement officers of BoC

Element/requirements	Met (Yes/No)	Evidence used/comments
		radio. Small but open tender procurements are posted on public notice boards.
4. Contract awards (purpose, contractor, and value)	Yes	Contract awards are posted on public notice boards and in the compound of procuring entities. In addition, bid evaluation results are communicated in writing to all participated bidders.
(5) Data on resolution of procurement complaints	No	29 complaints were submitted to the Procurement Appeal Board in 2017/2018. Resolution was made for 10 cases in favor of the complainant and 6 of the cases were in favor of the procuring entity. 12 of the cases were resolved through a discussion between the supplier and the procuring entity. This information is only available in the report of the RPPPAD, but not published.
(6) Annual procurement statistics	No	The RPPPAD prepares an annual procurement performance report, which indicates information on the value of procurement by different procurement methods though it is not complete. There is no other detailed statistical report on procurement. The report does not show the value of procurement conducted by entities, public enterprises, the type of goods and services, and so on. The RPPPAD also reports to the MoF (at the FGE) on the procurement performance of three sector bureaus through selected procurement KPIs. This report is also not published.

Dimension score: C

PI-24.4 Procurement complaints management

165. According to Article 10 of Proclamation No. 255/2015, resolutions passed on procurement complaints should be published. In practice, complaints resolutions are not published.

166. The Procurement Appeal Board is a unit responsible for handing procurement complaints coming from suppliers and procuring entities. The Procurement Appeal Board has seven members: two from RPPPAD, one from the Bureau of Justice, one from the BoC, two from the Chamber of Commerce, and one from the women association. Directive No. 3/2007 stipulates the processes of passing complaints. The first stage is to submit the complaint to the head of the procuring agency within three days. The head of the procuring agency should then respond and communicate its decision to the complainant within three days. If the complainant is satisfied with the decision of the head of the procuring agency, the head can direct his/her complaint to the Procurement Appeal Board. The Procurement Appeal Board should communicate its decision to the complainant within seven working days. The Chamber of Commerce representatives indicated that the process has limitations: complainants have limited opportunity to explain their cases other than the explanation they provided at the time of submitting their complaint. As shown in Table 3.27, criterion (1) is not met but the other three criteria are met.

Table 3.27: Criteria for independent complaint system

Element/requirements	Met (Yes/No)	Evidence used/comments
(1) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	No	Majority of the board members are government staff and may not be fully independent as the likelihood of being involved in one or more of the procurement operations is high. The Chamber of Commerce also indicated the concern about the independence due to the minority vote in the board representation.

Element/requirements	Met (Yes/No)	Evidence used/comments
(2) Does not charge fees that prohibit access by concerned parties	Yes	Fee is not charged.
(3) Follows processes for submission and resolution of complaints that are clearly defined and publicly available	Yes	The procurement complaint procedure is clearly known to the public. Training is provided on public procurement to the business community through the Chamber of Commerce.
(4) Exercises the authority to suspend the procurement process	Yes	The board has the authority to suspend procurement and it does exercise this authority when needed.
(5) Issues decisions within the time frame specified in the rules/regulations and publicly available	No	In most of the cases, decisions are made within the time frame (seven days). However, for complicated issues, the process of investigation may take more time, especially if issues are at a woreda level. Meetings are conducted on a weekly basis.
(6) Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Yes	The decision is final. However, a bidder who is not happy with the decision of the board may appeal at court.

Dimension score: D

PI-25 Internal audit controls on non-salary expenditure

167. 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.

Summary of scores and performance table

Indicator/Dimension	Score	Explanation
PI-25 Internal controls on non-salary expenditures	B	Scoring method M2
PI-25.1 Segregation of duties	A	Appropriate segregation of duties is laid down and functioning.
PI-25.2: Effectiveness of expenditure commitment controls	C	Expenditure commitment controls are in place and limit commitments to cash availability and budget allocation. The use of Excel as a commitment control tool may not fully prevent overcommitment.
PI-25.3 Compliance with payment rules and procedures	B	More than 84% of the audited entities complied with the payment rules. Payments which are not complying with payment procedures represent about 1.4% of the annual expenditure in 2017/2018. The majority of exceptions are properly authorized and justified.

168. The new Financial Administration Proclamation No. 315/2018 replaced the previous Proclamation No. 173/2011 since October 22, 2018. Existing financial and accounting procedures and guidelines will remain operational unless contradicted with the new proclamation. The manpower-related rules⁸ and

⁸ Government Employees Labor Law - Proclamation No. 260/2015/Proclamation No. 189/2011.

regulations are stipulated in the Civil Service Proclamation and Regulations. The following are the most relevant proclamations and regulations that govern the internal control on non-salary expenditures:

- Financial Administration Regulation (69/2011)
- Guideline/Manual for the Procurement of Goods and Services (125/201120)
- Guidelines for the Procurement of Construction Works (126/2011)
- Property Administration Manual (127/2011)
- Guideline for Property Valuation (1/2012)
- Manual for Cash Management (3/2011)
- Cash Disbursement Manual (4/2012)
- Accounting Procedure (5/2012)
- Financial Accountability (6/2012)
- Internal Audit Guideline (1/2017)
- Internal Control Standards (8/2012)
- Handover Procedure (10/2012)
- Guideline for Guarantor for Employment (11/2012)
- Manual for the Administration of Budget (12/2012)
- Proclamations and Regulations:
- Procurement
 - Procurement and Property Administration Proclamation (174/2010)—and Amendment Proclamation No. 255/2015
 - Procurement Manual for Goods 4/2015
 - Procurement of Construction Service Manual (3/2015)
 - Procurement and Property Administration Manual (9/2017)
 - Small item purchase from Small and Microenterprises Manual (10/2017)

PI-25.1 Segregation of duties

169. This dimension assesses the existence of the segregation of duties, which is a fundamental element of internal control. As such, it prevents an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

170. A broader segregation of duties between the various government executive organs is stipulated under Proclamation No. 46/2002 (as amended as per Proclamation No. 92/2005). In addition, each government organ has a clear organizational structure and staff members are provided with job descriptions. The various public finance administration proclamations, regulations, directives, and manuals provide clear guidance on the segregation of duties for disbursement, acquisition, use and disposal of other resources, recording, reconciliation, review, and authorization on resources.

Dimension score: A

PI-25.2 Effectiveness of expenditure commitment controls

171. This dimension assesses the effectiveness of expenditure commitment controls.

172. According to Article 29 of the Financial Administration Regulation No. 315/2018, no commitment shall be made by a public body unless there is a sufficient unencumbered balance from the budget to discharge any debt. Some of the public bodies used to control commitment using IBEX. Because of the recurring failure of the wide area network (Woredanet), all visited BIs use Excel spreadsheets to monitor commitments. The effectiveness of Excel as a commitment control tool depends on how timely the accountant in charge is entering the information. Though it is infrequent, public bodies may commit beyond a budget in a particular month per budget line item and later rectify the variance by budget transfer from another budget line item.

173. The three-month cash flow forecast (cash requirement request) serves as a control tool to limit commitments to the extent of approved budget and available cash resources. The proclamation allows entering commitments for capital projects, which extends beyond a year if there is an approved budget for the first year of project commencement. There is no accumulation of arrears as a result of overcommitment or unavailability of cash. According to ORAG⁹, 98.23 percent of the audited public bodies complied with the budgetary control rules.

Dimension score: C

PI-25.3 Compliance with payment rules and procedures

174. This dimension assesses the extent of compliance with the payment control rules and procedures based on available evidence.

175. Generally, payment rules are complied with. According to the audit report of ORAG on the consolidated fund for EFY 2010 (2017/2018), payments that are effected without sufficiently complying with the payment rules represent about 1.4 percent.¹⁰ Generally, more than 84 percent of the audited entities are found to be compliant to payment rules.¹¹ Common internal audit irregularities reported by internal audit units and ORAG are insufficient documentation to payments, overpayments (such as per diem), and noncompliance to procurement rules. The majority of exceptions are properly authorized and justified.

Dimension score: B

PI-26 Internal audit

176. This indicator assesses the standards and procedures applied in internal audit.

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-26 Internal audit	C+	Scoring method M1
PI-26.1 Coverage of internal audit	A	The internal audit function is available in all sector bureaus and woredas.

⁹ The annual audit report on the consolidated fund of TRG, EFY 2010 (2017/18).

¹⁰ PEFA team computation (value of audit findings by ORAG divided by total expenditure for the year including donor funded projects: ETB 235 million divided by ETB 16,800 million).

¹¹ ORAG, the audit report of ORAG for the EFY 2010.

PI-26.2 Nature of audits and standards applied	C	Internal audit is largely focus on compliance audit.
PI-26.3 Implementation of internal audits and reporting	A	More than 98 percent of programmed audits are implemented.
PI-26.4 Response to internal audits	B	Most of the BIs received management responses within four months and some of them respond within 12 months. Few audit findings may not be responded to within 12 months.

177. According to Article 5 (6) of Financial Administration Proclamation No. 315/2018 of TRG, BoFEP is mandated to follow up internal audit functions in all the regional government entities and submit reports on the findings to the regional council and follow up the decision of the regional council on the findings. The Financial Administration Regulation, which is yet to be replaced by a new one, requires internal audit units to submit their annual audit plan and their audit reports to their respective heads and BoFEP. The revised regulation is expected to provide more roles to the Inspection Directorate in line with the new proclamation. The inspection director issued the following internal audit manuals and guidelines in Tigrigna language (working language of the regional government) that are adapted from the federal government audit manuals.

- Internal Audit Manual (Issued in 2014) adapted from the audit manual of the Federal Audit General
- Internal Control Manual (No. 1/2018)
- Internal Audit guideline (No. 7/2012)
- A guideline issued in December 2018 on the preparation of an audit plan based on the business process reengineering (BPR) approach

PI-26.1. Coverage of internal audit

178. This dimension assesses the extent to which government entities are subject to internal audit.

179. All the regional sector bureaus and their branches and woredas have internal audit units. The five big sector bureaus have five internal auditors each and others have one to four internal auditors depending on the volume of transactions involved. The internal auditors also audit donor-funded projects. Except the internal audit unit of revenue authority, all other internal audit units submitted internal audit reports to the Inspection Directorate at BoFEP. The internal audit unit of the revenue authority is not accountable to the inspection director but reports to the head of the authority. Internal audit is functional in all central government public bodies and their branches.

Dimension score: A

PI-26.2 Nature of audits and standards applied

180. This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

181. The internal audit manual is adapted from the audit manual of the Office of the Federal Auditor General, which is developed based on the International Standards of Supreme Audit Institutions (ISSAI) standards. Though it contains most of the generic auditing techniques and procedures, it differs from the International Standards for the Professional Practice of Internal Auditing (ISPPA) in terms of scope and approach. All the visited internal audit units do not have an internal audit charter. Nonetheless, the internal

audit units prepare an annual audit plan¹² based on areas that they think are risk prone and plan for a mandatory financial audit. Internal audit units also audit property, inventory, investigation, and norm audits. The extent of systemic audit is limited and much of the audit work is not based on a comprehensive risk assessment. Some of the financial audit findings may reflect the limitation of the existing internal control system. In any case, it is largely a financial compliance audit, rather than one that assesses the effectiveness and efficiency of the existing internal controls.

Dimension score: C

PI-26.3 Implementation of internal audits and reporting

182. This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function, as shown by the preparation of annual audit programs and their actual implementation, including the availability of internal audit reports.

183. Visited internal audit units (BoE, BoA, and BoH) accomplished more than 98 percent of their annual audit plan. All of them submitted four quarterly audit reports in 2017/2018 and, at the time of assessment, submitted two reports for the first and second quarter of EFY 2011 (2018/2019). Internal audit units representing almost 98 percent of the revenue and expenditure of the central regional government accomplished their programmed audit plans of EFY 2010 (2017/2018).

Dimension score: A

PI-26.4 Response to internal audits

184. This dimension assesses the extent to which action is taken by management on internal audit findings.

185. Executives are expected to respond in writing within 15 days from the receipt of the audit report. The Inspection Directorate also sends a letter to the executives to respond on audit findings. The Audit Finding Implementation Forum (AFIF) (PI-30) also follows up implementation of internal audit findings. Consolidated information on the total number of audit findings, the timeliness of management response, and the extent of the implementation of audit findings was not available to the assessment team. Most of the visited internal audit units prepare action plans. Management often responds within four months.¹³ Most of the findings in the visited bureaus are implemented within a year. Certain findings may not be implemented after a year due to different reasons such as capacity limitation, court case, and lack of appropriate attention to audit findings. The management of internal audit units representing more than 95 percent of the revenue and expenditure of the central regional government responded within six months to all audit recommendations. The management of 13 large sector bureaus which represent 84.7 percent of the central regional government expenditure budget and more than 95 percent of the revenue implemented 147 (85.7 percent) audit recommendations out of 171 audit recommendations and findings reported during EFY 2010.

Dimension score: B

¹² Out of the 42 sector bureaus, 40 of them submitted annual audit plans and 36 of them submitted annual performance reports.

¹³ BoH executives respond within four months, BoA executives respond mostly within two months, and BoE executives respond within five weeks.

PILLAR VI: Accounting and reporting

PI-27 Financial data integrity

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-27 Financial data integrity	C+	Scoring method M1
PI-27.1 Bank account reconciliation	A	All bank accounts of regional sector bureaus are reconciled monthly.
PI-27.2 Suspense accounts	B	Suspense accounts are reconciled within seven days and other unknown deposited are cleared within two months.
PI-27.3 Advance accounts	C	Advances are reconciled once in a year within one to two months from the end of the fiscal year. Aging analysis reports are prepared.
PI-27.4 Financial data integrity processes	C	Only those who have the password can access the IBEX database. The database access is limited to the specific BIs to which a password is granted though the database is interconnected with all bureaus. Due to the limitations of the IBEX database, users in a given bureau are given the same password.

PI-27.1 Bank account reconciliation

186. This dimension assesses the regularity of bank reconciliations.

187. Bank accounts are classified as ZBAs, receipt accounts (referred as B accounts), treasury accounts (C accounts), donor-funded projects accounts, and D accounts (PI-21.1). There are 68 ZBAs used by BIs, 88 B accounts held by BIs and their branches, and one C account at BoFEP and 53 'C' accounts at a woreda level. Separate bank accounts are also maintained for donor-funded accounts at BoFEP and BIs. BIs are required to submit monthly financial reports within 15 days from the end of each month. All visited BIs reconcile bank accounts within 15 days and, if late, within 25 days from the end of each month (which is within 4 weeks from the end of each month). According to the report of ORAG, out of the 282 audited entities, 266 (94 percent), including BIs and woredas, reconciled their bank accounts on time. However, all of the central government public bodies are reconciling their accounts monthly within 25 days from the end of each month.

Dimension score: A

PI-27.2 Suspense accounts

188. This dimension assesses the extent to which suspense accounts, including sundry deposits/liabilities, are reconciled on a regular basis and cleared on time.

189. A suspense account No. 4201 is used to record transaction temporarily before allocation to the correct accounts. This may occur when bank transfers and deposits are received with insufficient information about the transaction. These accounts are cleared within two months. Some of the public bodies visited prefer not to record such transactions and show them as unreconciled figures and clear them after sufficient evidence collected. Unknown deposits and debits are cleared within two months.

190. The term 'suspense' is also used in the financial management procedure of TRG (also with the FGE) to refer small advance payments to be settled within seven days. These payments are not considered as

accounting transaction, rather as part of cash, and will be converted to petty cash payment vouchers when invoice is submitted by the staff who received the 'suspense' advance. These suspense advances should be settled within seven days from the date of receipt. In all visited BIs, advances provided using suspense vouchers are cleared within seven days. The second usage of the term suspense is not within the scope of this dimension and is discussed in PI-27.3

Dimension score: B

PI-27.3 Advance accounts

191. This dimension assesses the extent to which advance accounts are reconciled and cleared.

192. Advances are paid to employees during field trip and settled immediately after their return from field. If not settled within 30 days, advances are deducted from staff salary. Advances are also provided to contractors. All visited bureaus indicated that advances are reconciled at least once in a year within one to two months from the end of the fiscal year and are well followed up. All BIs submit aging analysis reports together with the monthly financial report to BoFEP. Most of the advances to woredas (in connection with project fund accounts) are reconciled annually. Some visited BIs indicated that they reconcile advances to woredas quarterly. The consolidated financial ledger from IBEX at BoFEP shows the total amount of advances, and details of advances are only available at the BIs level. The total advance represents about 20 percent of the total annual expenditure (Table 3.28). About 36 percent (as of July 7, 2018) of the receivable represents advances to contractors. Other receivables include advances within the government, staff advances, and other receivables.

Table 3.28: Analysis of advance accounts (ETB, thousands)

	2010	2009	2008
Total receivables	2,960,094	2,349,584	2,073,556
Total government expenditure	13,077,917	12,482,221	9,599,416
Advances as % of total expenditure	22.63	18.82	21.60

Source: Consolidated financial statement of EFY 2010 (2017/2018) and 2009 (2016/2017).

Dimension score: C

PI-27.4 Financial data integrity processes

193. This is a new dimension. It assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data.

194. IBEX, a budget and expenditure management software, is used to track budget and accounting transactions. The database is residing in a server at BoFEP where all bureaus have online access to process their transactions. The Information and Database Case Team (IDCT) is responsible for database management and security. The unit has eight staff members. The administrator is responsible for creating user password to users initially and they can then change the password by themselves. IBEX maintains an audit trail for every activity of a user. The system will automatically log out if the computer is idle for five minutes. The system allows having access limit by module, sector, and task. To protect the server room, a CCTV camera is installed.

195. However, at the bureau level, users are not provided with a unique password to login into IBEX. One user ID and password is used by all accountants in the same bureau, which compromises the objective of the audit trail in IBEX and the segregation of access rights to IBEX. Amhara Region also has the same problem with the provision of unique passwords to each user. The decision to set a shared password is to avoid the slowdown of IBEX. The slowdown is minimized when the number of named users is minimized.

Nonetheless, although bureau accountants are using a shared password, access is limited to their respective bureau only. Key administrative procedures on the software are restricted to the central data administrator at BoFEP.

Dimension score: C

PI-28 In-year budget reports

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-28 In-year budget report	C+	Scoring method M1
PI-28.1 Coverage and comparability of reports	A	Coverage and classification of data on the executed budget allows for direct comparison to the original budget. Information includes budgeted revenue and expenditure estimates. The report includes information on transfers from the FGE to the TRG Treasury and transfer from the TRG Treasury to deconcentrated units within the regional government.
PI-28.2 Timing of in-year budget reports	C	Budget execution reports are prepared by public bodies monthly and submitted to the heads of bureaus and BoFEP. BoFEP prepares a consolidated in-year financial statements quarterly within 8 weeks from the end of each quarter.
PI-28.3 Accuracy of in-year budget reports	C	There are concerns about the quality of the reports. Due to interconnection of bureaus with IBEX and reconciliation of records between BoFEP and bureaus, in-year reports are useful for analysis of budget execution.

196. For IBEX, all reporting entities including sector bureaus and woredas have been interconnected through a wide area network called Woredanet. A separate database has been created to capture transactions of DP funds including Channel 1 and 2 projects. Peachtree accounting software is used for funds received from UN agencies.

PI-28.1 Coverage and comparability of reports

197. Though there are a lot of efficiency gains from obtaining a consolidated report because of the Woredanet, the recurring network failure has affected the timely submission of reports. There were instances where reporting entities processed their data at BoFEP premises in person because they were not able to access the data from the system.

198. Expenditure is captured at the payment stage. The in-year report includes budget execution report, trial balance, and bank reconciliation, aging report, and subsidiary trial balances. The budget execution report is presented in the same format and level of disaggregation as the original budget and is comparable. Quarterly reports are also submitted by BIs and consolidated at the BoFEP level and submitted to the regional cabinet together with other performance reports.

199. Donor-funded projects including Channel 1 and Channel 2 are reported quarterly in a reporting format agreed between the DPs and the government. The report includes movement of cash, budget utilization, and bank reconciliation reports. Implementing entities that receive funds from the Road Fund submit report directly to the Road Fund at the federal government level. The revenue and expenditure from the Road Fund are not included in the consolidated financial report of the region. Though the amount is not significant, revenue collected by schools is also not included in the consolidated financial statement.

200. The in-year financial reports at BoFEP show the total transfer to woredas and the actual expenditure made by woredas and sector bureaus. The in-year financial report also provides a comparison report between the original budget, revised budget, and actual outturns.

Dimension score: A

PI-28.2 Timing of in-year budget reports

201. Reports are available electronically from IBEX as far as transactions are processed by respective BIs and woredas. Each reporting entity including sector bureaus and woredas should submit a printed report monthly within five days from the end of each month. According to the IBEX team, about 20 percent of the reporting entities submit the report within 12 days. The remaining submit between 15 and 25 days from the end of the month. Monthly reports are cumulative (year to dates). Quarterly financial reports are compiled at the BoFEP level and submitted to the regional cabinet within eight weeks from the end of each quarter.

Dimension score: C

PI-28.3 Accuracy of in-year budget reports

202. The timely reconciliation of bank accounts (PI-27) and the interconnection of all reporting entities with Woredanet contributed to the quality of in-year reports. Monthly and quarterly financial reports do not provide information on commitment control. IBEX is not used for capturing and reporting of commitment information (PI-21). Delay in settlement of advances may affect the quality of the financial reports of donor-funded projects. Though BoFEP estimates a quality of 95 percent of the in-year budget reports, the audit report shows concerns. Out of the 35 audited sector bureaus, 5 (14 percent) received unqualified audit opinion and the remaining 30 entities received qualified audit opinion.¹⁴ Nonetheless, the qualification points on the financial reports do not undermine significantly the overall usefulness of the reports. Analysis of budget execution is provided.

Dimension score: C

¹⁴ As indicated in the audit report of ORAG on the consolidated fund, out of the 295 audited entities (including BIs and their branches and woredas), 45 received unqualified audit opinion and 177 received qualified audit opinion, and 37 and 24 of them, respectively, received disclaimer audit opinion. The annual audit report on EFY 2010 (2017/18) consolidated fund of TRG.

PI-29 Annual financial reports

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for score
PI-29 Annual financial reports	C+	Scoring method M1
PI-29.1 Completeness of annual financial reports	C	Annual financial statements contain consolidated budget execution reports of all public bodies. They also contain certain financial assets and liabilities including cash, receivables, and payables. However, the financial statement does not provide information on other financial assets such as fair value of the investment that TRG has in public corporation, guarantees provided, and disclosure of contingent liabilities, as well as nonfinancial assets.
PI-29.2 Submission of reports for external audit	B	Draft consolidated financial statements were submitted to ORAG within four months from the end of the fiscal year for the last three completed years.
PI-29.3 Accounting standards	C	The accounting standard used is the same as the FGE. It is in line with the legal framework and has been used consistently over time. The Office of the Federal Auditor General (OFAG) discloses the standard used in its opinion section of the audited annual financial statements.

203. According to Article 1 (20) of the Financial Administration Proclamation of TRG, public money includes the government's own source money, subsidies from the federal government, cash collected from donor partners in the form of grant and loan, and donation in kind. BoFEP is mandated to submit consolidated financial statement (Article 6 and 52) and submit to ORAG within three months from the end of each fiscal year.

204. The Financial Administration Proclamation No. 315/2018 (Article 52) does not refer any national or international reporting standard but outlined the content of the consolidated fund financial statements. These are the budget execution report, the consolidated fund, government liabilities, warranties and commitments, the approved budget and the utilized budget, the sinking fund, special fund accounts, other relevant accounts, the opinion of ORAG, and other disclosures.

205. TRG applies the same accounting policies stipulated in the Accounting Manual of the FGE, which outlines the recognition, measurements, and presentation of elements of financial statements. The accounting system adopts modified cash basis accounting, with historical cost convention, where revenue is recognized when cash is received, and expenditure is recognized when only paid. Advance payments are recorded as receivable until evidence of receipt of goods and services is received. By the end of the fiscal year, approved bills are recognized as liabilities when goods and services are received and retention withheld from contractors remained recorded as liability until settlement.

PI-29.1 Completeness of annual financial reports

206. The consolidated financial statement of TRG includes all the budgetary units of all reporting entities including sectors bureaus, their branches, and woredas. The annual financial statement contains two years of comparative report for budgeted revenue and expenditures against actual outturn. The report presented by public bodies and sectors disaggregated by capital and recurrent expenditures, sources of revenue, current assets, and current liabilities. The financial statements are comparable with the approved budget.

207. The financial reports also contain expenditure information on Channel 1 and Channel 2 funds. However, small revenues collected by schools and revenue and expenditure from the Road Fund is not included in the consolidated financial statement.¹⁵

208. The financial statement does not contain information in the form of disclosure about financial assets other than cash and receivables. For example, the value of public enterprises owned by TRG and revenue arrears (receivables) was not disclosed in the financial statements. The financial statements also do not provide information on nonfinancial assets and warrantees. The regional government provides warrantees for institutions for local borrowings. However, there is no information whether warrantees provided in the past are cleared or if there are any outstanding warrantees (PI-13).

209. For public bodies, financial report of BIs for the last month of the fiscal year is considered as the annual financial report. Like the monthly reports, it contains trial balances, budgeted revenue and expenditure outturn, bank reconciliation, cash count sheets, and aging profiles for receivables and payables account in summary. The report does not contain information on nonfinancial assets, long-term obligations.

Dimension score: C

PI-29.2 Submission of reports for external audit

210. The financial statement for EFY 2009 (2016/2017) was submitted within three months from the end of the fiscal year. The financial statements for EFY 2008 (2015/2016) and 2010 (2017/2018) were submitted within four months from the end of the fiscal years. The report covers all of the budgeted regional government unit.

Table 3.29: Timeliness of submission of annual financial statements by BoFEP to ORAG

	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Deadline for submission (3 months from the end of each fiscal year)	October 10, 2016	October 10, 2017	October 10, 2018
Statement received by ORAG	October 17, 2016	October 9, 2017	November 5, 2018
Delayed/timely	Delayed 7 days	Timely	Delayed 25 days

Sources: BoFEP, ORAG.

Dimension score: B

PI-29.3 Accounting standards

211. Though the basis of preparation of the annual financial statement is not explicitly (through referring compliance to the existing financial administration laws) indicated in the financial reports, modified cash basis using the historical cost convention is used. The accounting system is largely differing from International Public Sector Accounting Standard (IPSAS) in terms of recognition, measurement, presentation and disclosure of financial instruments, recognition of revenues from exchange and non-exchange transactions, property, plant and equipment, inventories, employee benefits, investment properties, related parties' disclosure, and impairments. There is no indication of migrating to IPSAS by TRG. Each financial statement contains the list of contents prescribed in the Financial Administration Proclamation except warranties and commitments and the opinion of ORAG.

¹⁵ No data available on estimated revenue collected by schools which was not included in the consolidated financial report of the TRG.

212. The financial statements were presented consistently over the years with similar formats for EFY 2008, 2009, and 2010. The financial statements also provide a summary of comparative report on the revenue and expenditures of the previous fiscal year.

Dimension score: C

PILLAR VII: External scrutiny and audit

PI-30 External audit

Summary of scores and performance table

Indicator/Dimension	Score	Brief justification for Score
PI-30 External audit	C+	Scoring method M1
PI-30.1 Audit coverage and standards	B	ORAG covers more than 95% of the regional central government expenditure and revenue for the last three completed fiscal years. ORAG generally follows ISSAI standards with certain limitations in the audit of warrantees and systemic audits.
PI-30.2 Submission of audit reports to the legislature	C	The audit reports for EFY 2009 and 2010 were submitted within three months from the receipt of the draft reports from BoFEP. The EFY 2008 (2015/2016) report was submitted within seven months.
PI-30.3 External audit follow-up	A	Executives respond timely and submit a formal and comprehensive report on the action they took.
PI-30.4 Supreme Audit Institution independence	A	ORAG operates independently from the executive with respect to procedure of appointment and removal of the Auditor General, planning and audit engagement, publicizing reports, and approval and execution of its budget. The independence is assured by law.

213. The revised Constitution of TRG (Article 105/1) and the reestablishment proclamation for ORAG (Proclamation 304/2018) provide the legal framework for the establishment of ORAG. ORAG is mandated for the conduct of the audit of government funds, loans, and grants of the regional government including regional government BIs, agencies, woredas, and their branches.

214. ORAG is mandated to conduct financial audit, performance, IT audit environmental audits, and special audits. It is also mandated to audit the accounts of private contractors in relation to the contract awards by the regional government.

PI-30.1 Audit coverage and standards

215. This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

216. The audit manuals of ORAG (issued in 2016 in Tigrigna language) are in line with the standards issued by International Organizations for Supreme Audit Institutions (INTOSAI). ORAG has a performance audit manual (received from ORAG), IT audit manual (2016), and compliance audit manual (2016). ORAG categorized audit entities into three grades by the amount of revenue, expenditure, complexity of operation, and previous audit findings. ORAG audits all grade one and two entities (that includes all sector bureaus, agencies, woredas, TVET institutions, and hospitals) once within a year. Entities falling under category 3 are health centers and farmers' training centers. For revenue audits, municipalities with large revenues were an audit priority. An internal control review result is taken into account in determining the sample size. ORAG has a department responsible for audit quality assurance. However, no external quality

assurance reviews were conducted by African Organization of Supreme Audit Institutions (AFROSAI) or others.

217. ORAG conducted about 300 audits of public bodies annually including regional sector bureaus, woredas, hospitals, sector bureau branches, donor-funded projects, colleges, and regional revenue authority branches for the last completed fiscal years. This assessment focuses on the audit coverage of the regional public bodies.

