Support to Public Finance Management Reform, Kingdom of Lesotho

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Contracting Authority: National Authorising Office (NAO), Lesotho Ministry of Finance

Public Expenditure and Financial Accountability (PEFA) Assessment 2016

Final Report

April 2017

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in consortium with GRM International and NTU

DISCLAIMER

The opinions contained in this report are of the exclusive responsibility of the authors and do not represent, in any way, the official position of the Government of Lesotho, nor the European Union, nor those of its Member States.

Acronyms and Abbreviations

AfDB	African Development Bank
AGA	Autonomous Government Agencies
BCC	Budget Call Circular
BFP	Budget Framework Paper
CAO	Chief Accounting Officer
CBL	Central Bank of Lesotho
COFOG (UN)	Classification of the Functions of Government
CS-DRMS	Commonwealth Secretariat Debt recording and Management System
DDP	Deepening Decentralisation Programme
DEU	Delegation of the European Union
DHMT	District Health Management Team
DSA	Debt Sustainability Analysis
EU	European Union
FC	Financial Controller
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GoL	Government of Lesotho
HDI	Human Development Index
IA(D)	Internal Audit (Department)
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
LRA	Lesotho Revenue Authority
M	Lesotho Maloti (currency)
MDA	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MDP	Ministry of Development Planning
MHSW	Ministry of Health and Social Welfare
MLG	Ministry of Local Government and Chieftainship Affairs
MPWT	Ministry of Public Works and Transport
MPS	Ministry of Public Service
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
N/A	Not applicable
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PETS	Public Expenditure Tracking Survey
PFMA	Public Financial Management and Accountability
PI	Performance Indicator
PPAD	Procurement Policy and Advice Division
PS	Principal Secretary
PSIRP	Public Sector Improvement and Reform Programme
PSC	Public Service Commission
SACU	Southern Africa Customs Union
SAI	Supreme Audit Institution
SOE	State Owned Enterprise
TA	Technical Assistance
TIN	Taxpayer Identification Number
UNDP	United Nations Development Programme
WASCO	Water and Sewerage Company
WB	World Bank

Fiscal year:	1 April to 31st March
Currency:	Maloti
Exchange:	EUR1 = M14.79 (December 2016)

Executive Summary

Purpose and Management of the Assessment

This Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report evaluates the seven core pillars of the Public Financial Management (PFM) system of the Government of Lesotho (GoL) as set out in the summary assessment below. It evaluates how effectively the PFM system achieves the desirable budget outcomes of aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. The assessment was conducted in consultation with officials of the GoL and a team of international consultants. An oversight team with representatives of GoL managed the project.

Prior to this current assessment, two previous PEFA assessments have been conducted in Lesotho at central government level; the first in 2009 covering FY2005/2006 to FY2007/2008 and the second in 2012 covering FY2009/2010 to FY2011/2012

This assessment uses the revised 2016 PEFA framework.

The main report has the following structure:

- **Chapter 1** is an introduction explaining the context, purpose and process of preparing the report, specifying the institutional coverage;
- **Chapter 2** provides an overview of relevant country-related information that provides the context underpinning the indicator results and the overall PFM performance;
- **Chapter 3** provides the detailed assessment of performance in terms of the seven pillars of the PFM system. It provides analysis and measurement of results in terms of the 31 performance indicators (PIs) of PFM performance;
- **Chapter 4** includes an integrated crosscutting analysis on performance of the PFM systems and how it impacts on the Government's ability to deliver on the intended fiscal and budgetary outcomes, and to identify the most important systems weaknesses in that respect;
- **Chapter 5** provides an overview of government´s PFM reform programmes including the institutional factors that are likely to impact the planning and implementation of reforms;
- **Annexes 1-6** provide supporting data and information to the assessment.

Assessment Coverage and Timing

The assessment covers budgetary Central Government (including deconcentrated government; education and health operations), the Auditor General and Parliament. Subnational Government has been included insofar as the government's oversight of fiscal risks arising from Local Government Units are concerned. Local Government Units per se, were covered in this assessment, as they are not separate budget heads. However, they are included in the expenditure of Ministry of Local Government. Public Corporations/ Enterprises (primarily concerned with water and electricity) form an important part of the economy, and the government has shareholdings in a number of commercial or semi-commercial enterprises and more recently has engagements in Public Private Partnerships

(PPP). The coverage also includes the governments monitoring of government-owned or -controlled corporations, concerning fiscal risks and possibly contingent liabilities related to their operations.

Data gathering for the assessment, took place primarily between October and November 2016.