218. In terms of the number of central regional government public bodies, ORAG's expenditure audit coverage was 90.24 percent, 87.8 percent, and 83 percent for EFY 2008, 2009, and 2010, respectively. In terms of revenue, the coverage at the central regional government level was more than 95 percent as shown in Table 3.30. As the table shows, the audit also includes donor-funded projects.

Table 3.30: Audit coverage

Audited fiscal year	No. of audited sector bureau	Expenditure audit coverage (%)	Revenue audit coverage (%)
EFY 2008	36	96	100
EFY 2009	40	97	98.11
EFY 2010	35	95	100

Source: ORAG team computations of coverage in terms of expenditure and revenue.

219. The consolidated financial statement of BoFEP and the financial report of the central government entities were prepared based on modified cash basis accounting using historical cost convention. The consolidated financial statements contain revenue, expenditure, assets, and liabilities of all entities of the central regional government but do not include disclosure of loan guarantees and financial assets which represent government investments in the SoEs.

220. ORAG has indicated that the audit of the financial statements of all central government entities was conducted in accordance with ISSAI standards. No external or peer review was conducted to assess the extent of ORAG's compliance to ISSAI standards. The assessment team did not receive a quality assurance report from the Research, Support, and Training Department of ORAG. The audit of ORAG for the last completed fiscal years covers audit of revenue, expenditures, assets, and liabilities but not loan guarantees and some financial assets as they are not included in the reports. The audit findings and recommendations on systemic issues are limited though some systemic issues are partly highlighted in performance audit reports (PI-31).

Dimension score: B

PI-30.2 Submission of audit reports to the legislature

221. This dimension assesses the timeliness of audit report submissions on budget execution to the legislature as a key element in ensuring the timely accountability of the executive to the legislature and the public.

222. According to Article 15 (4) of Proclamation No. 304/2018, ORAG should submit the audit report of the consolidated financial statement within three months from the receipt of the draft report from BoFEP to the regional council. Except for EFY 2008 (2015/2016), the audit of the consolidated financial statement of the regional government has been submitted within three months from the receipt of the draft consolidated financial statement from BoFEP. The resignation of 22 auditors in 2016 caused a delay in ORAG's submission of the audit report for the audit of EFY 2008 (2015/2016).

Table 3.31: Dates on which Auditor General submits audited financial statement to the regional council

EFY	Date of receipt of annual financial statement by OFAG	Actual date of submission of the audit report to Parliament	Duration between receipt of draft and submission of the audit report
EFY 2010 (2017/2018)	November 5, 2018	January 2, 2019	1 month and 27 days
EFY 2009 (2016/2017)	October 9, 2017	January 25, 2018	3 months and 16 days
EFY 2008 (2015/2016)	October 3, 2016	May 10, 2017	7 months and 7 days

Sources: BoFEP and ORAG.

Dimension score: C

PI-30.3 External audit follow-up

223. According to Article 19 of Proclamation No. 304/2018, the audited entity should take corrective measures within 30 days from the date of receipt of the audit report from the Auditor General. The Auditor General should also notify to the body responsible for filing a lawsuit when its finding indicates criminal acts.

224. The Research, Support, and Training Department of ORAG is responsible for the follow-up of implementation of audit recommendations. The department visits the audited entities and reviews the action taken. Most of the entities respond to the audit findings within 30 days, while others respond within 40 days and submit a formal and comprehensive report on the action they took based on the recommendation of ORAG. ORAG use an Excel spreadsheet to follow up outstanding audit recommendations that are yet to be implemented. The department submits its reports to the Audit Recommendation Implementation Forum.

225. All audited entities submitted formal and comprehensive response to the audit recommendation of ORAG within 40 days from the issuance of the audit report. The ORAG audit follow-up team visits every public body that has received a qualified or adverse opinion and reviews the action taken. ORAG incorporates the status of the implementation of the audit findings in its next audit report. In addition, the BAASC also follows up implementation of previous audit findings during its audit hearing visits.

Dimension score: A

PI-30.4 Supreme Audit Institution independence

226. This dimension assesses the independence of the Supreme Audit Institution (SAI) from the executive. The basis of the assessment on independence is the principles set out in the International Standard on Supreme Audit Institution, as stipulated in the Mexico Declaration on SAI Independence. Out of the eight principles, seven are met; one of them is partly met. Refer to Table 3.32.

Table 3.32: SAI independence assessment in accordance with Mexico Declaration

Element/requirements	Met (Yes/No)	Evidence used/comments
The existence of an appropriate and effective legal framework and de facto application provisions of this framework	Yes	The Constitution of TRG (Article 105/1)) and the reestablishment proclamation for ORAG (Proclamation 304/2018) provide the legal framework for ORAG to be an autonomous body accountable to the regional council.
Independence of OFAG head and its members including security of tenure and legal immunity	Yes	According to Article 22 of Proclamation 304/2018, the auditor is independent and free from any imposition on

Element/requirements	Met (Yes/No)	Evidence used/comments
		<p>his/or her audit opinion and is legally immune for his/her professional opinion.</p> <p>By law, the Auditor General may be removed from office due to apparent health condition, clear work incompetence, lack of commitment and unethical practices, involvement in corruption, and retirement. The Auditor General can only be removed from office due to stated conditions only when approved by the regional council. The Auditor General can be appointed for a second term, where each term is for 6 years.</p>
Broad mandate and full discretion in delivering the tasks entrusted to the SAI	Yes	<p>Article 7 Proclamation No. 304/2018 provides broad mandate to ORAG to perform audit of the accounts of all the regional government public bodies and agencies, audit of donation and grants provided to public bodies, audit of efficiency and effectiveness of government resource utilization, information and communication technology (ICT) audit, performance audit, environmental audit, revenue audits, on-demand special audit of agencies which are fully or partly subsidized by the regional government, and audit of advances provided to private contractors. ORAG also mandated to follow up the implementation of its audit findings.</p> <p>ORAG is mandated to issue auditing guidelines in consultation with OFAG and other ORAGs and may require internal auditors to conduct audit and report to it and collaborate with relevant institutions for the development of finance profession.</p>
Unrestricted access to information	Yes	<p>According to Article 19 of Proclamation 304/2018, auditors of ORAG have unlimited access to software databases, accounting documents, verbal evidences, and provision of copies of evidences as required by the auditors. Article 20 of the same proclamation stipulates that government employees should provide the necessary information to the auditors upon request.</p>
The right and obligation to report its work	Yes	<p>According to Article 7 and 15 of Proclamation 304/2018, the Auditor General is required to submit annual audit report to the council including the audit of individual audited entities, performance audit, and the consolidated fund. There is no restriction to the Auditor General to submit his/her report.</p>
The freedom to decide the content and timing of audit reports and to publish and disseminate them	Yes	<p>The Auditor General is free and independent in determining the entity to be audited, the scope of its audit, and the timing of submission of its audit report. The Auditor General has the freedom to decide the content and timing of audit report. The Auditor General often presents his/her audit report to the council within 10 days from submission of the audit report to the council. The Auditor General submits his/her reports twice in a year.</p> <p>Audit reports are published on the website of ORAG. http://www.tigotag.org/</p>
Follow-up mechanism on ORAG's recommendation has been implemented	Yes	<p>The Research, Support, and Training Department (Process) of ORAG is responsible for the follow-up of audit recommendations. An Excel template is used to</p>

Element/requirements	Met (Yes/No)	Evidence used/comments
		follow up actions taken by audited entities. ORAG works in collaboration with AFIF which includes the PAC, Inspection Directorate, the Speaker, the head of the Bureau of Justice, and others.
Financial and managerial/administrative autonomy and availability of appropriate human, material, and monetary resources	Yes	As per Article 98 of the Constitution (1995) of the regional government and Article 7 (Sub-Articles 21, 22, and 23) of Proclamation No, 304/2018, the Auditor General submits his/her budget proposal, manpower structure, and benefits packages directly to the council, which shall be implemented by a coordinating committee assigned by the council. Hence, unlike other public bodies, ORAG does not receive budget ceiling from BoFEP nor a structure and manning from the regional public service.

Dimension score: A

PI-31 Legislative scrutiny of audit reports

227. 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.

228. According to Article 98 (2) of the Constitution of TRG, the Budget and Accounts Committee should scrutinize the audit report of the Auditor General.

Summary of scores and performance table

Indicator/Dimension	Score	Explanation
PI-31 Legislative scrutiny of audit reports	A	Scoring method M2
PI-31.1 Timing of audit report scrutiny	A	The BAASC completes the scrutiny of the audit report within three months from receipt of the audit report.
PI-31.2 Hearings on audit findings	A	The BAASC conducts the hearing on key audit findings of all the BIs (also including woredas).
PI-31.3 Recommendations on audit by the legislature	A	The BAASC issues recommendations to the executive. AFIF, of which the BAASC is a member, follows up systematically the implementation of audit recommendations by the executive.
PI-31.4: Transparency of legislative scrutiny of audit reports	A	Though the BAASC scrutinizes the executive on key findings, the process is not open to the general public and reports of the BAASC were not published. The summary of findings was presented to the representatives of civil societies and journalists.

PI-31.1 Timing of audit report scrutiny

229. This dimension assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function.

230. The audit report of ORAG is submitted to the regional council a few days before the speech of the Auditor General to the regional council. The regional council members discuss the audit report in small

groups (often grouped by zones). The council members then ask questions to the Auditor General following his/her speech. The BAASC develops TOR for in-depth hearings on key audit findings and submits them to the Speaker. The TOR contains the bureaus, woredas, and institutions to be scrutinized as well as the timetable and the methodology to be adopted. The BAASC scrutinized the audit report it receives from ORAG within three months.

Table 3.33: Time between the receipt of reports by the BAASC and completion of their review by the legislature

	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Date on which ORAG submits the audit report to regional council	May 10, 2017	January 25, 2018	December 31, 2018
Scrutiny of the audit report	May 12–17, 2017	February 2–10, 2018	January 15, 2019
Prepared TOR for audit hearing	May 2017	April 12, 2018	February 2019

Sources: ORAG and BAASC.

Dimension score: A

PI-31.2 Hearings on audit findings

231. In-depth hearings are conducted by the BAASC for all audited entities with key audit findings. The BAASC coordinates the hearing of audit findings on regional sector bureaus, their branches, and woredas. Findings at school, health clinic, and kebele levels are delegated to the woreda-level BAASCs. The BAASC conducted hearings for the last completed fiscal years with all bureaus and woredas who received adverse and disclaimer audit opinions. For example, in 2017/2018, based on the audit report on the consolidated fund for EFY 2009 (2016/2017), the BAASC conducted a hearing for 32 regional bureaus and their branches and for about 43 woreda administration and institutions. Table 3.34 shows the period in which the audit scrutiny has been conducted.

Table 3.34: Period in which audit scrutiny has been conducted

	EFY 2008	EFY 2009	EFY 2010
From	May 2017	April 18, 2018	March 10, 2019
To	July 2017	July 1, 2018	June 1, 2019

Dimension score: A

PI-31.3. Recommendations on audit by the legislature

232. The BAASC submits its recommendations to the regional speaker. The regional speaker then issues the recommendations to the president of the region. The report is comprehensive and contains the details of audit findings resolved until the completion of the security process, findings which have been partly resolved, recommendations which are not implemented, money claimed back based on the audit findings, and uncollected financial findings. Table 3.35 shows the percentage of the findings resolved following the audit scrutiny and hearings on the audit of the consolidated fund of EFY 2010 (2017/2018)

Table 3.35: Status of implementation of audit findings (2018/2019)

Status on implementation of recommendations	No of audit reports	Amount (ETB, millions)	Percentage
Fully resolved (action taken)	215	—	38.8
Partly resolved	143	—	25.8
Not yet resolved	196	—	35.38
Refunded money following the audit findings	—	27.2	42.0
Claims yet to be collected	—	19.8	58.0

Source: BAASC.

233. The BAASC submits a separate report to the regional president to take appropriate measures on those officers who failed to take action on the recommendations. Table 3.36 shows the date on which audit recommendations were submitted to the audited entities by the BAASC through the regional speaker.

Table 3.36: Date on which the BAASC submits its audit recommendation following the scrutiny and conduct of hearings on audit recommendations

EFY	Recommendation submission date
EFY 2010 (2017/2018)	June 19, 2019
EFY 2009 (2016/2017)	August 6, 2018
EFY 2008 (2015/2016)	July 2017

234. The BAASC does not have its own database or record to monitor the progress of the implementation of its findings. However, there is a strong follow-up by a team called AFIF. The forum members signed a memorandum of understanding for the commitment on implementation of audit recommendation. Members of the Audit Finding Implementation Committee include the speaker, BAASC, the Bureau of Justice, BoFEP, the high court president, the Regional Ethics and Anticorruption Commission, (REAC) representatives of the Regional President, the head of the revenue authority, the Legal Affairs Standing Committee, and Auditor General. The forum held quarterly meetings since 2014. All members of the forum present reports on what they have accomplished.

235. In addition, there is an ad hoc committee organizing the AFIF attended by the Anti-Corruption Body, ORAG, the Justice Bureau, and the auditee. These are quarterly meetings for evaluation of the audit findings in each sector. The usual problems found are related to the quality of the recommendations and misunderstood audit recommendations. The regional council takes responsibility to follow up on the implementation of the audit recommendations imposing penalties in case of noncompliance.

236. The current rate of implementation of audit recommendations is 65 percent at the woreda level. The target in EFY 2012 is to implement 85 percent of all audit recommendations.

237. The BAASC issues recommendations on actions to be implemented by the executive and applies strict procedures to ensure their implementation.

Dimension score: A

PI-31.4. Transparency of legislative scrutiny of audit reports

238. The hearings are conducted in the meeting hall of the regional council in the presence of the officers of the audited entities, representatives of ORAG, staff of the regional council, BoFEP, and all standing committee members. Though the individual hearings are not open to the public, the final session where the report of the BAASC is presented is held in the presence of the auditees, full members of the councils, mass media, representatives of civil societies, and all sector bureaus. There is a contract with the local newspaper Weyen (Revolt) to cover key issues, events, and decisions of the regional council.

239. The speech of the Auditor General on the findings of the audit report is also delivered to the full members of the regional councils in the presence of representatives of the general public including representatives from civil societies and journalists. The regional council formally invites the eight media operating in the region. Representatives of all sector offices and some federal offices including the Ethiopian Human Right Council and the Ombudsman's Institution attend the session.

240. Nevertheless, the BAASC decisions related to scrutiny of the audit report are published in a yearbook (a regular annual edition on the performance of the regional council covering the activities of all

standing committees) that is distributed to all regional council members, all woreda governments (available in libraries), and a civil society support program (contract agreement for drafting legislation). These issues are also covered and discussed at the so-called Accountability Conferences—a regular event organized jointly and in coordination with BoFEP focusing on financial, transparency, and accountability issues of the regional government. All bureaus and the supreme court attend this conference.

241. In conclusion, hearings are conducted in public and the committee reports are not published on the regional council website, but they are available in the yearbook of the council, which is accessible to the public in the libraries and summary of findings are published in a semiannual newspaper known as 'Baytona'. The summary of the recommendations is also available in the library of the regional council and at all levels of the regional government. About 18,000 people attend annually the hearings at regional and local government levels.

Dimension score: A

4. Conclusions of the analysis of PFM systems

4.1. Integrated assessment of PFM performance

Budget reliability

242. Given that complete data to assess PI-2 were not provided, budget credibility has been assessed only on the basis of expenditure by function, expenditure charged to the contingency vote for EFY 2008, 2009, and 2010, and revenue. Due to lack of abovementioned data, the aggregate level (PI-1 scored C) of budget execution outturn varies between 107 percent and 123 percent of the approved aggregate budget. This does not make the budget very credible at the overall level. The budget revenue outturn was generally good, between 107 percent and 113 percent, but the composition variation was more than 15 percent (PI-3 scored C).

243. The data on transfers from the federal government (HGL-1 scored A) show good performance. The actual transfers to the regional government were more than 99 percent compared to the original budget and the actual disbursement of these transfers were equally spread within the year. The outturn of earmarked grants good planning and performance. The transfers from the federal government to TRG were made in good time to ensure smooth financial operation.

Transparency of public finances

244. The classification of the budget is adequate. 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 CoA. The main weaknesses identified in the transparency of public finances include lack of comprehensiveness in the type of information included in the annual budget documentation (PI-5 scored D); no basic element and only one additional element are met.

245. There are no off-budget accounts and all actual revenue and expenditures are included in the proclaimed budgets and the budget execution reports of Tigray. Schools and health centers are permitted to use their own internal revenue. The internal revenue is not reported in the consolidated financial statement of the region, but they represent an immaterial amount (PI-6 scored A). The data on transfers to zones and woredas have been provided. Clear rules on allocation to woredas and town administrations exist. Information on transfers for budget preparation is provided to lower level administration in time to allow changes to the planned budget (PI-7 scored A).

246. Performance information for service delivery is not well communicated to the public. While the information on resources received by frontline service delivery units is collected and recorded annually for the BoH and BoE with an annual report, the information on performance plans and achievements is published annually with policy and program objectives, KPIs, and outcomes for most ministries (PI-8 scored C+). In both health and education, information on outputs and outcomes is available, and for the health sector, the information is published, which still represents less than 25 percent of the total regional expenditure. Public access to fiscal information (PI-9 scored D) is very poor, as most information is not published.

Management of assets and liabilities

247. Fiscal risk reporting performs badly. Information is not available on the status of the audit of SoEs. Financial reports of woredas are collected monthly and consolidated. The consolidation process is from the IBEX database at BoFEP that is interconnected with all woredas. The consolidated financial statement of the region provides segregated information by woreda and sector bureaus. The annual financial

statements do not contain information on contingent liabilities and fiscal risks to the regional government (PI-10 scored D).

248. Public investment management is also not good. There is a standard form to support a feasibility of a capital project that is to be completed by the BIs as part of capital budget planning. Based on the information from BIs, an assessment is conducted at the woreda level and project proposed are reviewed by a team of experts from the respective departments and consolidated at BoFEP. Therefore, economic analysis of capital projects is conducted for some but there are no standard criteria used at the regional level to prioritize project selection. The feasibility documents are not published. The feasibility studies do not provide information about projection of three years capital and recurrent expenditures (PI-11 scored D+).

249. **Public asset management.** The region does not record and measure its financial assets other than cash in line with international accounting standards. The fair values of public enterprises owned by the region are not presented or disclosed in the financial statement. Aging profiles of long outstanding receivables and payables are available, but no impairment loss has been assessed or disclosed in the annual financial statement. The regional government maintained a register for property, equipment, and furniture and annual physical counts are conducted. Information is not available on the registration of other assets including roads and other infrastructure, land, and mineral resources. The financial report does not contain information on nonfinancial assets of the region. There is a transparent procedure for transfer and disposal of nonfinancial assets; however, information on disposal of assets is included in the budget documentation but does not include transfers (PI-12 scored D+).

250. The regional government may borrow from local sources and provide loan guarantee only when approved by the regional council. TRG borrowed a short-term loan of ETB 500 million in 2010 and this is reflected in the financial statement. Nevertheless, TRG does not record guarantees and liabilities and has no documented policies and procedures to provide guidance for undertaking borrowing and debt-related transactions. There is no debt management strategy either (PI-13 scored D).

Policy-based fiscal strategy and budgeting

251. Macroeconomic and fiscal forecasting are satisfactory. Assumptions are made primarily on regional GDP since all other macro indicators (inflation, interest rate, exchange rate, and so on) are established at the federal government level. The forecasts are done over five years, but they are updated yearly. A fiscal strategy is not developed (PI-15 scored D). At least some (25 percent by value) of sectors prepare fully costed medium-term strategic plans. The annual expenditure policies are aligned to annual action plans and the medium-term strategy. The annual budget document presents estimates of expenditure by administrative, function, and economic classification for the budget year. There is no medium-term expenditure perspective (PI-16 scored D+).

252. Time of over six weeks is provided to BIs to prepare their budgets (PI-17.1), but many BIs still submit their budget proposals late. No ceilings are included in the BCC. Another weakness relates to the timeliness of submission of budget estimates to the regional council, which allows three weeks or less for the examination of the budget proposal (PI-17.3). The executive has submitted the annual budget proposal to the council less than one month before the start of the fiscal year in all the three years (PI-17.3 scored D). Clear rules exist for in-year budget amendments by the executive and are adhered to. They nonetheless allow for extensive administrative reallocations (PI-18 scored C+).

Predictability and control in budget execution

253. The revenue of the region is administered by TRDA collecting more than 92 percent of the regional revenue. The taxpayers are well informed about their rights and obligations. There is a functioning Tax

Appeal Committee composed of eight people from the Chamber of Commerce and the government offices. The Tax Appeal Committee is established at the woreda level. Independence of the committee is questioned as the majority of the members are from the government entities. TRDA recently issued a Risk Management Policy applied to identify business sectors prone to tax evasions. TRDA conducts revenue audit and fraud investigations. The key findings of fraud investigations are broadcasted. TRDA has a compliance plan, reports on accomplishments and monitors stock of revenue arrears. The stock of revenue arrears as of July 7, 2018, was about 40 percent of the total revenue collected (PI-19 scored A).

254. TRDA uses software developed in-house called PARS. The system is used for revenue accounting by capturing revenue collections by types of revenue from all 52 woredas. Revenue reports are reconciled with revenue records in IBEX. Tax revenue collected is directly deposited into the accounts of the Treasury. There is no regular reconciliation of tax revenue collected by TRDA and the Treasury at BoFEP (PI-20 scored C+).

255. Most of the cash balances are consolidated on a monthly basis. As all BIs and woredas are connected to IBEX, the cash balances are available from the system. However, due to networking problems, there are multiple instances where some BIs may process transactions off-line, in which case consolidated cash balance in IBEX may not be complete. The consolidated cash balance does not include donor-funded accounts. BIs prepare annual cash flow forecast and submit to BoFEP. In addition, BIs are required to submit the cash requirement plan quarterly, but in practice they submit the request monthly. BIs receive information on commitment ceilings in the span of three months. In-year budget adjustments, especially budget transfers, are significant—about 20 to 25 budget transfer requests per week (PI-21 scored B+).

256. BoFEP indicated that there are no arrears resulting from inability of BIs to pay due to cash unavailability. However, payment requests submitted toward the end of the fiscal year are accrued and recorded as grace period payables. It is not clear whether the balance remained outstanding because of cash unavailability. Nonetheless, the total balance of grace period payables that is outstanding for more than two months is less than 2 percent of the total expenditure. For all liability accounts, including expenditure arrears (if any), an aging report is prepared monthly and incorporated in the monthly financial report of BIs (PI-22 scored C+).

257. The payroll system is not electronically integrated with the HR recording system, but all changes in the personnel status are duly and timely reflected. The HRD communicates changes to the payment status of employees including employment, promotion, termination, and changes in salary and allowances in writing, and finance units update within the same month in which letters are received from the HRD. Retrospective adjustments are rare. Payroll is processed using an Excel spreadsheet and there is no system of audit trail. Internal audit conducts payroll audit as part of the financial audit and some of the internal and external auditors also review personnel files. However, there is no comprehensive payroll audit (PI-23 scored B+).

258. Procurement plans are prepared by BIs and submitted to the RPPPAD at BoFEP. BIs do not have procurement database but prepare procurement reports from source documents and submit them semiannually to the RPPPAD. Bidding opportunity and contract award are published. The RPPPAD provides awareness training to the business community including live broadcasts on local TV channels. Procurement rules and regulations, annual procurement plan, data on resolution of procurement complaints, and annual procurement statistics are not made public. The compliant processes and resolutions of compliant are clearly defined but may not be available to the public. Decisions on complaints are issued timely within the specified rules and decisions which are binding but the appeal body is not considered fully independent (PI-24 scored D).

259. The legal frameworks including the various proclamation, regulations, guidance, and manuals stipulate the segregation of duties between departments, units, and functions. There is a clear separation of role for preparation, review, and approval of financial documentations. IBEX's commitment control module is not functional and mainly Excel spreadsheets are used to monitor commitments. The expenditure commitment control practice in place limits the commitments to cash availability. The flexibility in in-year budget transfer allows for adjustment of overspendings by reallocation of line items. Payment rules and procedures are generally complied with. Some BIs may not comply with certain payment rules and procedures as indicated in the audit findings of ORAG and internal audit units of visited Bis, but they constitute less than 2 percent (PI-25 scored B).

260. Internal audit is functional in all BIs. The Inspection Directorate oversees the function of internal audit units and provides technical supports. The financial audit coverage is 100 percent. The internal audit practices are largely in line with international internal audit standards. However, works of internal audits are largely focused on financial audit and may not be risk based. The functioning of the internal control system is rarely the focus of internal audits. Internal audit units produce and submit audit reports quarterly and almost attain their annual audit target. Management respond to audit recommendation within one to four months. There are instances where management may not respond within 12 months (PI-26 scored C+).

Accounting and reporting

261. Bank accounts are reconciled monthly; however, a reconciliation report shows unreconciled outstanding items for a few months. Cash is monitored and reported. Suspense and advance accounts are often reconciled monthly but some BIs may only reconcile advances to woredas by the end of the fiscal year. IBEX is a centralized database where all reporting entities are accessing it for transaction processing. It is password protected and has an audit trail feature showing who logged in, when each entry was made, and what entry. At the BI level, multiple users are sharing the same password (PI-27 scored C+).

262. In-year budget reports are often submitted within 15 days of the end of the reporting month. Due to failure of network with IBEX, reports may be submitted late. The in-year reports contain a year-to-date budget execution information together with summary of trial balances and ledgers, bank reconciliations, and aging reports. No consolidated in-year reports are presented at the BoFEP level though data entered are updated automatically in the server of BoFEP. Financial reports are generally accurate. Some of the transactions may not be complete when there are unknown deposits, or unsettled advances that were disbursed to woredas and certain accounting errors. As shown in ORAG reports only about 16 percent of the audited entities received unqualified opinions on their annual audit reports (PI-28 scored C+).

263. The annual financial statements contain information on budgeted revenue and expenditure and actual outturns, current assets and liabilities, trial balances, information on Channel 1 and Channel 2. The financial statements do not provide information on contingent liabilities and investment in SoEs, properties, and other nonfinancial assets. BoFEP submitted the draft consolidated financial statements to ORAG within four months (for EFY 2008 and 2009) and within five months for EFY 2010 from the end of the fiscal year. The financial statement presentation is generally in line with the national financial reporting guidelines but not in line with international financial reporting standard such as IPSAS (PI-29 scored C+).

External scrutiny and audit

264. ORAG has submitted two of the last two years' audit reports on the consolidated funds within three months from the receipt of the draft financial report from BoFEP. ORAG was delayed in submitting the EFY 2008 report by four months. OFAG covers 100 percent of the regional bureaus and woredas. ORAG follows up the implementation of audit findings and more than 45 percent of the audited entities respond timely. AFIF composed of PAC, ORAG, Inspection Directorate, and other parties helped with the

improvement of the timeliness of implementation of audit findings. ORAG is generally independent; however, the law does not clearly indicate the immunity of the Auditor General (PI-30 scored C+).

265. The BAASC scrutinizes the audit reports submitted by the Auditor General, conducts hearing within three months from the receipt of the report, and follows up the implementation of the audit findings. The individual audit hearings are accessible to the public and the final report of the BAASC (after completion of the individual hearings) is presented to the full regional council where the representatives of the civil societies and journalists attend. The recommendation of the BAASC is available and accessible to the public (PI-31 scored A).

4.2. Effectiveness of the internal control framework

266. 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.

267. **Control environment.** The Constitution of TRG, the various PFM and related proclamations, and regulations are the guiding framework for the control environment. Public bodies share their visions, values, and missions to their staff. Annual plans trickle down to department levels. Rules and regulations are generally respected and management and staff are supportive of the internal control systems (PI-25). The segregation of duties between organs of government is clearly demarcated. Organizational structure, manning, and pay schemes are centralized and regulated by the Civil Service Bureau. ORAG and the Inspection Directorate are empowered for better independence, audit quality, and coverage of audit with the recent reform on PFM regulations.

268. AFIF's role in implementation of audit findings is enormous. Significant amount of money was reclaimed from those who misappropriated public funds and legal actions were taken on those who participated in fraudulent practices. The responsiveness of executives to audit findings has increased. The BAASC is effectively playing its role by scrutinizing the audit reports, conducting hearing on audit findings, and following up implementation of audit findings. The REAC collects information from informants, conducts investigation, and follows up corruption-related audit findings of ORAG.

269. **Risk assessment.** An organizational-level risk assessment is a systematic and forward-looking analysis to see whether the existing internal control procedures in place are effective and efficient to support the achievement of organizational objectives within a stated time frame.

270. An organizational-level risk assessment is not practiced in all the visited public bodies. TRDA conducts risk assessment in designing and planning the effective tax audit method. The new risk strategy document (which is at the draft stage) is expected to improve the practice of risk assessment and best utilization of tax audit resources for better compliance and revenue collection (PI-19). The annual audit plan of internal audit units is largely based on past audit findings instead of risk assessment. The recurring nature of certain findings by the internal and external audit partly reflects the weakness of certain control activities in procurement, investment management, property administration, receivable and payable control, and asset management (PI-11, PI-12, PI-25, PI-26, and PI-30).

271. **Control activities.** The different manuals that stipulate the segregation of duties and procedures for preparation, review, and approval of payments, procurement, and use of other resources are generally comprehensive and instrumental as internal control tools. With the exception of few findings (PI-30, PI-25), bank accounts are generally reconciled (PI-27), revenue collections are reconciled (PI-20), assets are periodically counted, and segregation of duties are respected.

272. Use of ICT as a controlling activity is very limited. The BoA is using a biometrics attendance system and some of the visited public bodies are using fixed asset software. TRDA uses in-house developed software in addition to SIGTAS. IBEX is just a budget and ledger accounting software and payments are made using manual vouchers and cheques. Most of the financial management procedures including disbursement, procurement, property management, inventory (except health facilities which are using the HMIS), human resource, and payroll are not automated. There is no systemic integration between HR records and the payroll.

273. The existing procedures are not capable enough to assist the Treasury in determining the total cash available at any point in time and the cash requirement. Currently, the customer account management system at the Commercial Bank of Ethiopia is not supportive in terms of allowing online access to BoFEP to the regional government bank accounts. BoFEP cannot determine the total cash available at A, B, D, and F accounts as well as C accounts at the woreda level until transactions are processed in IBEX, which are often after 20 days from the end of each month (PI-21.4, PI-21.1). The existing manuals and procedures need to be reviewed for their effectiveness in achieving the appropriate internal control objective of the efficient use of resources, quality of reporting, and safeguarding of public resources. The audit needs to focus more in assessing effectiveness and efficiency of internal control.

274. **Information and communication.** Executives receive periodic reports. BoFEP communicates BPs their budget ceiling and guidelines to public bodies, and public bodies communicate their proposed draft budget timely to BoFEP. Draft budgets are communicated to public bodies to allow hearing and debates. The budget documents submitted to the regional council are generally comprehensive except a few pertinent items (PI-6). Approved budgets are communicated to public bodies and local governments. Budget execution reports are mainly communicated to BoFEP and heads of public bodies through printed reports with limited disclosure to financial and nonfinancial assets and liabilities (PI-28). Transactions entered into IBEX at woreda and regional sector bureaus levels are consolidated and accessible by BoFEP to produce regional-level quarterly financial reports.

275. ORAG and internal audit units communicate their audit findings regularly, and management teams generally provide feedback on the actions they have taken. ORAG and TRDA provide information to the public through their websites. BoFEP is missing this capability as its website is not accessible for a long time. As a result, interim and annual financial reports, the relevant PFM laws, regulations, procurement plans and statistics (PI-19), and asset disposal information are not available to the public.

276. Annual financial reports of public bodies generally provide useful information. Based on the existing national standards, 13 percent of the audited entities received unqualified audit opinion, and 61.75 percent of them received qualified opinion and about 22.9 percent of them received adverse opinion (EFY 2010). Though financial information presented is useful, the quality indicators show the need for improvement (PI-30). The accounting system is not in line with international accounting standard such as IPSAS. The financial statements do not provide information on tangible assets (PI-11), contingent liabilities, loans, and notes to the accounts in the report (PI-29.1). The financial reports do not provide information on certain financial assets (investment in SoEs), aging profiles of receivables and payables (though prepared at the public bodies level), and warranties provided by the regional government (PI-29). Information on service delivery is adequate (PI-8.1).

277. **Monitoring.** Executives at all levels monitor their performances by reviewing periodic reports. Public bodies are required to present their performances report to the regional council biannually for review. The internal audit units and ORAG monitor whether rules and regulations are complied with. ORAG conducts performance audits to verify whether operations and projects are running as intended. The Inspection Directorate at BoFEP monitors whether internal audit units are submitting their annual audit plan and perform their operations based on the prevailing standards. AFIF monitors the implementation of audit findings. AFIF meets every quarter and shares progress and accomplishment of each member

toward the implementation of the findings. Monitoring of public investment, loans, and guarantees and the efficiency of existing internal control tools are areas that need significant improvement in the internal control framework. The limited access to key PFM information disadvantaged the regional government from counter balancing and monitoring the role of the public.

4.3. PFM strengths and weaknesses

Aggregate fiscal discipline

278. Overall, fiscal discipline is not good; most elements in the overall PFM system that contribute to achieving this result do not appear to be sound. On both expenditure and revenue side, performance is below the revenue and expenditure approved targets (PI-1, PI-2, PI-3) with high variances in both expenditure and revenue as well as composition against the original budget because extensive administrative reallocations are permitted by the legislation (PI-18.4). The budget of TRG is not realistic and is not implemented as intended. There is no effective control of the total budget and measurement of fiscal risks.

279. The actual budget expenditure and revenue deviate from the original approved budget, thus undermining the fiscal discipline and the ability of TRG to control the total budget and manage fiscal risks. This also prevents the government from allocating resources to strategic priorities and plans.

280. Poor budget credibility subsequently affects service delivery with contraction or suspension of services of expenditure of essential input for programs and projects. The good side is the information on resources received by frontline service delivery units that is collected and recorded annually for the health and education sectors (PI-8).

281. The budget discipline is neither supported nor affected by the payment arrears that are of insignificant stock of less than 1 percent, but their age is not monitored. This indicates that there are adequate commitment controls and efficient cash rationing. TRG does not accumulate overdue obligations that imply that the resource allocation is reliable. Another good practice in PFM is that all budget-related operations (PI-6) are reflected in the financial statements. The budget classification is in accordance with international norms, based on administrative, economic, and functional classification of GFS/COFOG (PI-4), but budget documentation is weak (PI-5).

282. Moreover, the various elements of the system concerned with budget execution—including internal controls—are generally sound to contribute to the attainment of aggregate fiscal discipline. The process of strict application of the segregation of duties (PI-25), procedures, and expenditure commitment control ensures that fiscal discipline is maintained on the level of the single budget entity, that is, at a micro level. Such a system is also indicative of the discipline on the macro level with a high degree of assurance that access and use of public funds is made under a strictly regulated and complied-with environment in which resources are used for the approved targeted purposes only.

Strategic allocation of resources

283. The five indicators concerned with policy-based fiscal strategy and budgeting (PI-14 to PI-18) did not receive good overall ratings with the exception of macroeconomic and fiscal forecasting (PI-14). The good practice is that the budget document submitted to the regional council contains the forecasts from the MEFF (no MTEF) and the projections cover the budget year and at least the two outer years. The development of a fiscal strategy is the responsibility of the federal government. The process to allocate budgetary resources in accordance with the regional government's strategic objectives is established for only 25 percent of the sectors for which fully costed medium-term strategic plans are prepared. TRG does not prepare an MTEF and there is no medium-term expenditure perspective (PI-16).

284. Another weakness to note is that public investment management (PI-11) does not sufficiently reflect generally accepted good practice of project investment analysis, project selection based on strategic development goals, and project costing for full project life cycle. The public investment practice shows that resources are allocated based on regional priorities and taking into account the feasibility studies. However, there are no standard criteria for project selection.

285. The good performance with reference to allocation of resources is the fact that there are budget ceilings (PI-17) which set the limit of spending. Although they are outlined and respected, the weakness is that the process is not well structured and planned to allow the budget entities to take their time in the preparation of their detailed estimates. The executive submitted the annual budget proposal to the council less than one month before the start of the fiscal year in all the three years.

286. The indicators related to the collection and administration of revenue also contribute to the strategic allocation of resources and they are generally functioning well. The TRDA uses a comprehensive, structured, and systematic approach for assessing and projecting risk. More than 90 percent of the tax audit plans are carried out. There are a tax appeal mechanism and many channels for informing the taxpayer of tax obligations. Revenue arrears are monitored and analyzed. The indicators related to revenue collection (PI-19 and PI-20) perform fairly well except for revenue account reconciliation (PI-20.3) which compares collection and transfers with the Treasury only annually.

Efficient use of resources for service delivery

287. The insufficient transparency of budget documentation (PI-5 and PI-9) does not support the achievement of targeted budget outcomes. Poor transparency prevents the public and civil society from having the information they need for public participation, which in turn affects the service delivery. The poor fiscal information and lack of access to the same disrupt the service delivery and prevent stakeholders from examining fiscal strategy and considering whether public resources are being allocated to the important social and development priorities (PI-8). Focus on increasing transparency will give a more prominent role to the government in service delivery. Public disclosure of information is becoming generally a critical feature of PFM systems, especially with public participation initiatives demonstrating the government's willingness to discuss, take on board critical view and ideas, and facilitate scrutiny of government policies and programs by citizens. Poor transparency of public finances makes the government more susceptible to criticism, discontent, and generally public dissatisfaction.

288. TRG demonstrates weak performance of public asset management (PI-12)—resources are unlikely to be utilized efficiently or effectively and reach the public when information on what assets are owned and maintained is not disclosed.

289. A positive feature of the internal audit practice (PI-26) is that there is a follow-up on the audit activities with management response on corrective actions, but international standards are not applied. The downside is that the focus is rather on financial compliance than evaluation of the effectiveness of the internal control system. An insufficient amount of procurement information reaches the public. The lack of transparency on procurement information makes it incomplete and unreliable (PI-24).

290. Another weak point is that financial data integrity (PI-27) is ensured by limiting access to the management information system. The financial data are reviewed by internal audit but the audit selection process is not risk based, yet, to ensure that areas vulnerable to risk are covered by annual scrutiny.

291. The external audit and scrutiny by the legislature (PI-30 and PI-31) as currently undertaken do not hold TRG fully accountable for its fiscal and expenditure policies and their implementation. The lack of information on coverage of the external audit and follow-up audit activities makes it impossible to assess these control functions. Even if the independence of the auditor general scores well, the external audit is

overall not effective to enable adjustments and corrections in the PFM system. The scrutiny by the legislature results in actions to be taken up by the executive.

4.4. Performance changes since a previous assessment

292. Overall, there is little change in the performance between 2014 and 2019 for most of the indicators. The performance that did change covers processes that constitute 46 percent compared to 21 percent of that which deteriorated. There is an improvement in 9 indicators or 32 percent of the assessed areas of PFM processes and practices.

Aggregate fiscal discipline

293. Aggregate fiscal discipline remains generally the same because there is no improvement in the overall budget credibility and budget execution processes with exception to the processes outlined below.

294. There is change in performance in budget credibility since 2015. There is deterioration in performance in both expenditure and revenue budget outturn with both being scored lower. There is no change in actual expenditure charged to the contingency vote and in the stock of arrears.

295. The budget has not become more comprehensive by covering more information in the budget documentation. No information elements were actually met in 2015, whereas in the new 2019 assessment, one additional element is met.

296. There is no change in the extent of unreported government operations. In both assessments, the unreported revenue and expenditure are insignificant. The information on donor funded projects or programs included in fiscal reports remains seriously deficient in the new 2018 assessment as well.

297. In the period covered by the 2015 PEFA assessments, the ceilings were approved by the city cabinet before the BCC was issued to budgetary units. In 2019 the ceilings are approved after the distribution of the BCC, thus seriously constraining the Cabinet's ability to make adjustments to the budget estimates.

298. There is no change and the budget discipline continue to be poorly maintained in the area of payroll controls. No payroll audit has been conducted to identifying control weaknesses (18.4).

299. There is no change in the practice of management response to internal audit findings and in the quality of the in-year budget reports.

300. Legislative scrutiny of external audit reports (PI-28) has improved with improved practice in the hearing on key audit findings for budget entities with qualified and adverse audit opinion.

Strategic allocation of resources

301. The strategic allocation of resources has not significantly improved because it did not benefit from the deployment of strategic multiyear programming tools as well as medium-term development frameworks and macro-budget forecasts, which is a new area of assessment in the PEFA 2016 framework. Nevertheless, there is a positive development in the development of an MEFF with forecasts of fiscal aggregates prepared for at least two years on a rolling annual basis.

302. The changes in the area of revenue collection and administration resulted in overall improvement in the transparency of taxpayer obligations and liabilities and in the effectiveness in collection of tax payments (PI-13, PI-14, and PI-15).

303. There is no change in the transparency of intergovernmental fiscal relations. The horizontal allocation of all transfers to woreda and town administration from the regional government is executed as planned.

Efficient use of resources for service delivery

304. The performance of public services is not better managed, monitored, and controlled than during the previous assessment. There is deterioration in the procurement practice because data on procurement method are not comprehensive and comparison is not possible.

305. There is no change in the assessments with a view to the availability of information on resources received by service delivery units (PI-23). The routine data collection and accounting systems provide reliable information on all types resources received in cash and the information compiled into reports at least annually.

5. Government PFM reform process

5.1. Approach to PFM reforms

306. The approach to PFM reforms has taken into account the PEFA program's values of efficient and equitable utilization of scarce resources and the three main objectives of PFM, which are to ensure (a) aggregate fiscal discipline, (b) strategic allocation of resources, and (c) efficient use of service delivery.

5.2. Recent and ongoing reform actions

307. The overall PFM reform program is subdivided into different areas:

- Legal framework
- Budget and public expenditure planning
- Accounting
- Internal audit
- Cash management
- Integrated financial management reform
- Procurement
- Property management

Legal framework

308. The objective of this subprogram is to draft and implement financial and government procurement proclamations and the related financial guidelines, regulations and directives and to develop practices on the basis of starting from regional bureaus' and woredas' financial pools that have disciplined and well-controlled PFM in the region. In legal PFM, the trainings are given at the regional level to have a common understanding about different proclamations, regulations, and directives and guidelines produced in the regional state planning and finance bureau.

Budget and public expenditure planning

309. The objectives of this reform area are to improve the integration of the capital and recurrent budget and to strengthen budget activities in the computerized budget information system and IBEX. The development of a new budget calendar is one of the recent reform actions in this area as is the transition to a new CoA.

Accounting

310. The objective of this reform is to introduce modern government accounting systems that are supported by modern technology and to improve the system's reporting functions. This reform area has for now already managed to replace the previous cash standards with modified cash. A new CoA has been prepared and implemented. The single-entry accounting system was replaced by a double-entry accounting system.

Cash management

311. The achievements in this area are the following: (a) to develop a cash management system that can provide regional governments with reliable data for preparing their work plan and controlling and

administering the budgetary payments; (b) to implement a cash management system that could be modified from time to time to control misappropriation of cash; (c) to establish and implement a uniform cash management system that could minimize payments and the mobilization of funds at the end of the fiscal year, improve cash forecasting, and reduce short term debt ; (d) to provide training on cash management concepts at the regional level; and (e) to prepare uniform cash control and cash operation manuals for region and woredas.

Internal audit

312. The objective of this reform area is to introduce an effective and successful audit functions at regional and woreda levels and to ensure transparent and accountable internal audit systems in the region. The achievements to date in this reform area are the following: all regional, sectoral, and woreda level pre-audit systems have been replaced by audit functions based on post-audit. An internal audit manual and a training module are being prepared and implemented in regional bureaus and at the woreda level.

Integrated financial information management systems

313. The objective of this reform area is to improve the quality, accuracy, and timeliness of financial information for quick and reliable decision making. The achievements so far in this area are the following: (a) the IBEX disbursement module is developed and implemented in BoFEP; (b) IBEX migration tools and the standalone version of the IBEX application have been developed and implemented in regional bureaus and at the woreda level; and (c) trainings are being conducted at the regional and woreda levels for new employees.

Procurement

314. The objective of procurement reforms are (a) the preparation of regional government manuals and training modules in the procurement area and (b) conducting of intensive training to build the capacity of involved in the implementation of the reform. The achievement of these reforms is the following: procurement proclamations, directives, and standard bids documents have been issued and implemented at regional sector bureau and woreda level. Trainings are given at regional sector bureau, BoFEP, and woreda levels.

Property management

315. The objectives in this area are (a) to introduce a more efficient and effective system for the acquisition use and disposal of public property based on best practices, (b) to develop property manuals and training modules, (c) to produce a general standard module for government property management, and (d) to implement modern stock management.

316. The achievements of this reform area are as follows: (a) a government property management manual and a training module have been prepared for all regional public bodies and woredas and training has been conducted to implement the manual and (b) identified redundant government properties have been eliminated.

5.3. Institutional considerations

Government leadership and ownership

317. The institutional arrangement referencing the new PFM Reform Strategy has three levels:

- (a) High-level regional steering committee which is made up of heads of sector bureaus, the regional Auditor General, and the head of civil service. The committee is scheduled to meet twice a year to review reform progress, challenges, and the way forward.
- (b) PFM steering committee composed of heads of BoFEP, ORAG, the revenue authority, and procurement. This committee will also meet twice a year to take stock of activities undertaken by each component head within the PFM technical committee.
- (c) PFM technical committee composed of deputy heads of sector bureaus and heads of all directorates in each sector bureau, plus the deputy auditor general. The committee will meet once a month to evaluate progress of work under each PFM component. Provision has also been made for weekly meetings between components heads in each sector bureau.

318. The institutional arrangement described above existed during the World Bank Program that recently ended. It was found to be efficient; therefore, the government has maintained the structure in the new strategy.

Transparency of the PFM Program

319. The new PFM Reform Strategy for 2018/2019–2021/2022 includes a detailed action plan for the five years and the budget requirements. The strategy has been forwarded to the federal government and is still waiting for approval. When approved, it is expected to be published. It is also planned to have community and civil society engagements during implementation.

ANNEXES

Annex 1: Performance indicator summary

No.	Indicator	2018 score	Justification for 2018 score
HLG-1	Transfers from a higher level government	A	
HLG-1.1	Outturn of transfer from higher-level government	A	Actual transfers were more than 99% compared to the original budget in two of the last three completed fiscal years.
HLG-1.2	Earmarked grants outturn	A	There is no difference between the original budget estimate and actual earmarked grants received for the three years of assessment.
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.
Pillar I. Budget reliability			
PI-1	Aggregate expenditure outturn	C	Aggregate expenditure outturn was between 85% and 115% of the approved aggregate budgeted expenditure in at least two of the last three fiscal years—EC 2008 and EC 2010 with 105% and 113%, respectively.
PI-2	Expenditure composition outturn	D+	
2.1	Expenditure composition outturn by function	C	Variance in expenditure composition by administrative classification was less than 15% in at least two of the last three years (11% in EFY 2008, 9% in EFY 2009, and 16% in EFY 2010).
2.2	Expenditure composition outturn by economic type	D*	Data of expenditure by economic classification was not provided.
2.3	Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was on average 0%.
PI-3	Revenue outturn	C	
3.1	Aggregate revenue outturn	B	Actual revenue was 107–113% of budget revenue in all the last three years (111% in EFY 2008, 113% EFY 2009, and 107% in EFY 2010). In two of the three fiscal years, the revenue outturn was 94–112%.
3.2	Revenue composition outturn	D	Variance in revenue composition was more than 15% in all the last three years (19% in EFY 2008, 9% in EFY 2009, and 28% in EFY 2010).
Pillar II. Transparency of public finances			
PI-4	Budget classification	B	Budget formulation, execution, and reporting are based on administrative, economic, and functional classification at the level of GFS standard (3 digits) and subfunctional classification of GFS/COFOG that can produce consistent documentation comparable with those standards.
PI-5	Budget documentation	D	Budget documentation fulfils no basic element and one additional element.
PI-6	Regional government operations outside financial reports	A	
6.1	Expenditure outside financial reports	A	Expenditure outside government financial reports is less than 1% of total BCG.
6.2	Revenue outside financial reports	A	Revenue outside government financial reports is less than 1% of total BCG.

No.	Indicator	2018 score	Justification for 2018 score
6.3	Financial reports of extra-budgetary units	NA	There are no extra-budgetary units or funds in Tigray.
PI-7	Transfers to subnational governments	A	
7.1	System for allocating transfers	A	The horizontal allocation of all transfers to woreda and town administration from the regional government is executed as planned and according to clear rules.
7.2	Timeliness of information on transfers	A	Information on transfers is provided to SNGs six weeks before the beginning of the new fiscal year for preparation of budget plans.
PI-8	Performance information for service delivery	C+	
8.1	Performance plans for service delivery	B	Information is published annually on policy and program objectives, KPIs, and outcomes to be produced for most sectors
8.2	Performance achieved for service delivery	B	Information is published annually on the outcomes achieved by most sectors.
8.3	Resources received by service delivery units	B	Information on resources received by frontline service delivery units is collected and recorded annually for the BoH and BoE. A report compiling the information is prepared annually.
8.4	Resources evaluation for services delivery	D	Internal evaluations on the effectiveness of service delivery are carried out every two years for very few ministries. These are not published.
PI-9	Public access to fiscal information	D	The government does not meet the criteria for the score 'C' as it does not make available to the public at least four basic elements within the specified timeframes. Only one basic element and one additional element are met.
Pillar III. Management of assets and liabilities			
PI-10	Fiscal risk reporting	D	
10.1	Monitoring of public corporations	D	Public corporations do not submit their financial reports to TRG.
10.2	Monitoring of subnational governments	D	Financial position and performance reports of woreda governments are not published.
10.3	Contingent liabilities and other fiscal risks	D	Central government entities do not quantify contingent liabilities in their financial reports.
PI-11	Public investment management	D+	
11.1	Economic analysis of investment proposals	C	Economic analysis is conducted for some of the investment projects. Results of the analyses are not published.
11.2	Investment project selection	C	Project selection is based on regional priorities and takes into account results of feasibility studies. No standard criteria are used at the regional level to prioritize project selection.
11.3	Investment project costing	D	Budget documents do not show the medium-term forecasts for capital projects.
11.4	Investment project monitoring	D	Project physical monitoring is conducted but does not include monitoring of projects costs.
PI-12	Public asset management	D+	
12.1	Financial asset monitoring	C	TRG maintain records of its holdings in major categories of financial assets including cash and receivables. Other

No.	Indicator	2018 score	Justification for 2018 score
			financial assets including shareholding or investment in public corporation is not recorded.
12.2	Nonfinancial asset monitoring	D	The regional government does not maintain a consolidated register of its fixed assets; there are no records of government land and natural resources. Decentralized records at the bureau level provide information on fixed assets available and usage of the assets.
12.3	Transparency of asset disposal	C	Clear procedures are established on the transfer and disposal of nonfinancial assets. Information on disposal of nonfinancial assets is provided in the budget document but does not include transfers.
PI-13	Debt management	D	
13.1	Recording and reporting of debt and guarantees	D	No record is maintained for guaranteed debts. No reconciliation performed on debt guarantees.
13.2	Approval of debt and guarantees	D	The regional council grants authorization to borrow and issue guarantee. But there are no documented policies and procedures to provide guidance for undertaking borrowing and debt related transactions.
13.3	Debt management strategy	D	TRG does not have a debt management strategy.
Pillar IV. Policy-based fiscal strategy and budgeting			
PI-14	Macroeconomic and fiscal forecasting	B	
14.1	Macroeconomic forecasts	B	The Regional Planning Commission prepares an MEFF that is part of the medium-term regional strategic plan known as GTP II 2016/2017–2020/2021. The budget document submitted to the regional council contains the forecasts from the MEFF. The projections cover the budget year and at least the two outer years.
14.2	Fiscal forecasts	B	The Regional Planning Commission prepares medium-term macro-fiscal forecasts, with assumptions on GDP and investment rates. The forecasts, for the budget year and the two outer years, include aggregate revenues by type and expenditures. These are submitted to the regional council for information purpose only.
14.3	Macro-fiscal sensitivity analysis	C	The Regional Planning Commission prepares a simulation of different scenarios of macro-fiscal forecasts to ascertain the impact on the annual budget and the regional economy as a whole. These qualitative analyses are for internal use only and are not contained in the budget documents submitted to the regional council.
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	TRG does not produce a fiscal strategy.
15.3	Reporting on fiscal outcomes	NA	The regional government does not prepare an internal report on the progress made against its fiscal strategy.
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

No.	Indicator	2018 score	Justification for 2018 score
			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 medium-term budgets	C	At least 25% (by value) of sectors prepare fully costed medium-term strategic plans. The annual expenditure policies are aligned to annual action plans and the medium-term strategy.
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	C	An annual budget calendar exists, and some budgetary units comply with it and meet the deadlines for completing estimates.
17.2	Guidance on budget preparation	C	A budget circular is issued to BIs, including ceilings for administrative areas. Total budget expenditure is covered for the full fiscal year. The budget estimates are reviewed and approved by cabinet after they have been completed in every detail by budgetary units.
17.3	Budget submission to the legislature	D	The executive has submitted the annual budget proposal to the Council less than one month before the start of the fiscal year in all three years.
PI-18	Legislative scrutiny of budgets	C+	
18.1	Scope of budget scrutiny	B	The legislature's budget scrutiny covers fiscal policy and aggregate for the coming year as well as details of expenditure and revenue.
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.
18.3	Timing of budget approval	A	The legislature has approved the budget before the start of the new fiscal year in all the past three years.
18.4	Rules for budget adjustments by the executive	B	Clear rules exist for in-year budget adjustments by the executive and are adhered to in most instances (> 75% in value). Extensive administrative reallocations are permitted.
Pillar V. Predictability and control in budget execution			
PI-19	Revenue administration	A	
19.1	Rights and obligations for revenue measures	A	TRDA uses different channels to educate the taxpayers. It has an active website in local language where taxpayers can read tax laws and directives and download tax return forms. Procedures for tax registration, completing of tax return and redress are clearly indicated.
19.2	Revenue risk management	A	TRDA uses a comprehensive, structured and systematic approach for assessing and projecting risk as it is stipulated in its Risk Management Policy, tax audit strategy manual, and tax audit manual. Taxpayers are categorized by their annual turnover and the sector they are in to determine the type of tax audit to use.