Completed Fiscal Years are 2013/14, 2014/15, and 2015/16; the latest three years for which completed budget data is available. The last completed Fiscal Year is 2016, and the latest budget submitted to legislature and enacted is for the Fiscal Year 2016/17. As of the time of drafting this report, external audit of central government consolidated financial statements for FY2014/2015 and FY2015/2016 have not been completed. The analysis of the performance indicators in Chapter 3 is based on the latest data available in each case, following the guidelines for each indicator.

At the level of Government institutional entities, the focus is on PFM practices as evidence of Government performance rather than a review of specific entities.

Impact of PFM Systems on the three main budgetary outcomes

Fiscal Discipline

Aggregate fiscal discipline requires that the budget be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The PFM compliance functions must work well, as measured by relevant PFM Performance Indicators. The most relevant of these indicators and their assessment indicate that fiscal discipline (aggregate and at the component level) is undermined by weak budget credibility, compliance, accounting and reporting:

- Controls of spending are deficient and reporting on budget outturns is late.
- Timely accounting and reporting is not working well and both in-year reporting as well as annual financial statements are late and with unsure quality. The Auditor General has for several years given qualified opinions on annual financial statements.
- Central control over cash is not working well, making the planning of government spending difficult.
- Inadequate internal controls for both payroll and procurement.
- External controls are hampered by late submission of financial statements and the fact that MoF unnecessarily delays the Auditor General´s reports.

Strategic Allocation of Resources

Strategic allocation of resources requires planning and executing the budget to be in line with government priorities aimed at achieving policy objectives. Some of the relevant indicators and their ratings show that the upstream processes of budget formulation and budget process perform fairly well. However, there are weaknesses in terms of downstream implementation of policies because of deficient upstream budget decisions and allocations. Whereas a strong framework exists for objectively analysing and selecting public investments, the medium to long-term ramifications of forward linked recurrent expenditures are not fully considered during appraisal stages; this has implication on subsequent annual budget estimates in terms of available fiscal space. Processes have also been hampered severely by delays and deficient transparency and control:

- The Macro department is developing useful analysis but they are not yet implemented in the budget process and the budget documentation, as the forward estimates in the budgets so far seem to be derived from incremental calculation processes.
- The budget preparation process, including legislative scrutiny of budgets, shows that these processes are in place and working fairly well.
- Expenditure composition outturn is showing that the final year-end result did not deliver the resource allocation intended at the beginning of the year.
- Predictability and control of the budget is showing disappointing results demonstrating the difficulty for budget managers to monitor and manage their budgets.
- Fiscal risks, assets and liabilities are areas of great concern. There are obvious and systematic weaknesses in the systems for monitoring different risks leading to potentially considerable government losses.

Efficient Use of Resources for Service Delivery

Non-compliance with the budget may lead to a shift across expenditure categories; this potentially has a negative effect on efficient service delivery.

The current PFM system in Lesotho hampers efficient service delivery. The budget process does not have a strong policy or strategic focus and controls are deficient. Currently, there is no applied medium-term fiscal strategy to guide the budget process.

The most relevant indicators and their ratings show an appropriate budget development process but inadequate performance in budget execution:

- Budget (expenditure composition outturn) is a major concern for service delivery. This means that the original intentions of the budget as approved by parliament to meet service delivery is derailed by in-year decisions to reallocate these estimates across sectors
- Budget information is not transparent and comprehensive; this defeats citizens' ability to follow through and track resource allocations for service delivery. .
- Policy-based budgeting with a multi-year perspective is lacking. The budget process is able to deliver such a perspective but does not currently have the tools to do so.
- The procurement and tendering processes need an urgent total rehabilitation of the government procurement system as both performance and controls are deficient.

In summary, there is significant fiscal indiscipline resulting in wasteful government expenditure because of very weak linkages to policy priorities and initiatives as originally intended, thereby contributing to misallocation of scarce government resources, resulting in poor service delivery. The fiscal risk exposure to government is huge but still unknown in nominal terms; the existence of PPPs that are currently running and government's intention to fund other investment projects through PPP arrangements significantly poses a threat to government finances especially so when there are neither guidelines nor legislation on PPP. Again, government capacity on PPP arrangement is very limited.

Performance Changes since Last Assessment

In line with tracking performance changes in accordance with the PEFA methodology, the tables below provide performance changes both at the level of indicators and dimensions. As indicated in the two tables below, scores have deteriorated significantly at both indicator and dimension levels since 2012. For instance, whereas there were 9 'Bs' and 16 'Ds' in 2012 at performance indicator level, 2016 recorded only 4 'Bs' but with an increase number of 'Ds' to 20. At dimension level, 2012 recorded 12 'As' and 27 'Ds'; but this deteriorated to 7 'As' and 33 'Ds'. Annex 7.2 provides detailed ratings and performance changes per dimension according to the old (2011) PEFA methodology. Overall, scores and performance have deteriorated.