No.	Indicator	2018 score	Justification for 2018 score
19.3	Revenue audit and investigation	A	TRDA, which collects more than 92% of the regional revenue, implemented 93% of its audit plan (as part of compliance improvement plan).
19.4	Revenue arrears monitoring	B	The stock of arrears at the end of the last completed fiscal year was about 1.3% and the revenue arrears older than 12 months were less than 44% of the total revenue arrears by the end of the year.
PI-20	Accounting for revenue	C+	
20.1	Information on revenue collections	A	TRDA provides a quarterly report to BoFEP on revenue collection. Treasury has access to up to date information on revenue collection by type as revenue collections are directly deposited into the accounts of Treasury, and transactions are already captured in IBEX. In addition, TRDA reconciles its revenue records against BoFEP's IBEX report monthly.
20.2	Transfer of revenue collections	A	TRDA that collects more than 92% of the regional revenue transfers the collection daily—collections are deposited in the treasury account.
20.3	Revenue accounts reconciliation	C	TRDA and BoFEP reconcile revenue quarterly. Reconciliation does not include the movement of arrears.
PI-21	Predictability of in-year resource allocation	B+	
21.1	Consolidation of cash balances	C	Cash balances are consolidated monthly
21.2	Cash forecasting and monitoring	B	A cash flow forecast is prepared annually and updated quarterly. BoFEP collects monthly cash flow forecasts from bureaus.
21.3	Information on commitment ceilings	A	Budgetary units are able to plan and commit expenditure for one year in advance in accordance with the budgeted appropriations and commitment releases.
21.4	Significance of in-year budget adjustments	A	Significant in-year adjustments to budget allocation take place no more than twice a year and are done in a transparent and predictable way.
PI-22	Expenditure arrears	C+	
22.1	Stock of expenditure arrears	A	The stock of expenditure arrears are less than 1% of total expenditures.
22.2	Expenditure arrears monitoring	C	Data on stock of expenditure arrears is generated at the end of each year and referred as 'grace period payable'.
PI-23	Payroll controls	B+	
23.1	Integration of payroll and personnel records	B	Payroll is supported by full documentation issued by the HRD. The HRD updates changes to personnel data
23.2	Management of payroll changes	A	Payroll changes are updated on the same day or in the subsequent couple of days. Retrospective adjustment is very rare.
23.3	Internal control of payroll	B	There is a segregation of roles in maintaining personnel records and payroll preparation. Payroll records are reviewed against the document received from the HRD by the head of finance. As part of the finance audit, internal audit units review monthly payroll sheets.
23.4	Payroll audit	B	Though there is no comprehensive audit on payroll, internal audit units and ORAG conduct a payroll audit as

No.	Indicator	2018 score	Justification for 2018 score
			part of their financial audits. Payroll sheets are reviewed against personnel records on a sample basis.
PI-24	Procurement	D	
24.1	Procurement monitoring	D	No procurement database is maintained. Reports are prepared from source documents and were not verified by an independent body.
24.2	Procurement methods	D	The information provided is not complete and comprehensive on the extent of procurement on open competitive bids for all procurement types (services, works, and goods).
24.3	Public access to procurement information	C	Three key procurement elements are fulfilled.
24.4	Procurement complaints management	D	Criterion (1), which is the independence of the appeal committee, is not met.
PI-25	Internal controls on non-salary expenditure	B	
25.1	Segregation of duties	A	Appropriate segregation of duties is laid down and functioning.
25.2	Effectiveness of expenditure commitment controls	C	Expenditure commitment controls are in place and limit commitments to cash availability and budget allocation. The use of Excel as a commitment control tool may not fully prevent overcommitment.
25.3	Compliance with payment rules and procedures	B	More than 84% of the audited entities complied with the payment rules. Payments which are not complying with payment procedures represents about 1.4% of the annual expenditure in 2017/2018. The majority of exceptions are properly authorized and justified.
PI-26	Internal audit	C+	
26.1	Coverage of internal audit	A	The internal audit function is available in all sector bureaus and woredas.
26.2	Nature of audits and standards applied	C	Internal audit is largely focus on compliance audit.
26.3	Implementation of internal audits and reporting	A	More than 98 percent of programmed audits are implemented.
26.4	Response to internal audits	B	Most of the BIs received management responses within four months and some of them respond within 12 months. Few audit findings may not be responded to within 12 months.
Pillar VI. Accounting and reporting			
PI-27	Financial data integrity	C+	
27.1	Bank account reconciliation	A	All bank accounts of regional sector bureaus are reconciled monthly.
27.2	Suspense accounts	B	Suspense accounts are reconciled within seven days and other unknown deposited are cleared within two months.
27.3	Advance accounts	C	Advances are reconciled once in a year within one to two months from the end of the fiscal year. Aging analysis reports are prepared.
27.4	Financial data integrity processes	C	Only those who have the password can access the IBEX database. The database access is limited to the specific BIs to which a password is granted though the database

No.	Indicator	2018 score	Justification for 2018 score
			is interconnected with all bureaus. Due to the limitations of the IBEX database, users in a given bureau are given the same password.
PI-28	In-year budget reports	C+	
28.1	Coverage and comparability of reports	A	Coverage and classification of data on the executed budget allows for direct comparison to the original budget. Information includes budgeted revenue and expenditure estimates. The report includes information on transfers from the FGE to TRG Treasury and transfer from TRG Treasury to deconcentrated units within regional government.
28.2	Timing of in-year budget reports	C	Budget execution reports are prepared by public bodies monthly and submitted to the heads of bureaus and BoFEP. BoFEP prepares a consolidated in-year financial statements quarterly within 8 weeks from the end of each quarter.
28.3	Accuracy of in-year budget reports	C	There are concerns about the quality of the reports. Due to interconnection of bureaus with IBEX and reconciliation of records between BoFEP and bureaus, in-year reports are useful for analysis of budget execution.
PI-29	Annual financial reports	C+	
29.1	Completeness of annual financial reports	C	Annual financial statements contain consolidated budget execution reports of all public bodies. They also contain certain financial assets and liabilities including cash, receivables, and payables. However, the financial statement does not provide information on other financial assets such as fair value of the investment that TRG has no public corporation, guarantees provided, and disclosure on contingent liabilities, as well as nonfinancial assets.
29.2	Submission of reports for external audit	B	Draft consolidated financial statements were submitted to ORAG within four months from the end of the fiscal year for the last three completed years.
29.3	Accounting standards	C	The accounting standard used is the same as the FGE. It is in line with the legal framework and has been used consistently over time. OFAG discloses the standard used in its opinion section of the audited annual financial statements.
Pillar VII. External scrutiny and audit			
PI-30	External audit	C+	
30.1	Audit coverage and standards	B	ORAG covers more than 95% of the regional central government expenditure and revenue for the last three completed fiscal years. ORAG generally follows ISSAI standards with certain limitations in the audit of warranties and systemic audits.
30.2	Submission of audit reports to the legislature	C	The audit reports for EFY 2009 and 2010 were submitted within three months from the receipt of the draft reports from BoFEP. The EFY 2008 (2015/2016) report was submitted within seven months.
30.3	External audit follow-up	A	Executives respond timely and submit a formal and comprehensive report on the action they took.
30.4	Supreme Audit Institution independence	A	ORAG operates independently from the executive with respect to procedure of appointment and removal of

No.	Indicator	2018 score	Justification for 2018 score
			the Auditor General, planning and audit engagement, publicizing reports, and approval and execution of its budget. The independence is assured by law.
PI-31	Legislative scrutiny of audit reports	A	
31.1	Timing of audit report scrutiny	A	The BAASC completes the scrutiny of the audit report within three months from receipt of the audit report.
31.2	Hearings on audit findings	A	BAASC conducts the hearing on key audit findings of all the BIs (also including woredas).
31.3	Recommendations on audit by the legislature	A	The BAASC issues recommendations to the executive. AFIF of which the BAASC is a member follows up systematically the implementation of audit recommendations by the executive.
31.4	Transparency of legislative scrutiny of audit reports	A	Though the BAASC scrutinizes the executive on key findings, the process is not open to the general public and reports of the BAASC were not published. The summary of findings was presented to the representatives of civil societies and journalists.
	Total scored	31	

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	<p>The 1995 Constitution of TRG and Proclamation No. 215/2004 on the reestablishment of the executive organ of TRG clearly stipulate the roles and responsibilities of the government, the judiciary, and the regional council and the reporting lines between them. In addition, each government organ has a clear organizational structure, manning, and job description where such structures and manning are regulated centrally in accordance with the regional civil service laws.</p> <p>The established check and balance systems are functioning. ORAG is run by an independent Audit General accountable to the regional council. ORAG reports its audit findings semiannually to the regional council. The regional council scrutinizes the audit reports and conducts hearing on key audit findings. A multstakeholder forum, the AFIF which includes representatives from the BAASC, Auditor General, Inspection Directorate, Bureau of Justice, REAC works on the implementation of audit findings and recommendations. AFIF meets quarterly and reviews status of implementation. The contribution of the forum to implementation of audit findings is significant. The proclamation for ORAG has been revised to provide more independence and empowerment for financial resources including determining its organizational structure, staffing, and benefit packages. This is expected to improve ORAG's capacity to retain staff and ultimately the quality of its work and the audit coverage.</p> <p>Under BoFEP, the Inspection Directorate, which is also a member of the AFIF, is responsible for the establishment of internal audit units in all government entities and to provide technical capacity-building support. Internal audit functions are available in all government entities.</p> <p>REAC roles include educating of the public on ethics and anticorruption, investigation of corruption cases, prevention and control of corrupt practices, and suing of those engaged in corrupt practices. With the objective of corruption prevention, the REAC registered the assets of 9,071 government officials and officers in charge of government positions, which are prone to corruptions.¹⁶ In 2017/2018, 441 people were charged in connection with corruption cases and 265 of them were found guilty and 176 of them were set free. The REAC receives information from informants. Most of the corruption cases are related to land management, cash management, procurement, use of forged documents, bribe, injustice, and improper per diem payments.</p> <p>In Transparency International's Corruption Perceptions Index 2017/2018, Ethiopia was ranked 114 out of 180 countries, with a score of 34 on a scale where 100 means very clean and 0 means highly corrupt.¹⁷ According to the Doing Business report¹⁸ of the World Bank (2019), Ethiopia scored 49.06 out of 100 and ranked 159 out of 190 countries. Though these ratings are for Ethiopia as a country, the overall control environment in TRG is not very much different from the country in general.</p> <p>The Ethiopian Human Right Commission (EHRC) and the Institution of the Ombudsman have branch offices in Tigray Region and are invited to attend PFM events including budget hearing and annual meetings of the regional council. They follow up and communicate to the government about human right concerns and when citizens are deprived constitutional rights. It seems that the public is not well aware of the impact of these two organizations.</p>

¹⁶ The record as up to July 7, 2018.

¹⁷ The rank is deteriorated from 107 in 2016/2017 (CPI score of 35) to 114 in 2017/2018 (CPI score of 34),

<https://www.transparency.org/country/ETH#>.

¹⁸ <http://www.doingbusiness.org/en/data/exploreconomies/ethiopia>.

Internal control components and elements	Summary of observations
	<p>Mass-based organizations including Women Association and Youth Associations are actively engaged in observing PFM events including audit hearings at regional and woreda levels. Representatives of women associations are also members of procurement and Tax Appeal Committees. There is a general criticism that the mass-based organizations have possible affiliation to the ruling party and hence may not independently play a counter balancing role.</p> <p>The Association of Civil Societies of Tigray (ACSOT) has 50 members of civil society organizations. Their representatives attend major PFM events including hearing on audit scrutiny and budget hearing at regional and woreda levels. The participation in such events helped civil societies share their concern about development activities. Due to the restrictive civil society law, ASCOT and its member civil societies were not allowed to engage in advocacy, right issues, and direct fight on corruptions. The new civil society proclamation (Proclamation No. 1113/2019) was issued in the beginning of 2019. The new law provides more freedom to civil societies to play an important role in the transparency and accountability of the government at all levels. ACSOT management considered the new law as a game changer.</p>
2. Risk assessment	<p>TRDA conducted risk assessments and classified taxpayers by category and sector and determined the type of tax audit to be conducted taking into account the risk involved. It has developed a risk strategy to be implemented in the coming fiscal year.</p> <p>Most of the sector strategic plans contain Strengths, Weakness, Opportunities, and Threats (SWOT) analysis. But there is no practice of conducting organizational-level comprehensive risk assessment to measure the effectiveness and efficiency of existing internal controls. The practice of risk assessment by ORAG and internal audit is yet to be developed. One of the internal audit units (BoH) outsourced a risk assessment study to use the input for future internal audit planning. The recurring of certain audit findings is partly attributed to the ineffectiveness of some of the internal control procedures which need to be upgraded taking into account changes in operational contexts of public bodies. Audit plans are largely based on experiences from past audits and in accordance with a mandatory 100% financial audit. A comprehensive enterprise risk assessment helps be proactive in dealing with potential internal control flows in executing operation.</p>
3. Control activities	<p>Control activities including PFM-related proclamations, regulations, and directives are available. Some of the proclamations have been updated as PFM scope and contexts changed. Most of the changes (public finance administration, procurement, property administration, taxation, and auditing) are driven by changes at the federal level. Manuals, guidelines, and directives in cash management, budgetary control, payroll, inventory and asset management, the segregation of duties, and other control activities (PI-25) are issued and are a basis for compliance audit. Other control activities such as reconciliations (mainly bank accounts and revenue collection), physical counts, and budgetary controls are generally functioning. There is a fair internal control though no comprehensive payroll audit is practiced (PI-23). Procurement databases and statistics (PI-24) are deficient. Control on accounting database (IBEX) is fairly good except with the use a share password by users at public bodies (PI-27). Internal audit and external audits are functioning well as a control environment. Control on public investment management, public corporation, and loan management needs improvement (PI-10, PI-11, PI-12, and PI-13).</p> <p>The Balanced Scorecard (BSC) model is applied in public bodies as a performance management tool. KPIs are identified for each organization function. Quarterly and annual plans and performance reports are used as measurement tools. BSC KPIs appear to be overemphasized than best international professional practices and standards for accounting and auditing. For example, annual internal audit plans have more content of BSC stuff than key professional standard requirements to be incorporated in audit planning.</p>

Internal control components and elements	Summary of observations
4. Information and communication	<p>Proclamations, regulations, and the related directives and manuals are generally communicated to the staff and other stakeholders. TRDA and ORAG have a well-functioning website where they share key resources to the public. BoFEP does not publish interim and annual financial statements for public access. Similarly, procurement plans, resolutions on procurement complaints, and hearings on audit findings are not published to be accessible to the public.</p> <p>BoFEP timely shares budget ceiling and guidelines with public bodies. Draft budgets are issued to the regional council providing most of the relevant information, but certain pertinent information is still missing. Approved budget is shared with communities at the woreda level through financial transparency and accountability (FTA) initiatives. public bodies communicate their budget execution performances through IBEX. Consolidated financial statements are produced and submitted to the Cabinet. The statements miss certain information on nonfinancial assets, contingent liabilities, loan guarantees, and investment in public enterprises (PI-28, PI-29).</p>
5. Monitoring	<p>Quarterly financial statements produced at the public bodies level are instrumental for monitoring of performances. Internal audit units issue quarterly reports to the heads of public bodies and BoFEP. Internal audit units and the Inspection Directorate monitor implementation of findings. The Planning and Budgeting Directorate at BoFEP monitors the progress of investment projects. The BAASC monitors the implementation of audit findings. ORAG monitors the application of PFM laws and regulation by public bodies. The extent of monitoring on the effectiveness and efficiency of existing internal controls needs improvement as much of the effort is toward compliance (PI-26, PI-30).</p> <p>The reports on procurement need to be complete and accurate to effectively monitor whether TRG is achieving value for money. Monitoring of debt, financial and nonfinancial assets, and public enterprises needs improvement.</p>

Annex 3A: Sources of information by indicator¹⁹

Indicator/dimension	Data Sources
Pillar I. Budget reliability	
PI-1 Aggregate expenditure outturn	<ul style="list-style-type: none"> Tigray Region BoFEP
1.1 Aggregate expenditure outturn	
PI-2 Expenditure composition outturn	<ul style="list-style-type: none"> Tigray Region BoFEP
2.1 Expenditure composition outturn by function	
2.2 Expenditure composition outturn by economic type	
2.3 Expenditure from contingency reserves	
PI-3 Revenue outturn	<ul style="list-style-type: none"> Regional Development Revenue of Tigray
3.1 Aggregate revenue outturn	
3.2 Revenue composition outturn	
Pillar II. Transparency of public finances	
PI-4 Budget classification	<ul style="list-style-type: none"> Tigray Region BoFEP CoA Annual Budget of EFY 2010 and annual financial statements of EFY 2010
4.1 Budget classification	
PI-5 Budget documentation	<ul style="list-style-type: none"> The Draft Budget Proclamation The Budget Speech
5.1 Budget documentation	
PI-6 Regional government operations outside financial reports	<ul style="list-style-type: none"> Budget for 2010 Accounts for 2010
6.1 Expenditure outside financial reports	
6.2 Revenue outside financial reports	
6.3 Financial reports of extra-budgetary units	
PI-7 Transfers to subnational governments	<ul style="list-style-type: none"> Tigray Region BoFEP
7.1 System for allocating transfers	
7.2 Timeliness of information on transfers	
PI-8 Performance information for service delivery	<ul style="list-style-type: none"> Sector strategies and annual performance reports for health and education Midterm evaluation of TGR health sector
8.1 Performance plans for service delivery	
8.2 Performance achieved for service delivery	
8.3 Resources received by service delivery units	
8.4 Performance evaluation for service delivery	
PI-9 Public access to fiscal information	<ul style="list-style-type: none"> The Citizen's Budget http://tigotag.com
9.1 Public access to fiscal information	
Pillar III. Management of assets and liabilities	
PI-10 Fiscal risk reporting	<ul style="list-style-type: none"> TRG's Financial Administration Proclamation No. 315/2018 Interview with BoFEP, Chamber of Commerce
10.1 Monitoring of public corporations	
10.2 Monitoring of subnational government	
10.3 Contingent liabilities and other fiscal risks	
PI-11 Public investment management	<ul style="list-style-type: none"> TRG's Financial Administration Proclamation No. 315/2018 Capital Budget for the EFY 2018/2019 - TRG Sample feasibility studies of some capital projects Quarterly physical and financial progress reports; annual financial statements
11.1 Economic analysis of investment proposals	
11.2 Investment project selection	
11.3 Investment project costing	
11.4 Investment project monitoring	
PI-12 Public asset management	<ul style="list-style-type: none"> Consolidated annual financial statements for 2017/2018 TRG's Financial Administration Proclamation No. 315/2018 Proclamation No. 255/2015 on Public Procurement and Property Administration
12.1 Financial asset monitoring	
12.2 Nonfinancial asset monitoring	
12.3 Transparency of asset disposal	

¹⁹ No other reports than those mentioned in this annex were used as reference.

PI-13 Debt management	
13.1 Recording and reporting of debt and guarantees	<ul style="list-style-type: none"> Budget of 2011 Interview with BoFEP
13.2 Approval of debt and guarantees	
13.3 Debt management strategy	
Pillar IV. Policy-based strategy and budgeting	
PI-14 Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> Medium-term regional strategic plan known as GTP II (2016/2017–2020/2021) Macroeconomic forecasts Sensitivity analysis for 2018/2019
14.1 Macroeconomic forecasts	
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15 Fiscal strategy	
15.1 Fiscal impact of policy proposals	
15.2 Fiscal strategy adoption	
15.3 Reporting on fiscal outcomes	
PI-16 Medium-term perspective in expenditure budgeting	<ul style="list-style-type: none"> Budget documentation for 2018/2019 Sector strategic plans for health and education
16.1 Medium-term expenditure estimates	
16.2 Medium-term expenditure ceilings	
16.3 Alignment of strategic plans and medium-term budgets	
16.4 Consistency of budgets with previous year's estimates	
PI-17 Budget preparation process	<ul style="list-style-type: none"> BCC for the preparation of the EC FY 2011 budget List of bureaus that completed their budget submissions in time for the preparation of the EC 2011 budget
17.1 Budget calendar	
17.2 Guidance on budget preparation	
17.3 Budget submission to the legislature	
PI-18 Legislative scrutiny of budgets	<ul style="list-style-type: none"> Draft Budget Proclamation Invitation to journalists to attend the public discussion on the EC 2011 draft budget by the council The Budget Speech Standing orders of the regional council Financial Proclamation Data on in-year budget transfers for EFY 2010
18.1 Scope of budget scrutiny	
18.2 Legislative procedures for budget scrutiny	
18.3 Timing of budget approval	
18.4 Rules for budget adjustments by the executive	
Pillar V. Predictability and control in budget execution	
PI-19 Revenue administration	<ul style="list-style-type: none"> Interview with TRDA Proclamation No. 210/2003 (issued in 2009) for the establishment of TRDA Tax proclamation and directives <ul style="list-style-type: none"> Proclamation No. 283-2009: Income Tax Proclamation No. 284-2009: Tax Administration Regulation No. 91-2009: Income Tax Regulation No. 92-2009: Tax Administration Proclamation No. 298-2010: Revenue Stamp Directive 10/2006: Property seizure on tax default Directive 12/2006: Provision of Tax clearance Directive 30/2010: Tax Penalty Directive 34_2011 Tax Assessment Estimation Directive No. 11/2006 - Receipt Printing guideline Directive No. 19/2007: manual for Tax Audit Directive No. 9/2006: Directive for Rewards on Tax fraud TRDA website: http://trda.gov.et/index.php/tg/ Tax audit performance report Arrears report
19.1 Rights and obligations for revenue measures	
19.2 Revenue risk management	
19.3 Revenue audit and investigation	
19.4 Revenue arrears monitoring	
PI-20 Accounting for Revenues	

20.1 Information on revenue collections	<ul style="list-style-type: none"> • Revenue performance report of TRDA • Interview with the team of TRDA • Reports generated from in-house tax reporting software • Trial balances generated from IBEX
20.2 Transfer of revenue collections	
20.3 Revenue accounts reconciliation	
PI-21 Predictability of in-year resource allocation	<ul style="list-style-type: none"> • Interview with Treasury at BoFEP • Trial balances at the time of assessment and end of fiscal year • Cash flow forecast reports prepared and issued by visited public bodies • Data on in-year budget transfers for EFY 2010 • Supplementary budget proclamation for EFY 2010 • Data on in-year budget transfers for EFY 2010
21.1 Consolidation of cash balances	
21.2 Cash forecasting and monitoring	
21.3 Information on commitment ceilings	
21.4 Significance of in-year budget adjustments	
PI-22 Expenditure arrears	<ul style="list-style-type: none"> • Treasury at BoFEP • Annual financial statements of EFY 2008, 2009, and 2010 • Interim trial balances completed at the time of assessment (February 2019)
22.1 Stock of expenditure arrears	
22.2 Expenditure arrears monitoring	
PI-23 Payroll controls	<ul style="list-style-type: none"> • Interview with payroll units of the BoA, BoFEP, BoC, BoW, BoH, BoE, BoFEP • Review of payroll sheets and software • Internal audit reports and ORAG reports • Sample Personnel records
23.1 Integration of payroll and personnel records	
23.2 Management of payroll changes	
23.3 Internal control of payroll	
23.4 Payroll audit	
PI-24 Procurement	<ul style="list-style-type: none"> • Interview with the team of the RPPPAD • Proclamation and manuals <ul style="list-style-type: none"> ○ Proclamation No. 255/2015 on Public Procurement and Property Administration ○ Procurement guidelines are issued for procurement of goods (04/2007), works (03/2007), and small and medium enterprises (10/2010) • Procurement plans and reports (BoA, BoE, BoC, Bureau of Water, BoFEP, BoH) • Procurement performance report from the RPL • Interview with the Chamber of Commerce
24.1 Procurement monitoring	
24.2 Procurement methods	
24.3 Public access to procurement information	
24.4 Procurement complaints management	
PI-25 Internal controls on non-salary expenditure	<ul style="list-style-type: none"> • Proclamation and manuals: <ul style="list-style-type: none"> ○ Guideline/Manual for the Procurement of Goods and Services (125/201120) ○ Guidelines for the Procurement of Construction Works (126/2011) ○ Property Administration Manual (127/2011) ○ Guideline for Property Valuation (1/2012) ○ Manual for Cash Management (3/2011) ○ Cash Disbursement Manual (4/2012) ○ Accounting Procedure (5/2012) ○ Financial Accountability (6/2012) ○ Internal Audit Guideline (1/2017) ○ Internal Control Standards (8/2012) ○ Handover Procedure (10/2012) ○ Guideline for Guarantor for Employment (11/2012) ○ Manual for the Administration of Budget (12/2012) • Proclamations and regulations • Procurement
25.1 Segregation of duties	
25.2 Effectiveness of expenditure commitment controls	

	<ul style="list-style-type: none"> ○ Procurement and Property Administration Proclamation (174/2010) and Amendment Proclamation No. 255/2015 ○ Procurement Manual for Goods 4/2015 ○ Procurement of Construction Service Manual (3/2015) ○ Procurement and Property Administration Manual (9/2017) ○ Small Item Purchase from Small and Microenterprises Manual (10/2017) ● Internal audit reports ● ORAG reports ● Interview with ORAG, Inspection Directorate, internal audit units, and finance team of visited public bodies
25.3 Compliance with payment rules and procedures	
PI-26 Internal audit	
26.1 Coverage of internal audit	
26.2 Nature of audits and standards applied	
26.3 Implementation of internal audits and reporting	
26.4 Response to internal audits	
Pillar VI. Accounting and reporting	
PI-27 Financial data integrity	<ul style="list-style-type: none"> ● TRG The Financial Administration Proclamation No. 315/2018 ● Treasury at BoFEP ● Internal audit ● IBEX ● Bank reconciliation ● Interview with the finance team of the visited public bodies ● ORAG reports
27.1 Bank account reconciliation	
27.2 Suspense accounts	
27.3 Advance accounts	
27.4 Financial data integrity processes	
PI-28 In-year budget reports	<ul style="list-style-type: none"> ● Treasury at BoFEP ● Monthly Budget Execution Reports generated by IBEX system ● Interim financial statements issued by the BoA, BoE, BoH, BoC, BoW ● Interview with the finance team of visited public bodies
28.1 Coverage and comparability of reports	
28.2 Timing of in-year budget reports	
28.3 Accuracy of in-year budget reports	
PI-29 Annual financial reports	<ul style="list-style-type: none"> ● TRG's Financial Administration Proclamation No. 315/2018 ● Annual financial statement issued by BoFEP ● Letter of submission to external auditors ● External auditor
29.1 Completeness of annual financial reports	
29.2 Submission of the reports for external audit	
29.3 Accounting standards	
Pillar VII. External scrutiny and audit	
PI-30 External audit	<ul style="list-style-type: none"> ● Interview with the Auditor General and the Deputy Auditor General ● Interview with the BAASC ● Website of ORAG: http://www.tigotag.org/ ● Standards and manuals <ul style="list-style-type: none"> ○ The ISSAI standards/AFROSAI manuals (2010) ○ Audit Standard (internally developed) ○ Fraud Audit manual ○ The Mexico declaration on independence ● Laws and regulations <ul style="list-style-type: none"> ○ Constitution of TRG 1995 ○ Proclamation No. 304/2018 for the Reestablishment proclamation of the regional Auditor General ● Memorandum of understanding signed by AFIF ● Opinions on the audit of consolidated fund of TRG
30.1 Audit coverage and standards	
30.2 Submission of audit reports to the legislature	
30.3 External audit follow-up	

	<ul style="list-style-type: none"> ○ EFY 2007–2010 ● Separate Report on the Audited Financial Statement of TRG <ul style="list-style-type: none"> ○ EFY 2007 (2014/2015) ○ EFY 2008 (2016/2017) ○ EFY 2009 (2015/2016) ○ EFY 2010 (2014/2015) ● Report on status of audit finding implementation compiled by AFIF ● Sample responses by management of audited entities to audit reports
30.4 Supreme Audit Institution independence	
PI-31 Legislative scrutiny of audit reports	<ul style="list-style-type: none"> ● Standing order of Parliament - BAASC section ● Discussion with the chairman of the BAC ● TOR for audit hearing, reports of observation, and recommendation of the BAASC after the hearing (field visit) ● Covering letters of ORAG on submission of audit reports ● Reports on status of audit findings prepared by AFIF
31.1 Timing of audit report scrutiny	
31.2 Hearings on audit findings	
31.3 Recommendations on audit by the legislature	
31.4 Transparency of legislative scrutiny of audit reports	

Annex 3B: List of people interviewed

Name	Organization	Position	Telephone	Email
Tigray BoFEP				
Daniel Assefa	BoFEP	Bureau Head	0942 659564	dhhnsol@gmail.com
Hagos Woldekidan	BoFEP	Deputy BoFEP Head	0914 704129	hagoswk@gmail.com
Gebremichae IHagos	BoFEP	PFM Expert		
Tekeba Girmay	BoFEP	Planning and Budget Expert	0967863306	tekebagirmay@gmail.com
Amaha Haile	BoFEP	Planning Specialist		
Hadush G/Mesket	BoFEP	Case Team Coordinator	0932 333206	hgmnew@gmail.com
Mekonen Gebreegiabher	BoFEP	Head of Procurement and Property Disposal Directorate	0923985314	leulmekdes@gmail.com
Nigist Aydebeb	BoFEP	Government Accounts Head	0914 727466	negaayd@gmail.com
G/Sellasia Seyoum	BoFEP	Procurement Specialists	0914 760339	gereseyoum@gmail.com
Ayalew Seyoum	BoFEP	Senior Accountant	0914 203784	ayuseyoum@gmail.com
Berhanu Ade	BoFEP	Director of Finance and Procurement Administration	0914 775963	
Treasury - BoFEP				
Meskerem Salaamlak	BoFEP	Senior Accountant	0914 010836	
Lemlem Gberemichael	BoFEP	Senior Accountant	0914 855269	
Tax Appeal Committee				
Fitaw G/Senbet	KedamayWoyane -Sub-city	Vice Administrator	0973 118684	
J/Michael G/Mariam	KedamayWoyane -Sub-city	Trade and Industry	0914 006698	
Haftom Berhane	KedamayWoyane -Sub-city	Revenue Devt Representative	0910 603132	
Inspection Directorate - BoFEPT				
TeshaleYimer	Inspection Directorate	Department Head		Teshaleyimer12@gmail.com
Abeba G/Medhin	Inspection Directorate	Auditor	0914383103	
Yeshareg Araya	Inspection Directorate	Auditor	0914002179	
Chamber of Commerce - Mekelle Town				
Berha Arkebe	Mekelle Chamber of Commerce	Secretary General	0344414490	
Anticorruption Commission				
Teklay	Anticorruption	Monitoring and Evaluation Expert	0948480972	teklayw@gmail.com

Name	Organization	Position	Telephone	Email
Gebremedhin Abay	Anticorruption	Planning and Budgeting head	9144203417	
Teklu Berhe	Anticorruption	Team Leader - Study	0985010793	
BoW				
Samson Berhane	Bureau of Water	Senior Procurement Specialist (One Wash)	0989847701	
Hailemariam Tsegay	Bureau of Water	Procurement head – government	0914032454	
Tewoldeberhan W/Tinsae	Bureau of Water	Director of Finance	0914753529	
Tesfay G/Sellase	Bureau of Water	Senior Finance Office	0914 036923	
Tsehay Asmamaw	Bureau of Water	Senior Finance Office	0988500638	
BoH				
Mulu Gebrehiwot	BoH	Finance Head	0914 730465	
Solomon G/Sellase	BoH	Engineer	0913975138	
AlmazZeray	BoH	Procurement Head	0914199718	
Haftom Abreha	BoH	Purchase and Logistic Assistant	0914012596	
Yirgalem Suraffel	BoH	Finance	0914 706801	
Tewodros Tsehaye	BoH	Planning Head	0914 760409	
Andargachew Yeshitila	BoH	Internal Audit Head		
BoA				
Alganesh G/Meskel	BoA	Procurement Head	0914 730638	
AdisuMeles	BoA	Head of Finance	0914 240730	
LemlemMarshet	BoA	Expert of Procurement	0914 034229	
Berihu H/Michael	BoA	Accountant	0914 121005	
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G/Mischael Nerayo	BoA	Plan and Budget Expert	0914546626	
Aster Assefa	BoA	Audit Director	0914015524	
Revenue authority				
Asefu Lilay	Revenue authority	General Director	0914 139533	Asefulilay4@gmail.com
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Nugus Girmay	Revenue authority	Tax Auditor	0914040836	Sosigirmay@gmail.com
Belay G/Wold	Revenue authority	T&E Director	0914040836	belaygw@gmail.com
Firyat Haile	Revenue authority	Tax Assessor	0920629055	122119fh@gmail.com
Giday Nayzgi	Revenue authority	Case Team Tax Audit	9014776234	Gideybest19@gmail.com
Esyays Estifanos	Revenue authority	Director of Public Relation	0914013903	Esu.stif@gmail.com

Name	Organization	Position	Telephone	Email
BirihTsehay	Revenue authority	Internal Auditor	0914730588	
Tsige Hiwot G/Sellassi	Revenue authority	Case Team Coordinator	0914761778	Tsifiegeb27@yahoo.com
Taye G/Kidan			0914044543	tayegebekidan@yahoo.com
Sinkalem Molla		Director of Finance and Procurement	0962624612	
Road Transport and Construction Bureau				
Yonas Hailu	Road, Construction.	Procurement Expert	0914 759607	
Woldegebriel Haftu	Road, Construction	Directorate of Raid Development and Admin	0948 483472	
Gebremeskel Berhe	Road, Construction	Team Leader – Design and Contract	0914 788153	
Haftom G/Michael	Road, Construction	Senior Accountant - Budget	0914 120612	
Regional council				
Negussie Legesse	Regional council	BAC Chairman	0914 924918	
Tsigie Hailu	Regional council	Expert to the BAC	0914 765387	
Auditor General				
Redea Berhe	Regional Office of the Auditor General	Auditor General	0914 749279	
Hadush Zewde	Regional Office of the Auditor General	Deputy Auditor General	0914 728940	
BoE				
Goitom Berhe	BoE	Finance Director	0914 781513	Goitomberhe30@gmail.com
Dehab Kinfe	BoE	Accountant	0914760688	
Teblets Petros	BoE	Accountant	09144732024	
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Tadele Araya	BoE	Procurement Expert	0914 757838	Tadelebirhan2010@gmail.com
Senbetu G/Yohannes	BoE	Budget Expert	0914 732162	
Shisahy Areya	BoE	Material Management Expert	0914766522	
G/Medhin Mesfin	BoE	Planning Directorate	9014761278	Gebre2me@yahoo.com
Civil societies				
Berihu Gebremedhin	Alliance of Civil Society organizations (ASCOT)	Program Officer	0914 720002 0334400373	berihu@ascot.org
Enderta woreda - Woreda Finance				
Reta Ataklti	EndertaWoreda Finance	Office Head	0914 199780	retaataklti@gmail.com
Ajebnesh Guesh	EndertaWoreda Finance	Coordinator	0978 402047	ajebnesh2019@gmail.com

Annex 4: Tracking change in performance based on previous versions of PEFA issued in 2015

Indicator/Dimension	Score previous assessment	Score current assessment	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	A	A		No change
(i) Outturn of transfer from higher-level government	A	A	Actual transfers were more than 95% compared to original budget in all the last three completed fiscal years.	No change
(ii) Earmarked grants outturn	NA	A	The earmarked grants have been received in full as originally planned in the three years of assessment.	This dimension was assessed as NA in the previous assessment.
(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 out-turn compared to original approved budget	B	C	In one of the assessed years EFY 2009 (2016/2017), the budget deviated by more than 15% (119%).	Deterioration in score and performance. The actual regional expenditure outturn in 2014 deviated by more than 10% in 2015, it deviated by more than 15% in EFY 2009.
PI-2 Composition of expenditure out-turn compared to original approved budget	D+	C+		Overall improvement in score and performance
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	D	C	Variance in expenditure composition by function more than 15% in EFY 2010	Improvement in score and performance. The extent of variance in expenditure composition was more than 15% in more than one year in the assessment of 2015.
(ii) The average amount of	A	A	Actual expenditure charged to the	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
expenditure actually charged to the contingency vote over the last three years.			contingency vote was on average less than 3%	
PI-3 Aggregate revenue out-turn compared to original approved budget	A	B	Actual domestic revenue exceeded the forecasted and was between 107% and 113% in the three fiscal years.	Deterioration in score and performance. The actual regional revenue in 2014 was better planned and deviated between 97% and 107%.
PI-4 Stock and monitoring of expenditure payment arrears	B+	C+		No overall change
(i) Stock of expenditure payment arrears and a recent change in the stock.	A	A		No change
(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B	C	Data on stock of arrears is generated annually, and there is no age profile.	No change in performance. The change in score is due to change in 2016 methodology.
B. Key cross-cutting issues: Comprehensiveness and transparency				
PI-5 Classification of the budget	B	B	Budget formulation and execution is based on an administrative, economic, and functional classification that can produce consistent documentation according to COFOG/GFS standards.	No change
PI-6 Comprehensiveness of information included in budget documentation	C	D	The budget documentation last submitted to the regional council fulfils one information element (the one relating to macroeconomic assumptions).	No change. The PA assessment overrated the PI considering that three information elements that were not met in 2015 were met. No information elements were actually met in 2015. Now one is met.
PI-7 Extent of unreported government operations.	D+	D+		No overall change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Level of unreported government operations	A	A	The level of unreported extra-budgetary spending (other than donor-financed projects) is insignificant (<1% of total expenditure). The budgets of autonomous bodies are included in the proclaimed budget of the Tigray Region. The spending of internally generated revenue collected and retained by BIs has to be and is included in the proclaimed budget. Revenues collected in excess of the approved spending must be surrendered to TRG's treasury account.	No change
(ii) Income/expenditure information on donor-funded projects	D	D	Information on DP-funded projects or programs included in fiscal reports is seriously deficient.	No change.
PI-8 Transparency of inter-governmental fiscal relations.	A	A		No overall change
(i) Transparency and objectivity in the horizontal allocation amongst Subnational Governments	A	A	The horizontal allocations of all transfers to woreda and town administration from the regional government are executed as planned.	No change
(ii) Timeliness and reliable information to SN Governments on their allocations	B	B	Information on annual transfers to woredas and town administrations is issued before the start of the fiscal year, in time allowing budget proposal changes.	No change
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	Fiscal information consistent with central government fiscal reporting is collected for 90% of woreda and town administration	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			expenditure and consolidated into annual reports.	
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	A	D+		Overall performance deteriorated given deterioration of dim. (i).
(i) Extent of central government monitoring of autonomous entities and public enterprises	A	D	No annual monitoring of autonomous government agencies) and public enterprises takes place, or it is significantly incomplete.	Performance Deteriorated
(ii) Extent of central government monitoring of SN government's fiscal position	A	A	Cities may borrow, but with the approval of BoFEP and by the regional council. No borrowing request has so far been received by SNG.	No change.
PI-10 Public access to key fiscal information	B	B	Three of the six information elements (2, 5, and 6) are met.	No change. That said, the 2015 assessment considered that information element 1 was met, namely, the draft budget, whereas it is information element 2 that is met, namely, the approved budget.
C. BUDGET CYCLE				
C(i) Policy-based budgeting				
PI-11 Orderliness and participation in the annual budget process	A	B		Deterioration in score and performance due to deterioration in dimensions (i) and (ii).
(i) Existence of, and adherence to, a fixed budget calendar	A	C	A clear budget annual budget calendar exists, but some delays are often experienced in its implementation. It allows Ministries, Departments and Agencies (MDAs) enough time (at least 6 weeks from receipt of the budget circular), but many nonetheless fail to complete their detailed estimates on time.	Deterioration in score and performance. In 2014, most budgetary units submitted their requests on time.

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) Guidance on the preparation of budget submissions	A	C	A comprehensive and clear budget circular is sent to MDAs, including ceiling for individual administrative units. The budget estimates are reviewed and approved by the Cabinet only after they have been completed in all details by MDAs, thus seriously constraining the Cabinet's ability to make adjustments.	Deterioration in score and performance. In the 2015 Assessment the ceilings in the budget circular were approved by cabinet before the circular was issued to the MDAs.
(iii) Timely budget approval by the legislature	A	A	The regional council approved the draft Budget Proclamation before the end of each of the past three fiscal years. This is required by the Financial Administration Law.	No change
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	C+		Improvement in performance due to improvement in dimension (i) and (ii).
(i) Multiyear fiscal forecasts and functional allocations	D	C	Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	Improvement in score and performance as an MEFF is now developed.
(ii) Scope and frequency of debt sustainability analysis	NA	NA	Regional governments cannot borrow and thus have no debt liabilities.	No change
(iii) Existence of costed sector strategies	C	B	Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25–75% of primary expenditure.	Improvement in score and performance as the share of sectors preparing costed strategies has increased to 34%
(iv) Linkages between investment budgets and forward	C	C	Investment decisions are based on sector strategies. Recurrent cost implications are	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
expenditure estimates			partly taken into account during annual budget preparation, but a system of estimated budget projections is not yet in place.	
C(ii) Predictability and control in budget execution				
PI-13 Transparency of taxpayer obligations and liabilities	A	A		Performance improved because of improvement in dim. (i).
(i) Clarity and comprehensiveness of tax liabilities	B	A	Legislation and procedures for all major taxes are comprehensive and clear; discretionary power of TRDA is limited.	Performance improved
(ii) Taxpayer access to information on tax liabilities and administrative procedures	A	A	Taxpayers receive useful information from various sources including website, brochures, periodicals, radio, and TV programs.	No change
(iii) Existence and functioning of a tax appeal mechanism.	A	A	A decentralized Tax Appeal Committee is established at woreda and sub-city levels, operating transparently and its decisions are implemented.	No change
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B	B		Performance improved because of improvement in dimension (iii)
(i) Controls in the taxpayer registration system	B	B	Taxpayers are registered in a complete database system including biometrics data. The linkage is manual in as much as taxpayers are required to show evidence of tax registration.	No change
(ii) Effectiveness of penalties for non-compliance with registration and	B	B	Penalties for noncompliance exist for most relevant areas. The penalty may not always be effective.	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
declaration obligations				
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	B	Tax audits are conducted based on risk assessment criteria based on a documented audit plan.	Performance improved
PI-15 Effectiveness in collection of tax payments	D+	B+		Performance improved due to an improvement in dimensions (ii) and (iii)
(i) Collection ratio for gross tax arrears	A	A	Tax arrears are 1.3% of the total revenue collected during the year.	No change
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	B	Tax collected are transferred into the treasury account on the same day but not from woredas.	No change
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	B	A reporting system (software) called PARS helped a lot for reconciliation of revenue collection against IBEX record. Reconciliation is done quarterly.	Performance changed through the use of tax reporting software available in all branches and woredas.
PI-16 Predictability in the availability of funds for commitment of expenditures	C+	B+		Improvement in score and performance due to improvement in dimension (iii)
(i) Extent to which cash flows are forecasted and monitored	B	B	A cash flow forecast is prepared for the fiscal year and is updated at least quarterly on the basis of actual cash inflows and outflows.	No change
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	A	A	Bureaus are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	No change
(iii) Frequency and transparency of adjustments to	C	A	Significant in-year adjustments to budget allocations take place	Improvement in score and performance

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
budget allocations above the level of management of MDAs			only once or twice in a year and are done in a transparent and predictable way.	
PI-17 Recording and management of cash balances, debt and guarantees	B+	D+		Not comparable
(i) Quality of debt data recording and reporting.	NA	NA	No data are available.	The NA assigned by the 2015 PEFA was incorrect.
(ii) Extent of consolidation of the government's cash balances.	B	C	Cash balances are consolidated on a monthly basis.	No change in performance. It appears that the 2015 PEFA was overrated for this dimension.
(iii) Systems for contracting loans and issuance of guarantees.	A	D	There are no standards for issuing guarantees.	No change in performance. It appears that this dimension was overrated.
PI-18 Effectiveness of payroll controls	C+	B+		No Change
(i) Degree of integration and reconciliation between personnel records and payroll data.	B	B	Personnel database is not directly linked to HR database.	No change
(ii) Timeliness of changes to personnel records and the payroll.	A	A	Personnel records are updated same date or within couple of days from the receipt of the staff document from the HRD.	No change
(iii) Internal controls of changes to personnel records and the payroll.	A	B	Though it is through non-automated record, authority to change records and payroll is restricted and document audit trail is available.	No change, but it appears that the 2015 PEFA is overrated.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C	B	A separate payroll audit has not yet been conducted. However internal audit units and ORAG audit payroll as part of financial audit.	No Change, the same practice existed in 2015.
PI-19 Competition, value for money and controls in procurement	B	D+		Performance deteriorated because of deterioration in dimension (ii)

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	B	B	The legal framework meets five of the procurement requirements.	No change
(ii) Use of competitive procurement methods.	A	D	Data are not available.	Performance deteriorated
(iii) Public access to complete, reliable and timely procurement information.	C	C	Bidding opportunities and contract awards are available to the public.	No change
(iv) Existence of an independent administrative procurement complaints system.	B	D	The procurement criteria meet six of the seven criteria but do not meet key criteria, where some of the appeal commission members may be involved in procurement operations.	No performance change. It appears that the dimension was overrated in 2015 PEFA assessment.
PI-20 Effectiveness of internal controls for non-salary expenditure	B	C+		Deterioration due to Dim (i)
(i) Effectiveness of expenditure commitment controls	B	C	Expenditure commitment controls are existing and partially effective. Excel is mainly used to follow up commitments and the monthly drawing limits setting process and to control expenditure commitments	Performance deteriorated mainly in connection with the use of budget ledger and limited use of IBEX as a commitment control tool, which is partly due to Woredanet failure.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	B	Other internal control procedures incorporate a set of controls, which are widely understood, ne. Manuals and rules are available to staff.	No change
(iii) Degree of compliance with rules for processing and recording transactions	B	B	Rules are generally complied with; simplified procedures are used occasionally.	No change
PI-21 Effectiveness of internal audit	B	C+		No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(i) Coverage and quality of the internal audit function.	B	B	Internal audit is operation for all central government entities, substantially meeting professional standards.	No change
(ii) Frequency and distribution of reports	B	C	Reports are issued by most of the reporting entities to the head of bureaus and BoFEP. Reporting to ORAG is not a requirement but reports are available on request.	No change in performance, but the dimension appears to be overstated in the previous PEFA. The audit reports were not issued to SAI though available on their request.
(iii) Extent of management response to internal audit function.	B	B	Most of the executives' response is timely and actions are taken. The management of 13 large sector bureaus which represent 84.7% of the central regional government expenditure (95% of revenue) implemented 85.7% of the audit findings.	No change
C(iii) Accounting, recording, and reporting				
PI-22 Timeliness and regularity of accounts reconciliation	B	B+		Performance improved due to improvement in dimension (ii)
(i) Regularity of bank reconciliation	A	A	Bank accounts are reconciled monthly often within 7 to 25 days from the end of each month at aggregated and detailed level.	No change
(ii) Regularity and clearance of suspense accounts and advances	C	B	Suspense accounts are cleared within two months, and advance accounts are reconciled at least annually, within two months from the end of each fiscal year.	Performance improved
PI-23 Availability of information on resources received by service delivery units	B	B	Routine data collection or accounting systems provide reliable information on all types resources received in cash and in	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
			kind by primary schools and health clinics across the region, with information compiled into reports at least annually.	
PI-24 Quality and timeliness of in-year budget reports	C+	C+		No performance change
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C	Classification of data allows direct comparison to the original budget, but expenditure is captured at payment stage only.	No change
(ii) Timeliness of the issue of reports	A	B	Quarterly financial statements are issued within 6 weeks from the end of each quarter by BoFEP.	No performance change. It appears that this dimension was overrated (only considering the timeliness of report submission by public bodies to BoFEP, not BoFEP to the executive).
(iii) Quality of information	B	B	There are some concerns about accuracy of data; however, these do not compromise overall consistency and usefulness of the reports.	No change
PI-25 Quality and timeliness of annual financial statements	C+	C+		Performance has improved due to improvement in dimension (ii)
(i) Completeness of the financial statements	B	B	Consolidated financial statement is prepared annually and with full information on revenue, expenditure, and financial assets and liabilities, with few exceptions in financial assets and liabilities.	No change
(ii) Timeliness of submissions of the financial statements	B	A	The financial statement is submitted to external audit within four months from the end of the fiscal year	Performance has improved.

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(iii) Accounting standards used	C	C	Statements are presented in a consistent format with some disclosure	No change
C(iv) External scrutiny and audit				
PI-26 Scope, nature and follow-up of external audit	B+	B+		No overall change
(i) Scope/nature of audit performed (including adherence to auditing standards)	B	B	ORAG has covered more than 95% of the regional central government expenditure and revenue for the last three completed fiscal years. ORAG generally adhered to INTOSAI standards. The audit focus on significant issues and some aspects of performance audits are also conducted. Some Systemic issues are also reported mainly in performance audits.	No change
(ii) Timeliness of submission of audit reports to the Legislature	A	B	Audit report submitted within 4 months for EFY 2010 and 2009, but within 7 months for EFY 2008	Performance deteriorated
(iii) Evidence of follow up on audit recommendations	A	A	A department for follow-up tracks implementation, supported by also the Audit finding recommendation forum. There is a clear evidence of effective and timely follow-up	No change
PI-27 Legislative scrutiny of the annual budget law	D+	D+		No change
(i) Scope of the legislature scrutiny	C	B	The legislature's review covers fiscal policy and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	No change in performance despite the change in score The PA underscored this dimension.
(ii) Extent to which the legislature's	B	B	Simple procedures exist for the	No change

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
procedures are well established and respected.			legislature's budget review and are respected.	
(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)	D	D	The legislature has significantly less than one month to review the budget proposals.	No change
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	B	Clear rules exist for in-year budget amendments by the executive and are usually respected, but they allow extensive administrative reallocations.	No change
PI-28 Legislative scrutiny of external audit reports	B+	B+		Improvement in performance due to improvement in dimension (ii)
(i) Timeliness of examination of audit reports by the legislature	A	A	The BAASC completes the scrutiny of the audit reports within three months.	No change
(ii) Extent of hearing on key findings undertaken by the legislature	B	A	The BAASC conducts in-depth hearings for most entities which receive a qualified or adverse opinion.	Improvement in coverage
(iii) Issuance of recommended actions by the legislature and implementation by the executive	B	B	The council issues recommendations through the speaker, some of which are implemented as evidenced by implementation status report.	No change
D-1 Predictability of direct budget support	A	NU	Deemed not relevant	Not comparable
(i) Annual deviation of actual budget support from forecast	A	NU	Deemed not relevant	Not comparable

Indicator/Dimension	Score previous assessment	Score current assessment	Description of requirements met in current assessment	Explanation of change (include comparability issues)
(ii) In-year timeliness of donor disbursements	A	NU	Deemed not relevant	Not comparable
D-2 Financial information provided by donors for budgeting and reporting on projects and programmes	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	D	NU	Deemed not relevant	Not comparable

Annex 5: Calculation Sheet for PI-1, PI-2, and PI-3²⁰

Calculation sheet for PI-1 Data for year = 2015/2016 (EFY 2008)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of State	485,561,781.00	615,086,791.21	521,774,848.7	93,311,942.5	93,311,942.5	17.9
Agriculture and Natural Resource	636,132,896.00	629,371,885.49	683,575,517.1	-54,203,631.6	54,203,631.6	7.9
Water Supply Office	956,664,105.00	1,148,280,634.79	1,028,011,857.9	120,268,776.9	120,268,776.9	11.7
Trade Industry and Tourism	768,482,478.00	838,231,118.61	825,795,695.5	12,435,423.1	12,435,423.1	1.5
Mines and Energy	11,364,018.00	11,909,018.00	12,211,543.4	-302,525.4	302,525.4	2.5
Agency Mining and Energy	11,364,018.00	11,909,018.00	12,211,543.4	-302,525.4	302,525.4	2.5
Construction and Transport	1,037,385,440.00	1,370,124,597.16	1,114,753,368.4	255,371,228.7	255,371,228.7	22.9
Education Office	2,053,487,412.00	2,063,477,808.16	2,206,635,953.6	-143,158,145.4	143,158,145.4	6.5
TVET Office	466,953,841.00	465,903,515.60	501,779,133.5	-35,875,617.9	35,875,617.9	7.1
Health Office	862,935,984.00	880,869,448.31	927,293,518.7	-46,424,070.4	46,424,070.4	5.0
Municipality	78,954,911.00	198,404,879.54	84,843,347.1	113,561,532.4	113,561,532.4	133.8
Miscellaneous	2,311,639,290	2,169,358,342	2,484,040,729.5	-314,682,387.5	314,682,387.5	12.7
allocated expenditure	9,680,926,174.00	10,402,927,056.87	10,402,927,056.9	0.0	1,189,897,807.3	
Interests						
Contingency	221,975,650	1,111,200				
Total expenditure	9,902,901,824.00	10,404,038,256.96				
Aggregate outturn (PI-1)						105.1
Composition (PI-2) variance						11.4
Contingency share of budget						0.0

²⁰ Figures in all tables of this annex stated in ETB.

Data for year = 2016/2017 (EFY 2009)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of State	643,442,160.00	904,665,824.53	789,318,898.2	115,346,926.4	115,346,926.4	14.61
Agriculture and Natural Resource	646,538,712.00	724,141,939.84	793,117,478.9	-68,975,539.1	68,975,539.1	8.70
Water Supply Office	1,236,040,169.00	1,264,860,674.40	1,516,266,612.5	-251,405,938.1	251,405,938.1	16.58
Trade Industry and Tourism	1,001,183,295.00	1,377,640,565.83	1,228,164,619.0	149,475,946.9	149,475,946.9	12.17
Mines and Energy	14,400,810.00	17,094,731.00	17,665,661.6	-570,930.6	570,930.6	3.23
Agency Mining and Energy	14,400,810.00	17,094,731.00	17,665,661.6	-570,930.6	570,930.6	3.23
Construction and Transport	1,060,667,950.00	1,291,763,637.23	1,301,135,221.9	-9,371,584.6	9,371,584.6	0.72
Education Office	2,349,177,107.00	3,104,222,957.30	2,881,766,226.9	222,456,730.4	222,456,730.4	7.72
TVET Office	518,675,893.00	646,553,751.45	636,266,489.5	10,287,261.9	10,287,261.9	1.62
Health Office	1,049,274,373.00	1,219,447,716.11	1,287,158,572.2	-67,710,856.1	67,710,856.1	5.26
Municipality	117,197,146.00	290,128,924.69	143,767,269.1	146,361,655.6	146,361,655.6	101.80
Miscellaneous	2,659,758,158.00	3,017,437,315.00	3,262,760,057.0	-245,322,742.0	245,322,742.0	7.52
Allocated expenditure	11,310,756,583	13,875,052,768	13,875,052,768.4	0.0	1,287,857,042.3	
Interests						
Contingency	335,964,459	3,015,938				
Total expenditure	11,646,721,042	13,878,068,707				
Aggregate outturn (PI-1)						119.2
Composition (PI-2) variance						9.3
Contingency share of budget						0.0

Data for year 2017/2018 (EFY 2010)

Administrative or functional head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Organ of State	645,391,677.00	861,771,367.32	739,943,873.1	121,827,494.2	121,827,494.2	16.46
Agriculture and Natural Resource	665,405,780.00	715,872,030.40	762,890,114.0	-47,018,083.6	47,018,083.6	6.16
Water Supply Office	873,549,193.00	1,262,017,082.77	1,001,527,283.8	260,489,799.0	260,489,799.0	26.01
Trade Industry and Tourism	1,175,481,655.00	1,356,719,161.41	1,347,693,934.7	9,025,226.8	9,025,226.8	0.67
Mines and Energy	18,449,947.00	16,610,947.60	21,152,930.4	-4,541,982.8	4,541,982.8	21.47
Agency Mining and Energy	18,449,947.00	16,610,947.60	21,152,930.4	-4,541,982.8	4,541,982.8	21.47
Construction and Transport	987,669,109.00	1,515,975,832.87	1,132,366,176.9	383,609,656.0	383,609,656.0	33.88
Education Office	3,168,297,355.00	3,274,765,119.04	3,632,464,284.2	-357,699,165.2	357,699,165.2	9.85
TVET Office	554,759,707.00	675,263,137.22	636,033,994.4	39,229,142.9	39,229,142.9	6.17
Health Office	1,311,805,706.00	1,355,978,855.68	1,503,989,948.2	-148,011,092.5	148,011,092.5	9.84
Municipality	136,194,151.00	495,773,384.72	156,147,082.7	339,626,302.0	339,626,302.0	217.50
Miscellaneous	3,282,904,396	3,171,866,354	3,763,861,667.9	-591,995,313.9	591,995,313.9	15.73
Allocated expenditure	12,838,358,623.00	14,719,224,220.63	14,719,224,220.63	0.00	2,307,615,241.67	
Interests						
Contingency	245,858,787.00	1,146,133.55				
Total expenditure	13,084,217,410.00	14,720,370,354.18				
Aggregate outturn (PI-1)						112.5
Composition (PI-2) variance						15.7
Contingency share of budget						0.0

Calculation sheet for expenditure by economic classification variance for PI-2.2

Data for year = 2016

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Compensation of employees						
Use of goods and services						
Consumption of fixed capital						
Interest						
Subsidies						
Grants						
Social benefits						
Other expenses						
Total expenditure						
Overall variance						
Composition variance						

Data for year = 2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Compensation of employees						
Use of goods and services						
Consumption of fixed capital						
Interest						
Subsidies						
Grants						
Social benefits						
Other expenses						
Total expenditure						
Overall variance						
Composition variance						

Data for year = 2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Compensation of employees						
Use of goods and services						
Consumption of fixed capital						
Interest						
Subsidies						
Grants						
Social benefits						
Other expenses						
Total expenditure						
Overall variance						
Composition variance						

Calculation Sheet for PI-3 Revenue outturn

Data for year = 2016

Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percentage
Taxes on income, profit and capital gains	1,663,347,373.54	2,087,828,912.16	1,851,196,562.9	236,632,349.3	236,632,349.3	12.8
VAT from Sales of Goods	185,174,974.49	215,850,351.31	206,087,604.9	9,762,746.4	9,762,746.4	4.7
VAT from services	530,720,000.00	554,286,681.03	590,656,561.3	-36,369,880.2	36,369,880.2	6.2
Excise Taxes on Locally Manufactured Goods	8,577,396.60	14,266,570.07	9,546,080.0	4,720,490.1	4,720,490.1	49.4
Sales Turnover Tax On Locally Manufactured Goods	90,589,060.14	105,091,900.90	100,819,684.1	4,272,216.8	4,272,216.8	4.2
Customs on imported goods		5,730.00	0.0	5,730.0	5,730.0	—
Excise on imported goods		20,873.51	0.0	20,873.5	20,873.5	—
Sales tax on imported goods		6,164.74	0.0	6,164.7	6,164.7	—
Service Sales Tax	69,683,410.19	90,950,457.10	77,553,066.5	13,397,390.6	13,397,390.6	17.3
External Assistance	43,440,000.00	43,440,000.00	48,345,871.7	-4,905,871.7	4,905,871.7	10.1
Other Revenue						
Administrative Fees and Charges	70,179,007.23	119,189,346.52	78,104,633.5	41,084,713.0	41,084,713.0	52.6
Sales of Public Goods and Services	235,752,645.75	116,146,966.36	262,377,236.7	-146,230,270.3	146,230,270.3	55.7
Government Investment Income	25,200,975.54	22,185,829.17	28,047,033.4	-5,861,204.2	5,861,204.2	20.9
Revenue from municipal services	491,219,792.81	579,460,427.40	546,695,420.7	32,765,006.7	32,765,006.7	6.0
Miscellaneous Revenue	174,496,474.33	55,895,301.56	194,203,134.4	-138,307,832.8	138,307,832.8	71.2
Capital Revenue	61,991,279.06	11,539,546.89	68,992,228.9	-57,452,682.0	57,452,682.0	83.3
Total Revenue	3,712,388,467.8	4,131,644,947.5	4,131,644,947.5	0.0	778,255,482.6	
Overall Variance						111.3
Composition Variance						18.8

Data for year = 2017

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Taxes on income, profit and capital gains	2,057,390,915.07	2,257,165,457.49	2,333,325,614.9	-76,160,157.4	76,160,157.4	3.3
VAT from Sales of Goods	235,174,627.23	252,571,398.95	266,715,954.5	-14,144,555.5	14,144,555.5	5.3
VAT from services	580,870,000.00	639,896,968.05	658,775,558.9	-18,878,590.8	18,878,590.8	2.9
Excise Taxes on Locally Manufactured Goods	9,872,572.36	22,529,167.21	11,196,669.4	11,332,497.8	11,332,497.8	101.2
Sales Turnover Tax On Locally Manufactured Goods	90,589,060.14	105,072,147.60	102,738,751.7	2,333,395.9	2,333,395.9	2.3
Customs on imported goods	0	50,677.07	0.0	50,677.1	50,677.1	—
Excise on imported goods	0	47,460.88	0.0	47,460.9	47,460.9	—
Sales tax on imported goods	0	2,623.67	0.0	2,623.7	2,623.7	—
Service Sales Tax	65,803,618.74	112,801,448.94	74,629,117.9	38,172,331.0	38,172,331.0	51.1
External Assistance	49,669,400.00	49,669,400.00	56,330,997.9	-6,661,597.9	6,661,597.9	11.8
Other Nontax Revenue						
Administrative Fees and Charges	80,297,991.00	80,297,991.00	91,067,457.3	-10,769,466.3	10,769,466.3	11.8
Sales of Public Goods and Services	80,081,802.51	159,167,900.11	90,822,273.8	68,345,626.3	68,345,626.3	75.3
Government Investment Income	67,000.00	67,000.00	75,986.0	-8,986.0	8,986.0	11.8
Revenue from municipal services	671,667,159.23	761,027,188.98	761,750,319.7	-723,130.7	723,130.7	0.1
Miscellaneous Revenue	193,952,293.38	58,584,811.33	219,964,932.7	-161,380,121.4	161,380,121.4	73.4
Capital Revenue	0	16,181,072.95	0.0	16,181,073.0	16,181,073.0	—
Sum of rest	71,380,233.99	233,214,582	80,953,661.8	152,260,920.5	152,260,920.5	188.1
Total Revenue	4,186,816,674	4,748,347,297	4,748,347,296.5	0.0	577,453,212.0	
Overall Variance						113.4
Composition Variance						12.2

Data for year = 2018

Economic head	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	Percentage
Taxes on income, profit and capital gains	2,323,063,540.90	2,906,973,531.30	2,479,593,273.6	427,380,257.7	427,380,257.7	17.2
VAT from Sales of Goods	406,698,081.50	270,048,921.30	434,101,697.8	-164,052,776.5	164,052,776.5	37.8
VAT from services	701,780,000.00	653,163,214.39	749,066,453.4	-95,903,239.0	95,903,239.0	12.8
Excise Taxes on Locally Manufactured Goods	10,911,556.02	19,602,600.21	11,646,784.7	7,955,815.5	7,955,815.5	68.3
Sales Turnover Tax On Locally Manufactured Goods	115,240,981.77	132,601,991.91	123,006,004.0	9,595,987.9	9,595,987.9	7.8
Customs on imported goods		368,953.00	0.0	368,953.0	368,953.0	—
Excise on imported goods		6,409.21	0.0	6,409.2	6,409.2	—
Sales tax on imported goods		2,000.00	0.0	2,000.0	2,000.0	—
Service Sales Tax	116,259,798.72	112,468,209.34	124,093,469.6	-11,625,260.3	11,625,260.3	9.4
External Assistance	42,355,593.00	42,355,593.00	45,209,544.1	-2,853,951.1	2,853,951.1	6.3
Administrative Fees and Charges	101,553,338.42	147,005,272.63	108,396,077.2	38,609,195.5	38,609,195.5	35.6
Sales of Public Goods and Services	325,439,689.28	325,439,689.28	347,368,055.3	-21,928,366.0	21,928,366.0	6.3
Government Investment Income	34,019,662.30	35,599,546.49	36,311,932.2	-712,385.7	712,385.7	2.0
Revenue from municipal services	755,935,969.60	1,149,997,029.78	806,871,492.1	343,125,537.7	343,125,537.7	42.5
Miscellaneous Revenue	269,822,375.35	75,622,369.19	288,003,205.8	-212,380,836.6	212,380,836.6	73.7
Capital Revenue	168,490,152.96	14,752,757.05	179,843,143.6	-165,090,386.5	165,090,386.5	91.8
Sum of rest	78897488.9	-68283295	84,213,659.8	-152,496,954.8	152,496,954.8	181.1
Total Revenue	5,450,468,229	5,817,724,793	5,817,724,793.1	0.0	1,654,088,313.0	
Overall Variance						106.7
Composition Variance						28.4

Annex 6: Sources of funding to the Tigray Region

The Tigray Region receives funds from different sources. The sources are classified as follows:

- **Treasury:** Treasury funds include the block grant received from the federal government and the internal revenue of the region. The government financial management rules and regulations including accounting, procurement, payroll, property administration, and reports are fully applied to Treasury funds. They are part of the proclaimed budget and subject to scrutiny of the regional council. IBEX is used for recording, budgetary control, and reporting at all levels.
- **Channel 1:** Channel 1 funds are mainly multi-donor trust funds (MDTFs). 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 send it to implementing sector bureaus and woredas. Reports are pooled from woredas to regions and consolidated at a national level. Financial reports are submitted to the entity, which is responsible for managing the resources, usually the World Bank. Report submission is often a mandatory requirement for the release of the next trench.
- **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 to allocate 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 BoFEP 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.

Annex 7: Service delivery pilot

1. Context of the assessment

1. In the context of undertaking the 2018 PEFA assessments for the FGE, the city of Addis and five regional governments (Amhara, Oromia, Somali, SSNPR, Tigray), the World Bank in agreement with the DPs and the PEFA Secretariat decided to pilot two modules in four of the seven administrations. The pilots are the gender-responsive budgeting (GRB), which was applied to the federal government, Addis Ababa City, Oromia, and SSNPR and the service delivery module in the health and education sectors, which was applied to the federal government, Addis Ababa City, Oromia, Tigray, and Somali.

2. The motivation for the service delivery pilot was to acquire a clearer and deeper understanding of the flow of funds and the bottlenecks to primary service delivery (primary schools and health centers) that can't be revealed by a regular PEFA assessment alone.

3. The initial scope for the service delivery pilot work, discussed and agreed with PEFA Secretariat, was consequently expanded to assess the indicators as listed in Table A7.1 in the health and education sectors. The approach employed for the expanded scope has been discussed and agreed with the Task Team Leader Rafika Chaouali, Lead Governance Specialist, PFM, and Ana Bellver, Senior Public Sector and Governance Specialist, the World Bank.

4. The PEFA Framework has been applied to review the PFM processes with implication for service delivery units in health and education sectors. 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 presents facts relevant for the frontline service delivery units by PEFA PI and draws conclusions by PEFA pillar. 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 A7.1: Service delivery indicators

Ethiopia PEFA Tigray Region Assessment 2018 Module for service delivery in health and education	
Indicator	
HGL-1 Transfer from a 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&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 audit	
PI-24.1 Procurement monitoring and PI-24.2 Procurement method	

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. TRG is responsible for setting of regional policies for its service delivery sectors in line with the national strategy and policy. The BoE, the Bureau of Technical and Vocational Education and Training (BoTVET, not included in this service delivery pilot), and the BoH are the main service delivery regional government entities responsible for the implementation of sector strategies and policies in the education and health sectors. The heads of these entities are members of the regional cabinet. The entities have a direct communication with the respective FGE's line ministries for the implementation of national-level projects. These sectors have structures at zone and woreda levels. TRG has 7 zones and 52 woredas.

6. Zones do not represent a level of SNG and are units of territorial administrative division, whereas woredas (province, municipality, county) are subdivisions of the regional government and are the next level of SNG in Tigray Region and in entire Ethiopia. They are autonomous in management of public finance, independent to set their own policies and legal regulation. The three powers of legislative, judicial, and executive are represented in TRG consisting of the usual organs of state—presidency, regional council, prosecution, the regional government, and Auditor General.

2. Objectives and scope

7. Service delivery is a pilot assessment for Ethiopia 2018 PEFA in conjunction with regular PEFA assessment. This particular service delivery module is prepared just to provide a highlight of service delivery context of the region based on document collected first in the course of the regular PEFA assessment with a visit made to one woreda (Enderta woreda) and a subsequent service delivery dedicated one-week mission. The following TRG offices' service delivery units were visited: Education and Health Offices; the governments of Enderta woreda, Wukro woreda, and Kedamay Woyane woreda (part of Mekelle town); and a primary school and a health center in each woreda.

8. The selection of woredas and service delivery units visited was based on the principle of economic sector development. Three woredas representing industrial and rural/agrarian areas were selected. They are (a) Kedamay Woyane woreda, situated in Mekelle, the capital town of the Tigray Region, with developed cement industry, car assembly, textile, and agriculture; (b) Enderta woreda, a typical rural area with focus on agriculture and stone-crushing; (c) Wukro woreda, well-developed industrial area with marble production and processing, agriculture machinery, and steelmaking. In order to cover a wider range of PFM practices, the service delivery units were selected among the well and worse performing. Thus, two schools and two health centers were visited in each woreda.

9. The purpose of the service delivery is to study if the PFM process at the primary service delivery level functions the way it does at the SNG level and, thus, to identify discrepancies and problems in the financing of the services provided by schools and health centers. Therefore, not all indicators and not all dimensions were included in the methodology. The difficulties and problems with the management of public finance at the primary service delivery level are the key concern to the donors in the country. The main PEFA Framework cannot always get to and disclose issues that are relevant for the primary health care and education service delivery. These sectors are the major areas of donations and donor support in Ethiopia and in Tigray Region in particular.

10. The field mission for this service delivery assessment took place in late September 2019, the cutoff date for those indicators where 'as of assessment' time required was end EFY 2011 (CG 2018/2019).

11. The following service delivery units were visited:
- Primary schools: Johannes IV Primary School in Kedamay Woyane woreda, Primary School in the village of Meremeiti, and Selam Primary School in Wukro woreda
 - Health centers: Health Centre Mekelle (Kedamay Woyane), Health Centre Meremeiti (Enderta), and Health Centre Colonel Tadele (Wukro)
 - Government offices: BoH, BoE of TRG, Kedamay Woyane woreda, Enderta woreda, and Wukro woreda
12. The service delivery PEFA assessment focuses on the financial operations of the education and health sectors and includes budgetary units of the education sector and related oversight and accountability institutions. However, there are no EBUs at the level of Tigray region. Significant amounts of the revenue for schools, universities, and health centers come from the government budget.
13. The sources of revenue for the service delivery units are community contribution, service fees and donations for schools and health centers.
14. The revenue collected above the approved budget is not used during the period and is accounted for in the budget for the following year. Parents in some schools may contribute for the construction of dining halls or provision of school furniture.²¹ If the spending is made directly by the Parents' Committee, then such expenditure is not reported. However, the sums involved are so incidental that it does not alter the finding that there is no extra-budgetary expenditure at the regional level. If parents deposit the money into the accounts of the school and the school procures the goods and services, the income and expenditure is reported. Table A7.2 shows the units covered by the service delivery assessment.

Table A7.2: Main government and public sector units of the education and health sectors to be covered by the service delivery assessment

Budgetary units	EBUs	Public corporations ^a
BoFEP	Not applicable. Internal revenues are reported and are part of the budget	Not applicable for service delivery
Mekelle City Government		
BoE		
BoH		
Health centers		
Primary schools		

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

3. Methodology

15. A team of independent consultants—Elena Morachiello (Lead Consultant for the overall Ethiopia PEFA Assessments), Elisaveta Teneva (Lead for the Tigray service delivery module), Samuel Gebremedhin, and Getnet Haile—carried out the fieldwork and prepared this report. The team of independent consultants, including Charles Hegbor who participated in the other pilots and regular PEFA Assessments, also developed the theoretical framework for the service delivery module under the guidance of Ana Belver and with feedback from Rafika Chaouali and Meron Tadesse.

²¹ Hizbawit Serawit Primary School used to collect contributions from parents which were used for upgrading of play field and cobble stone works. It is no longer being done due to instruction from the sub-city not to collect money from parents.

4. Institutional Arrangements

4.1. Health

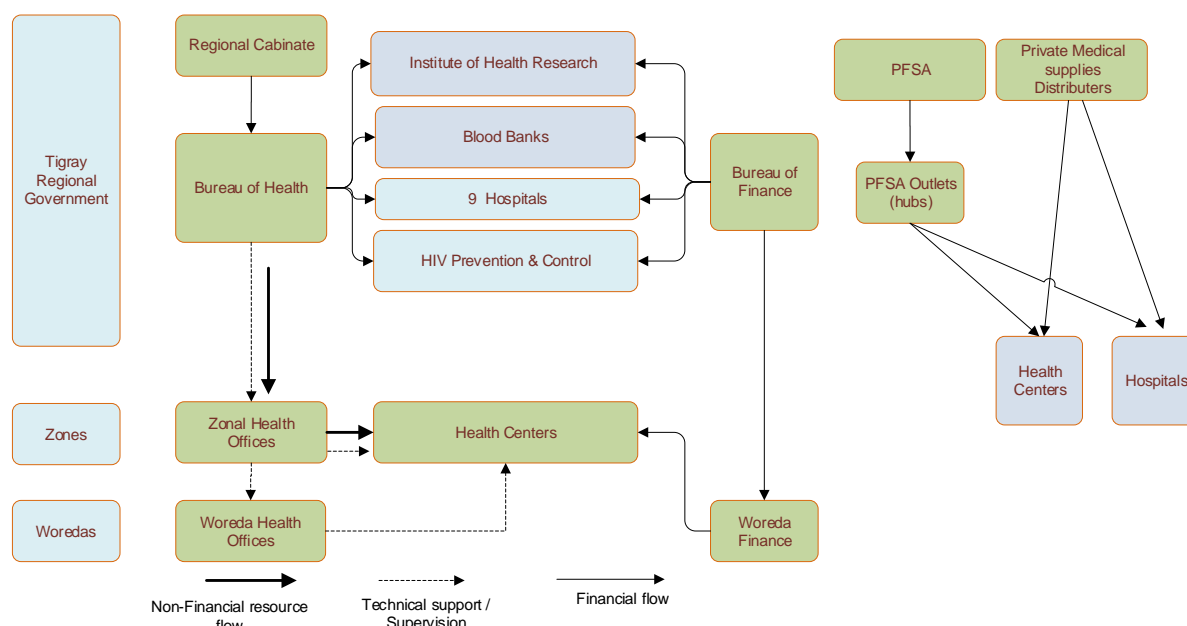
16. The BoH is responsible for the health sector activities throughout Tigray Region. The bureau oversees the performance of Health Offices at the level of zones and woredas. Health centers are structured at the woreda level as well. BoFEP transfers approved budgets to the BoH and its agency directly and to woreda finance offices. Woredas transfer the budget to health centers under their jurisdiction. The following table summarizes the service delivery responsibility of the main actors in the health sector.

Table A7.3: Responsibilities in service delivery - health

No.	Entities	Role
1	BoH	The BoH is responsible for development of sector strategy for Tigray Region. The bureau is also responsible for capital projects including construction of health centers within Mekelle town.
2	Zonal Health Offices	They coordinate the health services issues at the woreda level, ensure implementation of health policies, and provide technical guidance to Woreda Health Offices.
3	Woreda administration	Woreda administration is the lower level of government structure, which oversees the work of service delivery units. The Woreda Government Administration is accountable to the woreda council.
4	Woreda Health Offices	They provide technical advice and support to health clinics including supervision and coordination of health service delivery at their jurisdiction.
5	Pharmaceutical Fund Supply Agency (PFSA)	This agency is an FGE entity. It also supplies medical supplies to health facilities from its distribution hubs and pharmaceutical products to health facilities (including health centers and hospitals). It provides on a commercial basis other than those projects-financed pharmaceutical products (mainly donor funded). Health centers and hospitals buy pharmaceutical products from other private suppliers when such supplies are not available at the PFSA.
6	BoFEP	BoFEP is responsible for the overall public planning, budgeting, treasury management, accounting, and reporting of TRG. It directly disburses approved budget based on cash flow forecast and request of the BoH, BoH branches and hospitals, and woredas.
7	Woreda Finance Office	It transfers financial resources to health centers as per their budget. It also consolidates financial reports of woreda sector offices and health and education facilities and submits monthly financial reports to BoFEP.
8	Health centers	They provide health services to the community. They are responsible for their detailed operational budgets based on the approved budget allocated to them. They are also responsible for the procurement of medical supplies from the PFSA and private suppliers. Their revenue streams are the budget transfers from woreda finance offices and their own source revenue. Health centers submit performance report on KPIs to their respective sub-cities monthly.

Figure A7.1 shows the relationship within the health sector across all levels of governments in TRG. The thick line shows the nonfinancial resource flows, the thin line shows the financial flow, and the broken line shows technical supports.

Figure A7.1: Service delivery relationships across government



Source: PEFA team drawing based on interview.

17. The regional level health sector budget proposal includes a budget for the BoH, zonal, and woreda health offices, health related agencies, hospitals (which are under the regional government), and health centers. Draft health budget consolidation starts at woreda, then at zonal, and finally at regional levels. The BoH and other agencies submit their draft budget to BoFEP. BoFEP is responsible for the transfer of cash resources to the BoH, to hospitals directly, and to health centers through the respective woreda finance offices. Woreda finance offices are providing a centralized (pooled) financial management services including disbursement, procurement, and internal audit for woreda-level sector offices. Woreda finance offices transfer funds from the approved budget to the health centers.

18. The budget for the TRG health sector constitutes about 9 percent of the total regional budget with a slight annual increment since EFY 2008. The capital budget share of the health sector is about 1.4 percent of the total capital budget of the region. See Table A7.4.

Table A7.4: Share of health sector budget

	2008 (2015/2016)	2009 (2016/2017)	2010 (2017/2018)	Average
Budget composition				
TRG total budget	10,402.93	13,875	14,717	—
Health sector total budget	881	1,219	1,356	1,152
Share of health sector (%)	8.5	8.8	9.2	8.9
Capital budget of the region				
TRG total capital budget	4,541.68	5,529.28	5,345.53	5,139
Capital budget for health	68.97	87.37	59.17	72
Share of health sector from capital budget (%)	1.5	1.6	1.1	1.4

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

19. The proportion of TRG health sector budget that goes to 57 woredas is 54 percent. Out of the total health budget allocated to woreda, 80 percent of the budget is spent on salaries. About 16 percent and 4 percent of the woreda health budget is allocated for operating and capital expenditure, respectively. See Table A7.5.

Table A7.5: Composition of woreda health sector budget (ETB, millions)

	EFY 2008	EFY 2009	EFY 2010	% Average
Total health budget	881	1,219	1,356	100
Share of woreda - total	503	647	727	54
Salaries	364	473	578	80
Operating	92	125	118	16
Capital	45	48	31	4

Source: Budget execution report, annual accounts, BoFEP, PEFA team calculations.

20. Enderta woreda's budget for health was ETB 17.99 million, which represented 13.84 percent of the total woreda budget. The budget is for the Woreda Health Office and also for its five health centers.

4.2. Education

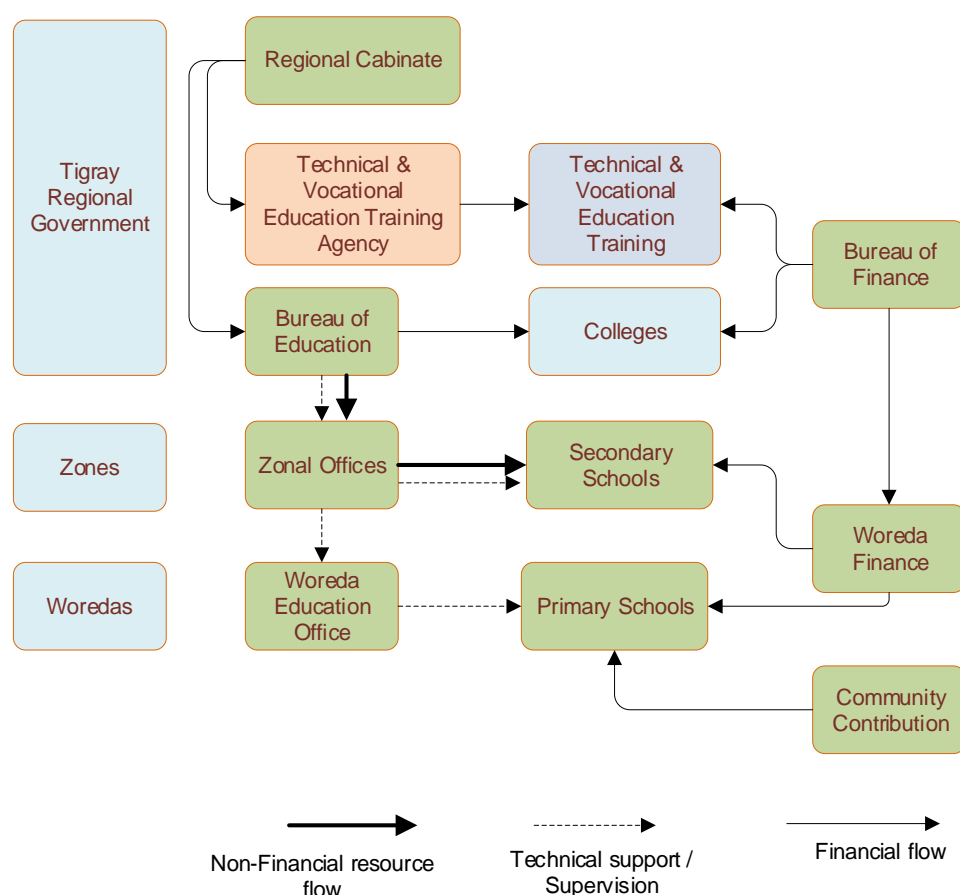
21. The BoE and the BoTVET are responsible for the education sector activities in the region. The heads of the BoE and BoTVET are members of the regional cabinet and are accountable to the president of TRG. The heads of the bureaus also deliver a biannual performance report to the regional council. The bureau oversees the performance of Education Offices at the level of zones, agencies, and woredas. BoFED transfers the approved budgets to the BoE and its agency and to woreda finance offices. Woreda finance offices transfer the budget to schools. Schools are allowed to use their internal revenue but are not supposed to report the revenue to the woreda finance office; rather they directly report to the woreda council.

Table A7.6: Responsibilities in service delivery - education

	Entities	Role
1	BoE	Responsible for development of education sector strategy for the region and setting of regional-level education standards and policies. The bureau is also responsible for capital projects, while construction of schools is delegated to the BoC.
2	Zonal Education Offices	Coordinate the education services at a zonal level. Ensure implementation of education policies. Provide technical guidance to Woreda Education Offices. Zones are responsible for the distribution of books to woredas.
3	Woreda Education Offices	Provide technical advice and support to schools including supervision and coordination of education services at their jurisdiction and distributes books to schools.
4	BoFEP	BoFEP is responsible for the overall public planning, budgeting, treasury management, accounting, and reporting of the city. It directly disburses approved budget based on cash flow forecast and request of BoE, BoTVET and to woredas.
5	Zonal Finance Offices	Coordinate financial management supports to woredas.
6	Woreda Finance Offices	Receive funds from BoFEP and transfer resources to schools. Consolidate financial reports received from schools and submit to BoFEP.
7	Schools and colleges	Provide service delivery. They are responsible for determination of their detail salaries and operational budgets based on the approved budget allocated to them. They are also responsible for the procurement of operational supplies such as chalks, stationery items, and other small items. They receive books from Zonal/Woreda Education Offices. Schools submit performance report on KPIs to their respective kebeles and woredas.

22. Figure A7.2 shows the relationship of entities across levels of government in education service delivery. 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: Education service delivery relationships across government



Source: PEFA team drawing based on interview.

23. The two major sector bureaus of TRG in the education sector are the BoE and the BoTEVT. The zonal and woreda offices, TVET institutions, and schools are responsible for the preparation of their respective budget. Schools and colleges have their internal revenue. Primary and secondary schools collect contributions from parents. Such revenue as well as any other revenue from community contribution is not supposed to be and is not reported at the woreda level. Schools received their allocated budget through the woreda finance offices. This is mainly operating expenses. The salaries to school staff are paid directly by the woreda finance offices. Therefore, there are no transfers on recurrent expenditure but they are mostly operating expenses and donations.

24. As of 2017/2018, there were 2,179 primary schools and 244 secondary schools. Enderta woreda has 52 schools. About 26 percent of the regional budget goes to the education sector. Out of the total capital budget of the region, education constitutes 9.7 percent of it. Unlike some of the regions in Federal Democratic Republic of Ethiopia, construction projects including construction of schools is managed by the BoC. See Table A7.7.

Table A7.7: Share of the education sector from the total regional budget (ETB, millions)

	EFY 2008	EFY 2009	EFY 2010	Average
TRG total	10,402.93	13,875.05	14,716.52	12,998
Education	2,529.38	3,749.78	3,949.80	3,410
Share of education sector (%)	24.3	27.0	26.8	26.2
Capital budget of the region				
TRG total	4,541.68	5,529.28	5,345.53	5,139

Education	412.51	613.05	462.97	496
Share of education sector (%)	9.1	11.1	8.7	9.7

Source: BoFEP, PEFA team computation.

25. A significant part of the regional education sector budget (77 percent) goes to woredas. At the woreda level, 91 percent of the expenditure is on salaries and wages. Capital projects at the woreda level constitute about 5 percent of the total woreda budget. The capital budget for the construction of schools and colleges is budgeted at the regional sector bureau level.

Table A7.8: Share of recurrent expenditure in the total education budget (ETB, millions)

	EFY 2008	EFY 2009	EFY 2010	Average
Total education budget	2,529	3,750	3,950	100%
Share of woreda - total	1,852	2,822	3,025	77%
Salaries	1,598	2,691	2,753	91%
Operating	89	131	118	4%
Capital	168	257	157	5%

Source: Enderta Woreda Finance, PEFA team computation.

26. Other sources of budget (other than TRG budget) for the education sector in TRG are donor-funded projects and civil societies/endowments operating in the region. Table A7.8 shows the total revenue spent on education sectors in 2015/2016, 2016/2017, and 2017/2018. The region received about ETB 200 million annually from nongovernment sources.

Table A7.9: Expenditures in the education sector from nongovernment sources

Source of fund	Expenditures in ETB	Remark
GEQIP	314,321,971	Three-year total - 74% is for school grant
UNICEF	28,812,342	Training, hardware, secondment, classroom construction
Endowment Fund for Rehabilitation of Tigray (Effort)	300,000,000	Secondary school construction (About 13 schools)
Tigray Development Association	136,780	Maintenance
Total	643,271,093	

Source: Education sector strategy plan (TRG), PEFA team computation.

27. GEQIP is an eight-year donor intervention in the education sector of Ethiopia with general objective to improve the quality of general education (Grades 1–12) throughout the country. About 46 percent of the program funds are dedicated to primary education. The principle of the funds distribution of the program is agreed between the donors and the MoE in the federal government. The federal MoE provides these earmarked grants within the regular block transfers to TRG. The overall impact achieved so far is improved capacity of teachers and methods, printing and distribution of textbooks, and provision of grants to schools based on the number of pupils. The GEQIP grants for EFY 2012 (2019/2020) for preschool pupils is ETB 60/pp, primary school - ETB 55/pp.

5. Introduction to the visited woredas and service delivery units

28. Tigray Region is the most north most of the nine regions in Ethiopia with the population of 5,055,999 with estimated growth of 2–3 percent per year. Its capital and largest town is Mekelle (second in Ethiopia after Addis Ababa City). The region is semiarid, and water has always been and remains the most serious challenge. This is particularly valid for the water supply to the urban areas. The focus of public investment is on projects for construction of water reservoirs. Common solution for irrigation and

development of agriculture is the land terracing that keeps rainfall from flowing away and minimizes draught in dry season. The region has 6 zones and 52 woredas.

5.1. Kedamay Woyane woreda

29. Kedamay Woyane woreda is one the seven districts of the administrative and territorial division of Mekelle town. It is situated in Mekelle town and it is a typical urban development area with developed car assembly and cement industry. The whole region of Tigray suffers from insufficient water resources. Water is mostly bore holed for household needs. The focus of investment is in the construction of water reservoirs. The population of Mekelle is about 350,000 and it is rapidly growing. The total budget of the woreda for EFY 2010 is ETB 106,993,490.

- (i) Johannes IV Primary School is the leading school in Mekelle town, established in 1945 by the Emperor Selassie Haile. There are 1,371 students and 54 teachers. This is one of the few schools that is self-sufficient and can cover fully its expenditure by the collected revenue. There are 12 sources of own revenue including GEQIP, parents' contributions, proceeds from premises rent out, and selling own home-grown vegetables. The school budget is approved by the respective government council, but it is not part of the Kedamay Woyane woreda consolidated budget. The school does not receive any transfers for operating expenses. The salaries are paid directly by the woreda finance office. All maintenance and repair cost of the school is paid from the own source revenue. Even if the school is one of the most successful in terms of management and administration, the internal revenue is not sufficient to cover capital investment expenditure. There are new classrooms built for the new school year (school starts right on September 12 [EC] immediately after the Ethiopian New Year, September 11) but the school still has no toilets, water, and sanitation facilities.
- (ii) Kademay Woyene Health Station is situated in the town of Mekelle providing services to nearly 30,000 people. There is one doctor and four health officers (between nurse and doctor, with four-year medical school study), 4 BS nurses, 18 nurses, and 2 laboratory technicians. As usual the medical services are paid except for under-five care, delivery and family planning, and HIV testing. All services are free for disabled and very poor people who bring evidence from the kebele administration. The center reported that it can process 300 people a day, which appears unlikely given that during the visit there were about 5–6 patients in the whole center. The sources of revenue are 25 percent margin on medical drugs, examination fee, and blood tests. The usual expenditure includes purchase of medications and consumables, stationery, and utilities bills. Purchase of medicines consumes about 80 percent of the budget. The center received in-kind donations, refurbishment of facilities, and medical equipment. Some of the donated medical equipment is either out of order or is no longer used due to lack of supply of consumables used for its operation.

5.2. Enderta woreda

30. Enderta woreda is situated on the main road leading to the south of the county within close proximity of Mekelle town. It is mostly rural area and the key industry is agricultural. The population was 124,000 in EFY 2008 (2015/2016) and the forecasts made by BoFEP show that there is about 1 percent increase of population each year. There are 7 health centers and 50 primary and 4 secondary schools. The total budget of the woreda for EFY 2010 is ETB 134,196,625. Once the budget is approved by the council, it is allocated to all sectors by the woreda finance office which functions as a pool office. All budget entities are regarded as cost centers, each one preparing annual cash flow forecast, reporting on revenue and expenditure and managing their own budget. The visited service delivery units are as follows:

- (i) Primary school in the village of Meremeiti with 800 students from grade 1 to 8, 20 children in a kindergarten, and 30 teachers. The only source of revenue is the GEQIP (ETB 5 per student) and parents' contribution (ETB 5 monthly per student). The usual expenditure covers cleaning, stationery, and electricity bill. Salary is directly paid by the woreda finance office. There is no running water. The water tank is not used.
- (ii) Health Centre Meremeiti is situated in the village of Meremeiti providing services to about 21,500 people. There is no doctor but only two health officers (between nurse and doctor, with four-year medical school study), eight nurses, three midwives, one laboratory expert, and two pharmacists. The medical services are paid except for under-five care, delivery and family planning, HIV testing, TB, and malaria. The center can process 7–25 people a day. The sources of revenue are 25 percent margin on medical drugs, examination fee, and blood tests. The usual expenditure includes purchase of medications and consumables, stationery, and utilities bills. Water is provided in a water tank, and there is no running water and toilets.

5.3. Wukro woreda

31. Wukro woreda is situated on the main road leading north to the border with Eritrea south. Wukro is probably the most developed woreda in Tigray Region with key industry marble excavation and processing, tannery, agriculture machinery factory, steel sheet making factory as well as smaller private textile, and food enterprises. The population was 42,925 in EFY 2008 (2015/2016) but due to the rapid economic development it has quadrupled over the last four to five years and the current estimation is 176,716.

32. The total budget of the woreda for EFY 2010 is ETB 101,021,686. There are nine primary and four secondary schools, two colleges, two health centers, and one hospital. Recently a voluntary health insurance system was established, providing a full package of medical services for an annual subscription of ETB 350. Woreda administration takes care of the capital expenditure needs of the school. Budget reserve is voted each year to cover incidental issues in the service delivery units.

33. The visited service delivery units are as follows:

- (i) Selam Primary and Secondary School has 1,411 students, 180 in kindergarten, 61 teachers, 8 administrators, 2 directors, and support staff. The sources of revenue are GEQIP grant, budget block grant from Wukro woreda, contribution from community, and parents' association. There is no regulation for obligation to visit school. It is one of the leading schools in the woreda. There is a recently constructed new library that was 50 percent funded by the woreda and 50 percent by donation. The school is highly evaluated in terms of students' achievement and teaching capacity and innovative approach. The budget allocated to the school is not sufficient. The usual problems shared by the director are related to the need of more water and sanitation facilities and shortage of consumables needed for the chemistry and biology laboratory work; textbooks are not sufficient. The salaries of teachers are between ETB 3,000 and ETB 4,000.
- (ii) Health Centre Colonel Tadele is established in GC 2003 and covers a population of 19,557. The total staff is 42 including the support staff. There are three health officers and eight nurses. There is no doctor. The health centers can look after 40 people a day and provide the usual medical services that require examination, consultation, minor surgery and emergency needs, and under-five child's care. The sources of revenue are 25 percent margin on sales of drugs, examination fees, and laboratory services. The health center is equipped to make a long list of blood tests; it has two laboratory officers and two pharmacists. The health center is well equipped with the usual facilities (microscopes, autoclave, ultrasound). There is a new

Mother Healthcare Delivery Unit with running indoors water in each room. The usual problems are in the shortage of medical staff, pharmacist, and laboratory specialists.

6. Service delivery assessment

Higher Government Level (HGL) - Transfer from a higher-level government

HLG-1.1 Outturn of transfer from higher-level government

34. TRG transfers all the annual budgeted subsidies to woredas. Table A7.10 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 a significant positive impact on service delivery in the woredas since their major source of revenue is from the regional grant.

35. There is a significant increase in the volume of transfer, more than 30 percent, from 2008 to 2009. This is due to the increase of population in general as well as influx of migrants from South Sudan and Eritrea settling in neighboring Tigray.

Table A7.10: Outturn of transfer from TRG to woredas for EFY 2008–2010 (ETB)

Transfer from TRG to woredas	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Original budget	3,215,069,582	4,781,442,417	5,050,741,575
Actual transfer	3,215,069,582	4,781,442,417	5,050,741,575
Outturn	100%	100%	100%

Source: TRG BoFEP.

HLG-1.2 Earmarked grants outturn

36. Not applicable. There are no earmarked grant allocated to woredas from TRG.

HLG-1.3 Timeliness of transfer from higher-level government

37. BoFEP provided a record of transfers to woredas for EFY 2008, 2009, and 2010. It shows that there was an even disbursement throughout the year. Visited woredas confirmed that they request monthly the approved allocation.

Pillar I: Budget reliability

PI-1 Aggregate expenditure outturn

38. The aggregate expenditure budget outturn for the last three years in the overall health sector ranges between 99.4 percent and 111 percent, which is good. For the education sector, the actual outturn ranges between 94.2 percent and 125 percent. Except for EFY 2009, the aggregate expenditure budget outrun data show the reliability of the budget for the two sectors. Table A7.11 shows aggregate expenditure data for health and education sectors.

Table: A7.11: Expenditure budget outturn: TRG's health and education sectors (ETB)

Expenditure Outturn	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Education			
Original budget	2,520,441,253	2,867,853,000	3,723,057,062
Actual	2,373,474,850	3,584,647,743	3,705,955,857
Outturn	94.2%	125.0%	99.5%
Health			
Original budget	862,935,984	1,049,274,373	1,311,805,706
Actual	857,784,858	1,165,122,966	1,320,811,025

Expenditure Outturn	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Outturn	99.4%	111.0%	100.7%

Source: BoFEP.

39. The situation of the expenditure outturn evidenced above is relevant for the education section in all visited woredas. While in both EFY 2008 and 2010 in health and education the approved budgets did not deviate much from the actual, in EFY 2009 only in the education sector there was significant discrepancy between the approved budget and the actual expenditure outturn. A reason for this unexpected overspending was the increased number of students resulting from the influx of migrants in Tigray Region from neighboring Eritrea and South Sudan. Table A7.12 shows the aggregate expenditure outturn for the visited three SD woredas

Table: A7.12: Aggregate expenditure outturn for the service delivery woredas

Expenditure outturn	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
I. Kedamay Woyane woreda			
Education			
Original budget	16,499,070	19,320,338	29,195,628
Actual	16,424,725	24,475,058	26,762,067
Outturn	99.55%	126.68%	91.66%
Health			
Original budget	3,714,729	4,583,799	6,926,721
Actual	3,663,987	4,678,482	6,498,941
Outturn	98.63%	102.07%	93.82%
II. Enderta woreda			
Education			
Original budget	34,459,644	33,562,601	52,073,066
Actual	35,507,865	45,835,228	54,642,268
Outturn	103.04%	136.57%	104.93%
Health			
Original budget	8,836,405	11,115,191	14,306,246
Actual	11,006,898	11,980,026	14,672,229
Outturn	124.56%	107.78%	102.56%
III. Wukro woreda			
Education			
Original budget	25,798,778	34,518,647	45,319,286
Actual	24,341,585	41,197,374	43,020,490
Outturn	94.35%	119.35%	94.93%
Health			
Original budget	6,615,309	5,929,068	6,905,960
Actual	6,183,585	6,383,225	6,413,332
Outturn	93.47%	107.66%	92.87%

Source: BoFEP.

40. The outturn of the planned expenditure is ranging within reasonable limits. Only in EFY 2009, it is observed that there was a higher deviation from the budgeted expenditure in the education sector due to unexpected increase in the number of students.

PI-2. Expenditure composition outturn

41. Budget transfers from one-line item to another budget line item are very common in all visited institutions. As it is in all regional governments, it is not allowed to transfer from the capital budget to the recurrent budget. Reallocations are possible only from one category of expenditure item to another within the recurrent budget and mostly for operating expenditure (overheads). These reallocations can be made by the Health and Education Offices in the Woreda Government Office. The schools and health centers do

not receive any transfers for salaries and the capital budget is managed by the woreda or the regional government. The schools and health centers appear as cost centers within the budget of woreda. The woreda government can make reallocation from one cost center to another. Such adjustments within the budgetary units' own budget ceilings do not require prior BoFEP approval. If reallocations are to be made from one woreda to another, then BoFEP is to approve. The sector bureaus (line ministries) can reallocate only within the economic classification, for example, within operating expenditure and personnel service (salaries and wages). Requests for supplementary budget require sound justification.

Education

42. The composition of the budget by economic classification shows variance of less than 10 percent in two of the three assessed years, which indicated that there is some movement between different categories of recurrent expenditure. Table A7.13 shows expenditure composition outturn in the education sector. The expenditure composition outturn is relatively similar between the provincial woredas, Enderta and Wukro, and specific with significant deviation in EFY 2009 in capital town in Kedamay Woyane woreda. Woreda Government Offices shared that the number of teachers as reported by the woreda to TRG before the start of the school year is not considered and ceilings are set based on the previous year. The reason was unplanned expenditure in the recurrent part or salaries of the teachers which are usually increased once in every two years based on decision made by the region.

Table A7.13: Expenditure composition outturn in the education sector

Education	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
I. Kedamay Woyane woreda			
Original Budget	16,499,070	19,320,338	29,195,628
Net reallocation	104,338	2,431,883	2,431,883
% of reallocation	0.63	12.59	8.33
II. Enderta woreda			
Original Budget	34,459,644	33,562,601	52,073,066
Net reallocation	865,910	788,205	2,916,773
% of reallocation	2.51	2.35	5.60
III. Wukro woreda			
Original Budget	25,798,778	34,518,647	45,319,286
Net reallocation	1,420,918	1,503,110	2,298,796
% of reallocation	5.51	4.35	5.07

Source: BoFEP.

Health

43. The expenditure composition outturn for the health sector is identical in performance to that of the education sector. Table A7.14 shows expenditure composition outturn data for health sector. The variance is less than 10 percent in at least two of the last three years for all visited woredas. The reasons are identical for the three visited woredas—unplanned expenditure in the recurrent part of the budget, namely, salaries increment in the health sector, which is driven by the health staff.

Table A7.14: Expenditure composition outturn in Health Section

Health	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
I. Kedamay Woyane woreda			
Original budget	3,714,729	4,583,799	6,926,721
Net reallocation	50,733	427,772	427,772
% of reallocation	1.37	9.33	6.18
II. Enderta woreda			
Original budget	8,836,405	11,115,191	14,306,246
Net reallocation	1,740,925	30,559	207,412
% of reallocation	19.70	0.27	1.45
III. Wukro woreda			
Original budget	6,615,309	5,929,068	6,905,960
Net reallocation	287,577	277,688	492,628
% of reallocation	4.35	4.68	7.13

Source: BoFEP.

44. Budget transfers from one-line item to another budget line item are very common in all visited institutions. It is not allowed to transfer from the capital budget to the recurrent budget. Reallocations can be made and managed only by the woreda finance office and they concern mostly unplanned salary increment in both health and education sectors.

Pillar II: Transparency of public finance

PI-6. Regional government operations outside financial reports

Education

45. The schools are often referred to as an autonomous unit with self-sufficient budgeting practice; however, it was verified with the BoE that there is no legislations or definition on the autonomous status of schools. Just like all service delivery units, each school prepares an annual budget plan, a three-year strategic performance plan, and an annual plan for each school. The usual source of revenue in the education sector can vary in the type grade of education. Generally, educations establishments generate own source revenue coming from extension programs (part-time students), tuition fees, penalty fees for late registration, rental of premises, collections from parents, and even sale of home-grown vegetables. Schools prepare their annual budget plans with revenue and expenditure and submit the proposals to the respective woreda they belong to. The budget proposals are presented, discussed, and approved by the woreda council. Schools report quarterly their actual revenue and expenditure to the woreda finance office, but they are not consolidated into the budget execution, in-year, and annual budget reporting to BoFEP. However, all schools are subject to internal audit carried out by the internal auditors of the woreda finance office. The internal revenue and corresponding expenditure is subject to woreda council scrutiny, where the annual budget is approved by the council and financial reports are submitted to the council on a monthly basis.

46. Two of the visited schools, Johannes IV and Selam, can generate income from rent out of premises. All visited schools receive GEQIP grants based on the number of students. The Meremeiti school with 800 students relies only on the monthly grant of ETB 55/pp and collection from parents of ETB 5/pp. Having ETB 60/pp monthly, the school is not in a position to pay cleaning and utilities bills. Johannes IV Primary School is known as the oldest (established in 1945) and the best primary school (with 12 sources of own revenue) and high achievement in Mekelle with young, dynamic, and competent director and management staff that can cover all their expenditure by the own source revenue. However, the school on its own account cannot maintain the school facilities and provide sanitation area for the 1,371 students. Money is also raised with the local community, which together with the school and parents committee is involved in the managed of the proceeds.

Health

47. The situation is identical in the visited health centers. They collect own source revenue from examination fees, blood tests, and selling medications and drugs. There are pharmacies in all health centers and selling medication is one of the services provided to the community. Usually 25 percent is the margin on top of the medication supply price. The medications are predominantly supplied from the Ethiopia Pharmaceutical Supply Agency (EPSA), so that their final retail price would be more affordable. The health centers also prepare annual budget plans, and they report monthly to the woreda finance office and semiannually to the woreda council their revenue and expenditure. This information may be monitored, but it is not consolidated and analyzed for management and decision-making purposes.

48. The service delivery units prepare their own annual budgets with revenue and expenditure. There is no actual transfer of government funds to the service delivery units. The schools and the health centers collect own source revenue, which is used to cover their planned expenditure that is mainly paying for utilities bills, cleaning service, and even facilities maintenance. The own source revenue funds, as well as the expenditure of the schools and health centers, are not part of the government operations.

PI-7. Transfers to subnational governments

Education and health

49. Approved transfers reach the respective woreda and service delivery units in good time. Delays can occur only when the block grants are disbursed late by the federal government, but this usually happens at the beginning of the financial year and not throughout the year. Delays may happen with transfers from woreda to service delivery units mainly in operating expenses. The approved recurrent expenditure covering salaries are never late. In times of transfer delay, gaps are plugged by donor funds, but as the delays are never more than a month, no arrears are incurred and accumulate. Nevertheless, Kedamay Woyane woreda reported that it received 30 percent less than its approved budget for the last financial year (EFY 2010).

50. Enderta woreda reported that the approved budget is received on time but there are delays in transfer of salaries allocated for the appointment of new teachers. Funds transferred are insufficient and new teachers' salaries payment is made from supplementary budget. The number of employed teachers is not updated and reflected in the annual budget plans. This creates delays in payment of salaries and necessitates approval of supplementary budgets.

51. The allocation of budget is based on standard and transparent formula. Approved budgets (which will be later adjusted for supplementary budget and other transfer adjustments) are all transferred to the woreda finance offices monthly. No delays were reported in the monthly transfers received by woredas.

52. Kebele administration plays an important role in disseminating the reports to the respective sector offices and woreda administrations. Reports are issued by kebeles monthly, quarterly, and annually. Sector offices submit quarterly reports to the woreda administration. The reports of Health Offices show the planned and actual number of service delivery during the reporting period for the various types of health services.

PI-8. Performance information for service delivery

53. Both the health and education sectors in TRG woredas prepare medium-term strategic plans known as the Health Sector Transformation Plan (HSTP) for the health sector covering a five-year period and the three-year 'Education Sector Development Plan (ESDP) covering a three-year period for the education sector. Both plans are part of the respective health and education federal government initiatives and policies governed by the Ministry of Health and the MoE. These plans mostly cover a five-year period

in the other assessed regions whereas in Tigray the time span is three years for the education sector. Each plan summarizes the achievements and progress made in previous strategies and outlines detailed activities with KPIs for the current period.

Education

54. The strategic plans in the education sector in the woredas cover a three-year period. They align with strategies set by the BoE at TRG and with the school strategic plan. They include KPIs, standards of input and process, outputs, and final impact. Performance evaluation for service delivery is achieved by evaluations of the efficiency and effectiveness of service delivery through the instrument of regular performance reports. The performance reports assess school performance applying inspection tools designed by the Woreda Education Office. The focus of performance evaluation is on teaching techniques, the curriculum, and the achievement of students. The performance reports are prepared quarterly; sometimes there are even monthly issues. This is especially needed in September before the beginning of the school year when the annual planning meetings are held in all schools. These performance reports are not public, and they are mostly distributed with the involved units in the education sector. There are also annual consultative meetings to discuss and report on achievement of indicators at regional and woreda levels.

55. The visited woredas and primary service delivery units verified that there are performance plans and quarterly and annual achievement reports. School performance is also evaluated by interaction with parents and community. Quality and efficiency of service delivery, especially teaching and school administration, are the key areas of monitoring and evaluation with the community. They entail development of action plans for problems and issue solution. The usual problems identified are related to the attitude and the commitment of teachers, the salaries, and the school environment and conditions.

Health

56. The strategic plans in the health sector cover a time span of five years and are aligned with the initiatives and programs of the Global Fund and the pool fund of donations managed by the Ministry of Health at the federal government level. There are various in-kind donations extended directly from UNICEF and the U.S. Agency for International Development (USAID) to health establishments in TRG woredas. The donations include materials and equipment, medications and medical equipment, and food for undernourished children. There are reports to the donors on the usage of the in-kind donations. Prepare every quarter a performance report on the achievement made in the health sector is prepared quarterly.

PI-9. Public access to fiscal information

Education and Health

57. Transparency at the woreda and primary service delivery unit levels (schools and health centers) is different within the visited administration offices and service delivery units. Internet websites are not the main means of information dissemination. The woreda administrations and the primary service delivery units use the public notice boards to convey messages and inform the public. Procurement-related information such as tender bids and tender evaluation outcome is also posted. In addition, the tender bids are also broadcasted by radio.

58. The BoH and BoE post mainly the approved budget usually within a month of its approval by the council. The woreda offices appear to be more transparent to their communities. All the visited woredas post the approved budget, in-year, annual budget execution, and the audited reports. This is part of the federal government's FTA initiative which is being implemented in all woredas throughout the country. The performance is also discussed on an annual basis with the community representatives from women, the youth, kebele administration, elders, and so on.

59. Generally, the public notice boards display the approved budget allocated to each woreda administration office and primary service delivery units. TRG bureaus appear to provide the public only the approved annual budget, whereas woreda offices are more transparent to their respective communities posting the in-year and the annual budget execution reports and the external audited report as well. Budget proposals and marco-fiscal information of any kind are not made public.

Pillar III: Management of assets and liabilities

PI-11 Public investment management

60. Primary service delivery units (primary schools and health centers) do not undertake public investment projects; they are initiated and implemented either by the woreda or by the regional administration. Project feasibility studies, costing, selection, monitoring, and evaluation of implementation are all functions performed by the Monitoring and Evaluation Department at BoFEP.

61. Project ideas and needs assessments come from the woredas after public discussion with community. Then, the proposed investment project is presented and discussed in the woreda council, and once approved, they are submitted to BoFEP for review and inclusion in the capital investment plan.

62. New health centers and primary hospitals are being built in areas with population from 60,000–100,000. The progress of construction is monitored by the monitoring and evaluation department and discussed with the catchment population of the community. The Regional Council Standing Committee for Social Affairs evaluates the impact of the newly constructed facilities. They prepare report, which is discussed at regional council meetings. It is not circulated to the public; it is only for internal use within the authorities of the regional government. The result of the assessment is further presented with the woreda council.

63. Primary service delivery units can also make proposals for capital investment. The three visited woredas verified that needs assessments are made with the public, health centers, and schools. The results are submitted to the Health and Education Offices of the woreda before they are included in a Capital Investment Plan, a three-year plan of investment projects. They are further discussed and preselected in annual meeting with civil societies, women organizations, disabled people association, and representatives of religious groups. As a result of such assessments of needs and public discussions, seven classrooms were built and fencing was installed. Funds for capital projects are also raised with the communities.

64. The health and education sectors are among those the lowest capital allocation. Their share is less than one percent of the total capital expenditure budget of the Tigray Region. The sectors that have received the highest share of capital expenditure from EFY 2008 and 2010 are (i) construction – 25 percent; (ii) water – 20 percent, (iii) and trade and tourism – 15 percent.

Table A7.15: Capital expenditure for TRG's education and health sectors in ETB million

Capital budget outturn	EFY 2008 (2015/2016)	EFY 2009 (2016/2017)	EFY 2010 (2017/2018)
Education			
Original budget	240,313.45	378,487	206,308
Actual	252,464.26	385,932	223,095
Outturn	105.06%	101.97%	108.14%
Health			
Original budget	68,314	76,936	54,797
Actual	68,974	87,366	59,168
Outturn	100.97%	113.56%	107.98%

Source: Annual budget execution report, BoFEP.

65. Table A7.16 shows the share of capital expenditure in health and education sectors in TRG. Both sectors spend more than they plan. The reason for this deviation is rather because of incidental capital projects in the health and education than that investment plans are not sufficiently realistic. Primary schools and health centres are always in need of small repair work and maintenance. The planned capital expenditure funds are never sufficient to cover all needs. Thus, there are capital expenditure projects lagging behind and accumulating with time a significant pipeline of outstanding capital work. Projects in dire need compete among themselves to take priority and get funding for implementation. For example, Johannes IV Primary School in Mekelle recently built a library and new classrooms whereas the need of WC facilities has remained unaddressed for decades. Given that the lowest share (less than 1 percent) in the total capital expenditure is that of the social sectors, such spending is explained mostly by emergency maintenance and repair work.

Table A7.16: Capital budget outturn for health centers in ETB million (2017/2018)

Projects	Approved budget	Adjusted budget	Actual expenditure	Expenditure outturn against original budget
Three new hospital constructions	185.87	381.02	—	0%
60 buildings and other capital items for health centers	126.46	125.59	58.96	47%
Capital project for hospitals	110.12	151.12	77.49	70%

Source: BoH.

66. The investment projects in the health sector generally are generally granted more attention in terms of funding, but not as much in terms of actual realisation. While the data in Table A7.16 refers to construction of fixed assets that are not specifically related to primary service delivery, it is indicative of the priority given to this sector. On the other hand, the data shows that while construction work was planned and approved, on average less than half of what was supposed to be built was realised.

67. On the level of primary service delivery, only the health centre in Wukro woreda realised capital projects recently and built a new neo-natal health complex with all hygienic facilities indoors. The other visited health centres, that generally in more serious need of investment, did not get any improvement of facilities. It is to be emphasised that since woredas function as sub-national governments of lower level to the Regional Government, they are autonomous to undertake projects that they can fund from own revenue as well. Wukro woreda is the one that has grown economically well over the last 10 years due to its industrial development. Therefore, their social needs are better addressed and the level of service demonstrates better quality.

Table A7.17: Capital budget outturn for schools and colleges in ETB million

	Approved budget	Adjusted budget	Actual expenditure	Expenditure outturn against original budget
Primary schools	8.50	9.24	4.95	58%
Secondary schools	5.92	6.27	2.10	35%
Colleges	1,116.46	1,245.45	267.21	24%

Source: BoE.

Table A7.18: Capital expenditure of visited woredas for education and health sector in ETB million

Capital budget outturn	EC 2008 (2015/2016)	EC 2009 (2016/2017)	EC 2010 (2017/2018)
I. Enderta woreda			
Education			
Original budget	3,600,000	1,433,698	0
Actual	5,515,730	9,288,108	4,132,885
Outturn	153.21%	647.84%	—
Health			
Original budget	600,000	—	—

Capital budget outturn	EC 2008 (2015/2016)	EC 2009 (2016/2017)	EC 2010 (2017/2018)
Actual	1,032,870	—	—
Outturn	172.15%	—	—
II. Wukro woreda			
Education			
Original budget	1,200,000	7,200,000	2,139,038
Actual	1,163,725	4,923,589	2,043,284
Outturn	96.98%	68.38%	95.52%
Health			
Original budget	1,750,000	770,000	—
Actual	1,605,853	726,284	—
Outturn	91.76%	94.32%	—

Source: Annual budget execution for EFY 2008, 2009, 2010, BoFEP.

68. Despite the good practice of project selection described, the capital expenditure data show that significant deviation in the planned and actually implemented capital projects in Enderta and Wukro woredas. There was no capital budget allocated for health and education sectors in Kedamay Woyane woreda from 2015/2016 to 2017/2018. The same goes for health in both Wukro and Enderta woredas in 2017/2018. Nevertheless, Table A7.18 shows that in Enderta woreda there is much more implemented capital investment than planned in both health and education sectors. Given the fact that this is a rural woreda within close proximity of the capital town of Tigray Region, situated on the main road connecting the capital to any southward destinations, it is understandable that this woreda will benefit well from the available capital expenditure budget. Still, actual outturn above the approved budget indicates very poor planning and ad hoc decision making on investment. The fact that the capital expenditure budget outturn was more than six times the approved budget implies huge reallocations or supplementary budgets. In any case, such variance affects the budget discipline and impacts service delivery in other sectors also.

69. During the visits in the schools and health centers, the management shared the usual problems related to infrastructure and amenities. They lack toilets, water and sanitation facilities (Johanned IV Primary School and Meremeiti Primary School), fencing, black boards, desks, and chairs. Mostly in Meremeiti Primary School where cattle enter in the school yard, the water tank does not work and there is a lack of basic teaching materials. The school in Wukro is the best equipped with a separate building for secondary school, toilets and sanitation, and drinking water.

70. The situation is similar in the health centers with the one in Meremeite having no water and sanitation, shortage of premises for medical services, and no furniture and basic medical facilities. The other two health centers in Kedamay Woyane woreda are better equipped and the one in Wukro woreda enjoys the best new premises and medical facilities. Still they lack electricity generator and solid metal fence.

71. The reported examples of the facilities' need in both schools and health centres indicate that despite the capital expenditure budgets and realization, the very basic needs of facilities in the primary service delivery are not addressed.

PI-12 Public asset management

72. The primary service delivery units keep a basic fixed asset register. It covers only tangible assets and is a manual recording. The register is maintained but does not include information on land and buildings. The respective woreda finance offices actually support the service delivery units in this function and keep a more comprehensive and consolidated fixed register showing age and usage of fixed assets. Service delivery units report annually to the woreda their fixed assets register which is consolidated for all woreda units electronically. All woredas provide technical support to both schools and health centers in

counting and recording of fixed assets for the annual report submission. The consolidated asset register shows date of purchase, depreciation, and receiving voucher. The guidelines for depreciation and disposal involve a committee of five persons who make the decision on obsolete assets disposal applying the federal government proclamation of asset disposal. The selected assets for disposal are announced to the public for sale in an open bid.

73. This practice is applicable in both health and education service delivery units and is universal for most budgetary institutions in the country.

Pillar IV: Policy-based fiscal strategy and budgeting

PI-16 Medium-term perspective in expenditure budgeting

74. Budget planning and formulation in each of the visited woredas applies the bottom-up approach with primary service delivery units making input into the medium-term sector strategies for education and health. The strategies are developed at the respective Health and Education Offices and include a five-year plan for health and a three-year one for education. Strategic plans for both sectors mostly contain costing of projects with expected output and outcome and they are aligned with the expenditure policy proposal and plans of TRG outlined in the GTP.

75. Enderta woreda issued in February EFY 2010 its latest GTP (2010–2012) outlining priority activities and KPIs. The strategic plans include PIs and costing only for the education sector. The general objective in the education sector is (a) to increase the number of students, (b) to upgrade the teaching methods, and (c) to improve the students' achievement.

76. Wukro woreda also prepares a five-year strategic plan for the health and education sectors. The plan is costed, covers the MTEF, and is submitted the woreda finance office responsible to monitor and follow up strategies' implementation. The Education and Health Offices regularly report on the performance on the plan.

77. The visited woreda prepares strategy plan in line with the regional GTP II. The strategy plan includes the health and education sectors in the woreda. Enderta and Kedamay Woyane woredas did not prepare MTEF.

PI-17: Budget preparation process

78. The usual budget process relevant for all visited woredas starts in February (five months before the commencement of the budget year). The woreda prepares annual plan based on the performance evaluation results of the previous year. The sector offices, including education and health, prepare their plans and the woreda consolidates. Annual budget is prepared based on the ceiling received from BoFEP. The draft budget is completed by end of May or in the beginning of June every year. The woreda finance office facilitates negotiation session between the sector offices on the proposed budget. If there is disagreement with the proposed budget, the ultimate decision is made by the woreda cabinet. The Woreda Finance Office updates the budget after the review by the cabinet. The cabinet submits the draft budget to the woreda council. The BAC of the woreda council reviews the draft budget on the first week of July. The woreda council (with full chamber) discusses the budget and approves in the first week of the first month of the fiscal year.

Table A7.19: Dates of submission of the visited woredas' budget to the legislature

BI	EC 2009 (2016/2017)	EC 2010 (2017/2018)	EC 2011 (2018/2019)
Kedamay Woyane woreda	Not provided	Not provided	Not provided
Enderta woreda	July 30, 2016	July 16, 2017	July 20, 2018

BI	EC 2009 (2016/2017)	EC 2010 (2017/2018)	EC 2011 (2018/2019)
Wukro woreda	July 25, 2016	July 24, 2017	August 11, 2018

Source: Visited woreda finance offices.

79. Table A7.19 shows the dates when the visited woredas submitted their budget to the legislature. These indicate a delay in submission. Woredas submit to the woreda council their budgets after they receive the final subsidy (block grant) amount from the regional government, which is after the regional government's budget approval. The region also approves the budget after receiving the subsidy from the federal government. That is why all visited woredas conformed that there are delays in transfers in the beginning of the year.

Pillar V: Predictability and control in budget execution

PI-21 Predictability of in-year resource allocation

80. All primary service delivery units prepare annual cash flow plans based on monthly limits drawn by the woreda finance office. Quarterly updates are prepared while the monthly cash requests from the woreda finance office to BoFEP are based on monthly updates with justification. There have been no incidences of cash rejection. However, cases of cash shortage, which were overcome by economic classification reallocations and supplementary budgets, have been reported. These did not lead to interruption of primary service delivery.

81. The three woredas visited appear to have somewhat different practices with the provision of cash funds for their operation. Nevertheless, they do not affect the delivery of services in the health and education sectors. The cash shortages in Kedamay Woyane woreda were associated with salary and garbage collection payment in EFY 2008. Enderta prepared a consolidated annual cash flow plan and the budgeted funds are transferred within a week of approval to the account of the woreda administration. Wukro cash requests are based on submission of monthly budget execution reports to TRG which decides how much to send to the woredas based on the reports.

82. Primary service delivery units visited maintain bank accounts for their own source revenue. There are also bank accounts for the subsidies transferred from the woredas that controlled and managed by the woreda finance office. All financial management functions are centralized. Only the Meremeiti Primary School does not receive any other transfers but the GEQIP grants. The primary schools' own revenue accounts are not part of the woreda financial management system. They are budgeted only by the schools for their own management purpose, but the volume of proceeds is not reported.

83. According to the cash transfer report of BoFEP, all woredas receive the approved budget (adjusted budget) in full during the fiscal year. For example, Enderta woreda received ETB 105.19 million (the original budget subsidy was ETB 91.83 million). The woreda received an average of 8.3 percent of the annual budget, which was released monthly with the exception of the 10th month of the fiscal year (April/May 2018). The transfers for the 10th and 11th month were received in the 11th month (May 2018). Similar delay was observed during EFY 2011 (in January 2019) where transfer was delayed for about a month.

PI-22 Expenditure arrears

84. Arrears are not incurred by primary service delivery units. Expenditure arrears can be incurred at the level of woreda mainly for unfinished capital projects. Kedamay Woyane woreda had ETB 1.59 million in expenditure arrears, constituting less than 1 percent of its expenditure budget, but not in the education and health sectors. The practice of retention of advance payment to contractors, which is observed and reported in the main PEFA assessments, is relevant in TRG in general and to Enderta woreda in particular. Usually, woredas retain a certain percentage from payment of capital projects. Retention payables remain outstanding until the contractor delivered the project in line with the agreement. Such payables are not in

the scope of expenditure arrears. The grace period payables to procurement contractor do not accumulate arrears because they are cleared within a month.

PI-23.4 Payroll audit

85. The practice of internal control related to payroll preparation and payment is identical in all visited woredas. Payroll is prepared based on updated staff list. The staff list is usually updated by 20th, and if there are contracts that are terminated on 21st, no clearance is given to respective employee to leave before refund. Payroll audits were carried out and revealed two cases of ghost workers in Enderta woreda; they happened by technical error and the paid salaries were refunded. Both in Kedamay Woyane and in Wukro, the payroll audits did not disclose major weaknesses. It was reported that in case of salary increment, the increase may not be paid during the first month due to delayed notification from the sector offices to the woreda finance office. Such cases are compensated in the following month salary payment.

86. Despite the generally low remuneration levels, staff turnover is not high in neither the education and health sectors. There is no staff turnover in the SD units. More teachers are employed every year. There is shortage of staff in the health centres. There was only one doctor employed in of the the three visited health centres. Usually health officers are the highest licenced staff handling all medical cases. It is to be observed, that generally the salaries in the public sector administration in Ethiopia are low. They are fairly unified and remuneration is equal across levels of specialist in the entire country. There are not many authentic opportunities in the private sector that are publicly announced and the fringe benefits and social packages provided to the public sector employment (mainly in the education sector) make the jobs attractive in the labour market.

87. Payroll preparation, procurement, and disbursement functions are centralized at Woreda Finance Offices. The team did not assess the performance of payroll, procurement, and control over other expenditures. Nearly 80 percent of the total budget of all visited woredas is for salaries and wages. The procurement of goods constitutes the remaining 20 percent.

Table A7.20: Proportion of capital, operating, and recurrent budget for the three visited woredas for EFY 2008–2010

	Budget in ETB	Composition (%)
Salaries and wages	99,599,828	76.7
Operating expense	24,418,585	18.8
Capital budget (Water and Sanitation Program)	5,917,166	4.6
Total budget	29,935,579	100

88. Payroll audit is a regular function undertaken by the woreda finance office. Payroll is prepared monthly based on the updated staff list. Internal audits check mostly if the salary is correctly composed. No major weaknesses were identified.

89. Table A7.21 shows the proportion of capital, operating and recurrent budget for the three visited woredas for both the health and education sectors. Salaries and wages are the highest expenditure item.

Table: A7.21 Proportion of capital, operating and recurrent budget for the three visited woredas for EFY 2008–2010

Capital budget outturn	2008 (2015/16)	2009 (2016/17)	2010 (2017/18)	Average share
I. Kademay woreda				
Education - total	16,424,725	24,475,058	26,762,067	
Salaries and wages	16,240,969.16 (99%)	23,740,805.92 (97%)	26,212,837.28 (98%)	98%

Capital budget outturn	2008 (2015/16)	2009 (2016/17)	2010 (2017/18)	Average share
Operating expenses	183,755.91 (1%)	734,252 (3%)	549,229.32 (2%)	2%
Capital budget (WASH and so on)	—	—	—	0%
Health - total	3,663,987	4,678,482	6,498,941	
Salaries and wages	3,562,438.08 (97%)	4,631,697 (99%)	4,984,410.90 (77%)	91%
Operating expenses	101,548.47 (3%)	46,785 (1%)	1,514,529.91 (23%)	9%
Capital budget (WASH and so on)	—	—	—	0%
II. Enderta woreda				
Education - total	35,507,865	45,835,228	94,508,650	
Salaries and wages	28,174,544.07 (79%)	43,591,405.42 (95%)	48,673,422.92 (52%)	75%
Operating expenses	1,817,590.52 (5%)	-7,044,284.85 (-15%)	36,547,119.66 (39%)	9%
Capital budget (WASH and so on)	5,515,730.10 (16%)	9,288,107.60 (20%)	9,288,107.60 (10%)	15%
Health - total	11,006,898	11,980,026	11,980,026	
Salaries and wages	7,108,560.60 (65%)	8,940,301.33 (75%)	10,638,794.50 (89%)	76%
Operating expenses	2,865,467.77 (26%)	3,039,725.13 (25%)	1,341,231.96 (11%)	21%
Capital budget (WASH and so on)	1,032,870.03 (9%)	—	—	3%
III. Wuikro woreda				
Education - total	24,341,585	41,197,374	41,197,374	
Salaries and wages	22,252,332.70 (91%)	34,477,140.24 (84%)	39,568,186.49 (96%)	90%
Operating expenses	925,527.67 (4%)	1,796,645.12 (4%)	-3,294,401.13 (-8%)	0%
Capital budget (WASH and so on)	1,163,724.54 (5%)	4,923,588.77 (12%)	4,923,588.77 (12%)	10%
Health - total	6,183,585	6,383,225	6,413,332	
Salaries and wages	3,976,701.11 (64%)	4,829,479.90 (76%)	5,581,547.00 (87%)	76%
Operating expenses	601,030.72 (10%)	827,460.85 (13%)	75,393.75 (1%)	8%
Capital budget (WASH and so on)	1,605,853.47 (26%)	726,284.07 (11%)	726,284.07 (11%)	16%

90. The table above shows that in Kademay woreda the share of salaries and wages on average for the three assessed years is 98 percent and 91 percent in education and health sectors and 2 percent and 9 percent for operating expenses, respectively. This implies that the focus on allocated expenditure is to remunerate the teaching staff whereas very less is spent on overheads and nil on capital projects. In Enderta woreda, the data show that 75 percent and 76 percent are on average the share of salaries, 9 percent and 21 percent the share of operating expenses, and 15 percent and 3 percent the share of capital expenditure for health and education, respectively. The situation in Wukro woreda is as follows: 89 percent and 76 percent are on average the salaries spending, 0 percent and 8 percent the operating expenses spending, and 9 percent and 16 percent the capital budget spending in education and health sectors, respectively.

91. Overall, the analysis of these data indicates that salaries are priority spending and hence receive the highest budget allocation; less, almost an insignificant amount, is spent on operating expenses, that is, payment of utilities and cleaning service, and the lowest budget amount allocation is spent on maintenance, repair, and construction of facilities.

PI-24 Procurement

92. The regional government applies the federal government procurement proclamation. Public procurement function is monitored, recorded, and managed at the woreda level. Procurement records exist for all procurement monitoring methods. Procurement plans are prepared and approved by the woreda council. Tender bids are announced on radio, on TV, and in the local newspapers. Bids are also posted in the Chamber of Commerce in Mekelle for Wukro woreda. Annual procurement reports are prepared outlining the procurement statistics. The latest procurement records are available for the last completed fiscal year EFY 2011.

93. The procurement practice in the visited woredas is identical with the generally observed in the other assessed regions. The Regional Procurement and Property Administration Proclamation is the guiding legal document for procurement operation at the woreda level.

94. Public access to procurement information is weak with little information, mostly tender bids, made available to the public. Procurement statistics, contract awards, and data on resolution of procurement complaints are not made public. The Procurement Appeal Board has members representing different woreda sectors and the legal adviser of the woreda administration. The procurement system complaint management is not independent as majority of members on the board are directly or indirectly involved in public procurement.

95. The key medication supplier is EPSA, an independent agency supervised by the Ministry of Health. It is established by proclamation and makes profit to expand its operations. All health establishments are required first to get a stock out clearance from EPSA before they decide to buy from private suppliers. So, in case the required medical supplies are out of stock at EPSA, then private sector suppliers are resorted to.

96. Primary schools are not involved in any procurement activities, but the health centers purchase medical supplies predominately from EPSA. When medical suppliers are not available at EPSA, health centers purchase from the private sector. Shortages of supplies from EPSA were not reported as they are not monitored by the health centers. There were instances when the health centers purchased from private suppliers at a less competitive price. This would have affected either the 25 percent margin usually on top of medical drugs sold in the health centers' pharmacies or resulted in increase of the retail price of the medication. In either case, purchase from the private sector is at the expense either of the health center or the patient.

97. Table A7.22 shows that open tender is the predominant method used in the procurement of medical supplies for the last completed fiscal year. Only in Kedamay Woyane woreda it was less than the benchmark of 60 percent, but this was due to the great diversity of other competitive methods applied in this year. Open tender was the default method used in Enderta and Wukro woredas.

Table A7.22: Public procurement data for all three woredas for EFY 2011

	2011 (2018/2019)	Share (%)
I. Kedamay Woyane woreda		
1. Open tender	11,533,305	57
2. Two-stage bidding	—	—
3. Restricted tender	3,211,690	16
4. Request for quotation	2,833,410	14

	2011 (2018/2019)	Share (%)
5. Request for proposal	682,174	3
6. Direct procurement	2,105,589	10
Total	20,366,168	100
II. Enderta woreda		
1. Open tender	7,616,653	78
2. Two-stage bidding	—	—
3. Restricted tender	610,139	6
4. Request for quotation	—	—
5. Request for proposal	—	—
6. Direct procurement	1,521,179	16
Total	9,747,971	100
III. Wukro woreda		
1. Open tender	45,485,816	82
2. Two-stage bidding	—	—
3. Restricted tender	1,055,665	2
4. Request for quotation	—	—
5. Request for proposal	—	—
6. Direct procurement	8,664,563	16
Total	55,206,044	100

Source: Kedamay Woyane, Enderta, and Wukro Woredas' Finance Offices.

PI-25 Internal control on non-salary expenditure

98. The financial management function of the woreda is centralized and managed by the woreda finance office. It means that all disbursement, collections, procurement, budgetary control, internal audit, accounting, and reporting services are provided to all woreda sector offices by the woreda finance office. The existing PFM-related proclamations of TRG are applied in the woredas and ensure adequate segregation of duties across the expenditure process. The primary service delivery units and the Health and Education Offices are not involved in the financial management function. Woreda finance offices review payment requests of sector offices for availability of budget before processing. The compliance with payment rules and procedures is high. If there are any routine financial transactions errors, they are usually detected by the strict monthly reconciliation procedures and by the internal audit. The financial management laws, regulations, and manuals for accounting, reporting, procurement, internal control, disbursement, and property administrations of TRG are equally applicable at the woreda level.

99. There is strong segregation of duties, clear organizational structure, and separate levels of authority and access rights to recording transactions and payment making.

PI-26 Internal audit

100. The internal audit units use the internal audit manuals issued by BoFEP. The internal audit function is centralized at the woreda finance office. It covers all woreda functions, the sector offices, and the service delivery units for the audit of their internal revenue. The internal auditor unit is accountable to the head of woreda administration and reports to the Inspection Directorate of TRG. The capacity of the internal auditors is limited despite their extensive coverage of auditing all service delivery units.

101. The responsibility of the internal auditor includes the audit of all schools and health centers in all three visited woredas. Wukro woreda's internal audit unit covers only 50 percent of the health centers due to limited capacity. The audit covers the monthly revenue and expenditure of all schools and health centers.

102. The usual problems identified by the internal auditors in all woredas are (a) poor management of property and fixed assets, (b) lack of supporting documents for the expenses made and recorded, (c) some

pay slips not be signed, (d) some payment vouchers not signed, (e) four-eyes principle of review not complied with bank payment orders.

103. The implementation of the internal audit planning is strong. The audit plan implementation is 80 percent both at the BoH and BoE. The auditors prepare monthly reports but the response by the executive is weak.

Pillar VI: Accounting and reporting

PI-29 Annual financial reports

104. Primary service delivery units prepare monthly (health centers), quarterly (schools), and annual financial reports (health centers and schools). As there is no IBEX installed at schools and health centers, financial data are processed in IBEX by the woreda finance office. Woredas submit financial reports on donor-funded projects to the respective sector bureau. Internal revenue collected by schools is not included in the financial record of the Woreda Finance Office. The usual problem of Internet connection with the use of online IBEX system affected the timeliness of processing of data and submission of monthly financial report.

105. Consolidated monthly and annual financial reports are prepared by the woreda finance office for all the budget entities in the woreda. The reports contain the budgeted amounts compared with actual outturns for both revenues and expenditures. It is to be noted that these reports do not cover the internal revenue and expenditure of the visited schools and health centers.

106. Federal government accountings standards are applicable at the regional and woreda levels. The woredas submit their monthly reports to the respective zones and the zones consolidate the reports of the woredas and submit on a quarterly basis to BoFED.

Pillar VII: External scrutiny and audit

PI-30 External audit

107. There is no sector specific external audit report or reference to health and education within the overall external audit report. Woredas are audited by ORAG. Over the last three years, ORAG carried out 300 audits of public bodies annually, including regional woredas, hospitals, sector bureau branches, donor-funded projects, and regional revenue authority branches. Specifically, ORAG's coverage was 90.24 percent, 87.8 percent, and 83 percent for EFY 2008, 2009, and 2010, respectively. Most of the audit reports of the audited entities of regional public bodies have received qualified audit opinion. The audit findings are presented by type of function and are not sector oriented.

All visited woredas were audited in the three years of assessment. It has been indicated by ORAG that some of the woreda finance offices in the region did not timely submit action plans on implementation of audit findings. Such was the case of Enderta woreda. ORAG also audited the Enderta Woreda Revenue Office.

Table A7.23: External audit outcome

Education and health entities	Total	Audited	Clean	Qualified	Adverse
BoE, BoH, and BoTVET	3	2	1	1	0
TVETS	38	21	4	16	1
Hospitals and blood bank	20	20	1	19	0
Teachers college	3	3	0	2	1
Total	64	46	6	38	2
%		72	13	83	4

Source: ORAG Report January 20019.

108. According to the ORAG report of January 2019, the BoE, BoH, BoTVET, hospitals, blood banks, and colleges were audited (Table A7.23). Out of the 64 service delivery entities, 46 (or 72 percent) were audited. About 13 percent received clean audit opinion, 83 percent received qualified opinion, and 4 percent of them received adverse opinion.

Conclusions

109. Generally, it is to be noted that most public finance management functions are handled at the woreda level and not by the primary service delivery units. This is due to technical capacity as well as the pool system of process organisation within the autonomous status of the woredas.

Pillar I: Budget reliability

110. The records of transfers from TRG to the woreda governments show an even monthly disbursement throughout the year. The approved budgets are 100 percent transferred as agreed. This creates reliability of receipt of allocated funds.

111. The budget execution performance is not identical in the three sampled woredas. Apart from the higher budget outturn in EFY 2009, the actual budget expenditure for the last three years, in the sampled health and education sectors, is slightly below the approved original budget. This applied to both TRG total health and education sectors and to the same sectors in Kedamay Woyane and Wukro woredas. Only Enderta woreda plans less than it actually spends in both health and education with some budget outturn being more than 30 percent (in EFY 2009 for education). The expenditure outturns in the health and education sectors are within normal range and do not necessitate contingency vote. The deviation in EFY 2009, in both sectors, particularly in education deviating by 25 percent from the budgeted expenditure, is high. The same pattern of high deviation from the planned budget in EFY 2009 is observed in the sampled woredas with an average deviation of 30 percent for the three visited woredas.

112. The main reason for the deviation is poor planning and unclear strategic policy targets. Low budget reliability jeopardizes the ability of the local government to effectively and predictably allocate resources to strategic priorities.

113. A similar trend is observed in the economic classification composition. Budget transfers from one-line item to another are very common in all visited institutions. It is not allowed to transfer from the capital budget to the recurrent budget. Reallocations can be made and managed only by the woreda finance office and they concern mostly unplanned salary increment in both health and education sectors. While the reallocation is on average 6.4 percent for education and 4.6 percent for health in the three visited woredas, it appears to be highest (more than 10 percent) in both sectors only in Kedamay Woyane Woreda.

Pillar II: Transparency of public finance

114. The data provided indicate that most of the **budgetary activities of the service delivery units** are not covered in the financial reports. This is essential for aggregate fiscal discipline so that the resources are adequately managed. Neither the revenue nor the expenditure of the primary service delivery units appears in the final budget execution report. It is to be noted though that they are reported to the woreda finance office even if they are very immaterial.

115. The service delivery units prepare their own annual budgets with revenue and expenditure. There are no actual transfers of government funds to the service delivery units. The schools and the health centers collect own source revenue, which is used to cover their planned expenditure that is mainly paying for utilities bills, cleaning service, and even facilities maintenance, except makes Wukro woreda, where operating expenses are provided to the visited service delivery units. The own source revenue funds, as well as the expenditure of the schools and health centers, are not part of the government operations and

are all outside the government annual financial reports. The service delivery units prepare and submit their annual budget plans consisting of own source revenue and expenditure to the woreda councils for approval but neither of these funds reaches the consolidated annual budget execution report of the woreda finance office to BoFEP. It is to be emphasized, however, that the own source revenue in both sectors is used to cover the overhead expenditure of the respective SD unit. These volumes are very immaterial.

116. The **system of allocation and the timeliness of transfers** to the levels below the SNG have an impact on the ability of the regional government, as well as any lower structure, to achieve and maintain aggregate fiscal discipline and allocate the approved resources so that efficient services are provided. The system for allocating transfers associated with the education and health sectors coincides with the system for overall transfers. Delays happen with transfers from woreda to service delivery units mainly in operating expenses because salaries are paid by the woreda finance office. The approved recurrent expenditures covering salaries are never late. In times of transfer delay, gaps are plugged by donor funds but as the delays are never more than a month, no arrears are incurred and accumulate.

117. **Performance information for service delivery** shows that health centers and schools prepare strategic plans. These do not contain costing but do generally include KPIs to be achieved during the planning period. There are strategic plans for health (five year) and education (three-year) with targeted activities, outputs, and outcomes. The achieved performance in both health and education is evaluated quarterly. When problems are encountered, these are discussed in public and action plans are developed for their solution. Strategic plans with KPIs and targeted achievement as well as the performance reports are not published for distribution to the public. They are mainly issued and addressed to the respective sector's involved parties.

118. According to the woreda finance heads, there is a high level of public participation in reviewing the performance of schools and health centers in the woredas. Budget and performance reports are posted at health centers for public access in local language. Community representatives participated in the budget preparation process and quarterly performance review meetings. Strong inspection mechanism is established for performance evaluation at both woreda and regional levels.

119. **Transparency of public finance** depends on whether information on government plans, positions, and performance is easily accessible to the public. Published information facilitates the ability of the public to engage with the government and understand how public resources are being used. When the information is available, it can generate a dialogue among the interested stakeholders. The service delivery units in health and education do disclose their plans and performance information, but to what extent this reaches the society in an accessible manner is yet to be grasped. The transparency of public funds information targets interaction with society. However, such interaction requires easy access to and easy processing of information, a mature civil society, specific sector knowledge, and opportunities for dialogue. Besides the notice board publication that is a well-established practice in Ethiopia in making the information public, the team has not come across other widely used means of publishing information on service delivery.

120. Generally, the public notice boards display the approved budget allocated to each woreda administration office and primary service delivery units. TRG bureaus appear to provide the public only the approved annual budget, whereas woreda offices are more transparent to their respective communities posting the in-year and the annual budget execution reports and the external audited report as well. Budget proposals and macro-fiscal information of any kind are not made public.

Pillar III: Management of assets and liabilities

121. The volume of **public investment** in health and education is very insignificant. Both sectors, which are frontline service delivery units in any society, enjoy a worryingly unfair share of the total capital budget

for TRG, with average share for the three years of assessment, 9.7 percent in education, and 1.4 percent in health. Total average capital budget allocation of TRG is 40 percent.

122. Regional government authorities are responsible and undertake project investment management with the support of woredas. The process of selection of investment projects originates from the assessment needs analysis made at primary service delivery units. Schools and health centers can propose activities and projects for investment that are discussed with community at the woreda level and then proposed to TRG for inclusion in the capital investment plan. Nevertheless, budgets approved for capital expenditure are less than the actual outturn in the education sector while a bit more in the health sector. Generally, the health and education sectors represent the lowest share (less than 1 percent) of capital expenditure volume of TRG. In spite of the good practice to assessment needs analysis and public discussion and selection of investment projects, the investment needs in both sectors are basic and indispensable. They consist mainly of water and sanitation facilities, furniture, and maintenance and repair work.

123. **Public assets management** at the level of health and education sectors is not good. The usual weaknesses cover the lack of or incomplete fixed asset registers. The usual weaknesses are no asset identification numbers and no annual physical inventory.

124. The service delivery units lack technical capacity to maintain the asset register on their own. They are supported by the respective woreda administration experts in counting and recording to prepare the required annual update of assets register due for submission to the woreda finance office for consolidation. The asset registers of the service delivery units cover only tangible assets with detailed record of purchase and depreciation. Assets disposal is decided by a commission applying the principles stipulated in the federal government proclamation.

125. It is to be observed that there is idle medical equipment that is not used to provide medical service due to various reasons of organizational nature. On the other hand, both health centers and primary schools need medical/teaching facilities and furniture. Schools are poorly equipped with essential facilities missing such as water and sanitation, laboratories, and libraries. If a performance audit is undertaken to assess the magnitude of the problem, it may contribute to rectify the problem and contribute to a more conducive environment in both schools and health centers.

126. It can be concluded that there is no effective management of assets to ensure that resources owned by the service delivery units are used efficiently and effectively for service delivery. This implies that the woreda finance office is also not aware of assets that are not needed or not fully utilized. This prevents the service delivery unit management from taking decisions on whether the assets should be transferred to other users or disposed of. Poor asset management systems affect the quality of service delivery and hence the achievement of policy targets.

Pillar IV: Policy-based fiscal strategy and budgeting

127. The **medium-term perspective** tool in the case of the visited woredas does not appear to be a very useful framework for managing resource allocation. There is no MTEF prepared by Enderta and Kedamay Woyane woredas. The data of Kedamay Woyane woreda were not easily retrieved and were not provided. The deviation between MTEF and the actual approved budgets could not be evaluated. This would have enabled to trace if there is predictability in budget allocations and expenditure planning.

128. Nevertheless, budget planning and formulation applies the bottom-up approach with primary service delivery units contributing inputs into the medium-term sector strategies for education and health. The strategies are prepared by the sector offices and include a five-year plan for health and a three-year plan for education. Strategic plans of both sectors mostly contain costing of projects with expected output

and outcome and they are aligned with the expenditure policy proposal and plans of TRG outlined in the GTP.

129. The available data for the health sectors in Enderta and Wurko Woredas shows a significant deviation between the MTEF and the approved budget for the fiscal year in question. No MTEF is prepared for the education sector in all visited woredas. The MTEF forecast in Enderta Woreda was 63% on average showing a weak link with the approved budget. With an average variation of 10%, in Wukro Woreda, the medium-term budget forecasting appeared to be more realistic. The better conditions in the health centres in Wukro are also indicative that planned development activities are included in the annual budget and realised. This is illustrated by the facilities expansion and overall higher level of social and economic development in the health sector in Wurko. Wukro is the only woreda with health insurance services.

130. The **budget process** is orderly and ensures that there is adequate time and information on procedures to allow budget proposals to be developed. The service delivery units receive guidance and requests on budget preparation five months before the beginning of the fiscal year. A clear budget calendar exists and is adhered to. It allows the woreda sector institutions more than six weeks to prepare their estimates but delays of between one to two weeks are experienced in terms of actual submission of annual budget estimates from the service delivery units to the woreda finance offices. The annual budget estimates of primary service delivery units are part of the health and education sector budgets. The budgets of the service delivery units are consolidated in the respective woreda's budget.

Pillar V: Predictability and control in budget execution

131. While **predictability for in-year resource allocation** is working well in TRG, the examples of service delivery units show that availability of actual cash for payment of expenditure remains a challenge. This situation obviously has a negative impact on timely payment for goods and supplies. This problem originates from the fact that primary service delivery units, with exception of Wurko woreda, do not receive any cash from the woreda administration. The woreda finance office prepares annual cash flows, consolidates the sector cash flows, and updates based on actual cash inflows and outflows. There were no reported instances of cash shortages, especially for recurrent expenditure.

132. It can be concluded that the cash management system cannot accommodate the cash needed of the primary service delivery units. They alone need to find sources of own revenue and take care of their cash needs.

133. Capital expenditure management is not the responsibility of the primary service delivery units, and therefore **expenditure arrears** are not incurred at this level. Cash shortages do not trigger expenditure arrears because recurrent expenditure is always handled on time. In all cases, there was no stock of expenditure arrears. Arrears can be incurred only in capital expenditure payments, which are dealt with at the woreda level and are not the remit of primary service delivery units.

134. Payroll preparation, procurement, and disbursement functions are centralized at Woreda Finance Offices. Nearly 80 percent of the total budget of all visited woredas is for salaries and wages. The procurement of goods constitutes the remaining 20 percent of the recurrent expenditure budget. Schools and health centers in Kedamay Woyane and Enderta woredas do not receive any transfers for operating expenses. All payment is dealt with at the woreda level. Payroll audit is a regular function undertaken by the woreda finance office. Payroll is prepared monthly based on an updated staff list. Internal audit checks mostly if the salary is correctly composed. No major weaknesses are identified.

135. The budget is allocated mostly for salaries spending in both sectors. The allocation for operating expenses is very low and often insufficient making the SD units resort to their own source revenue in order to pay utilities and cleaning service.

136. The level of remuneration in both health and education is low, nevertheless, there is no staff turnover. In the education sector where more teachers are employed every year. There is shortage of staff in the health centres where mostly health officer handles all medical cases and doctors are rarely found.

137. **Procurement** constitutes a significant part of government expenditure and is strongly linked to the quality and timeliness of service delivery. Value for money and fiduciary integrity cannot be attained if the procurement monitoring and reporting systems are not prudent. The lack of public access to complete, reliable, and timely procurement information, including procurement statistics, data on resolution of procurement complaints, and procurement plans, limits the transparency of the procurement system.

138. Procurement monitoring is strong in the visited woredas. Data are recorded for all works, services, and goods with details of contract awards, duration, value, and the procurement method applied. More than 80 percent of contracts on average use the competitive methods and more than 60 percent use only the open tender method. This indicates that the competitiveness is a key factor with purchase of supplies and equipment.

139. Direct contracting is also used in all three woredas and while the competitive method prevails, the share of direct procurement contracting is 16 percent in two of the visited woredas (Enderta and Wukro).

140. Purchasing from commercial suppliers though has an impact on the final retail price, because health centers by regulation uplift the purchase price by 25 percent. This increases spending on medical supplies, as well as the likelihood of being unable to pay for emergencies and maintain a regular stock of medical supplies. A higher quotation of secured deliveries from the supervised agency EPSA would be more beneficial, especially for health centers, which are the frontline medical service providers.

141. There is strong segregation of duties, clear organizational structure, and separate levels of authority and access rights to recording transactions and payment making. The existing PFM-related proclamations of TRG are applied in the woredas and ensure adequate segregation of duties across the expenditure process.

142. **Internal controls for non-salary expenditure** are well designed and highly complied with. This provides assurance that performance is as intended, and the allocated resources are used only with appropriate authority. The assessed service delivery units demonstrated that as far as internal control is concerned fiscal discipline is maintained, the resources are allocated as intended, and service delivery has access to and uses the resources for the purposes provided.

143. There is no **internal audit** unit established in the health and education service delivery units. The Internal audit function is centralized at the woreda finance offices and covers the audit of all primary service delivery units. Professional standards are not applied, and risk assessment is not the approach employed to define the annual internal audit topics. The internal audit practice is still in process of being developed and hence covers limited issues of internal control system nature. While the capacity of the internal audit is weak, the implementation of planned audit is reported to be 100 percent.

144. The usual audit findings are associated with incomplete transaction documentation and poor property management.

Pillar VI: Accounting and reporting

145. Annual financial reports are critical for the accountability and transparency of the entire regional government. They support TRG in achieving fiscal discipline, ensuring that resources are allocated to strategic priorities, and assessing the efficiency of service delivery. Primary service delivery units deliver financial information, revenue, and expenditure, to their respective woreda finance offices. The reports of

the health centers do not cover records of assets. This is how medical equipment not functioning or not commissioned falls out of scope of management analysis.

Pillar VII: External scrutiny and audit

146. There is no sector specific external audit covering health and education sectors. ORAG conducted about 300 audits of public bodies annually for the last completed three fiscal years. This assessment focuses on the audit coverage of the regional public bodies. Most of the audit reports of the audited entities of regional public bodies have received qualified audit opinion. Apart from Wukro Woreda, which received clean audit opinions in the last five years, the audit opinions are qualified for the other two woredas. ORAG's coverage was good: on average 87 percent in EFY 2008, 2009, and 2010.

147. The audit findings are presented by type of function and are not sector oriented. The usual weaknesses are identified in the inadequate accounting and reporting practices.