The analysis of the results points to deterioration of ***aggregate fiscal discipline*** when compared with 2012 assessment, principally due to significant budget overruns even though revenue outturns were close to targets. Unbudgeted increases in civil servants emoluments during the years 2014/2015 and 2015/2016 were the main contributing factor, coupled with expenditures relating to staff capacity building initiatives. Again, huge backlogs and delays in accounts reconciliations as a basis for monitoring budget execution contribute to fiscal indiscipline

Whiles expenditures out of contingency vote has been consistently maintained within set limits, which is impressive, composition variances have been extremely high, the impact of which is poor and ineffective ***resource allocation*** according to original short and medium term strategic plans; this therefore defeats policy-based budgeting intents. Comprehensiveness and transparency of fiscal information required for proper social accountability appear to be fallen short of expectations. The existence of IFMIS has had very limited positive impact on good financial management practices. Procurement management has remained stagnant since 2012; nonetheless, the establishment of independent procurement tribunal is seen as a positive step towards transparency

Service delivery across the entire government machinery has been disappointing; there are no signs of improvement. This has been compounded by poor resource allocation described above. Internal controls for both salary and non-salary expenditures has not improved, especially so with payroll controls. The general external oversight functions of both the supreme audit institution and parliament have seen very little or no improvements.

Table 0.1A: Comparison of PEFA Scores by indicator (according to 2011 methodology)

Key PFM Performance Indicators	2012 Scores						2016 Scores					Total Indicators
	A	B	C	D	NR		A	B	C	D	NR	
Credibility of the budget	0	2	1	0	1		0	1	0	3	0	4
Comprehensiveness and transparency	0	3	0	3	0		0	1	1	4	0	6
Policy-based budgeting	0	2	0	0	0		0	1	0	1	0	2
Predictability and control in budget execution	0	2	0	7	0		0	1	2	6	0	9
Accounting, recording and reporting	0	0	0	4	0		0	0	0	4	0	4
External scrutiny and audit	0	0	1	2	0		0	0	1	2	0	3
Total	**0**	**9**	**2**	**16**	**1**		**0**	**4**	**4**	**20**	**0**	**28**

Table 0.1B: Comparison of PEFA Scores by dimension (according to 2011 methodology)

Key PFM Performance Indicators	2012 Scores						2016 Scores					Total Indicators
	A	B	C	D	NR		A	B	C	D	NR	
Credibility of the budget	1	2	2	0	1		1	1	1	3	0	6
Comprehensiveness and transparency	1	4	1	4	0		0	1	3	6	0	10
Policy-based budgeting	3	1	3	0	0		2	1	2	2	0	7
Predictability and control in budget execution	2	8	5	14	0		1	8	7	13	0	29
Accounting, recording and reporting	2	0	0	7	0		2	1	1	5	0	9
External scrutiny and audit	3	1	4	2	0		1	2	3	4	0	10
Total	**12**	**16**	**15**	**27**	**1**		**7**	**12**	**17**	**33**	**0**	**71**

In addition to the above comparison, the team compared 2012 assessment with the 14 directly comparable dimensions of the 2016 framework; the results are presented below:

Table 0.1C: Changes in the ratings for directly comparable dimensions since 2012

Old Indicator/ Dimension (2012)		New Indicator/ Dimension (2016)		2012 Score	2016 Score	Performance change since 2012
2.2	The average amount of expenditure actually charged to the contingency vote over the last three years	2.3	Expenditure from Contingency Reserves	A	A	
PI-5	Classification of the Budget	PI-4	Budget Classification	B	C	
17.1	Quality of debt data recording and reporting	13.1	Reporting of Debt and Guarantees	A	B	
11.1	Existence of and adherence to a fixed budget calendar	17.1	Budget calendar	C	C	
11.2	Clarity/ Comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent)	17.2	Guidance on budget preparation	A	A	
27.1	Scope of the legislature's scrutiny	18.1	Scope of budget scrutiny	B	B	
27.4	Rules for in-year amendments to the budget without ex-ante approval by the legislature	18.4	Rules for budget adjustments by the executive	C	C	
17.2	Extent of consolidation of the government's cash balances	21.1	Consolidation of cash balances	D	D	
16.1	Extent to which cash flows are forecast and monitored	21.2	Cash forecasting and monitoring	D	D	
16.2	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	21.3	Information on commitment ceilings	A	B	
16.3	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	21.4	Significance of in-year budget adjustments	B	B	
18.3	Internal controls of changes to personnel records and the payroll	23.3	Internal control of payroll	D	D	
18.4	Existence of payroll audits to identify control weaknesses and/or ghost workers.	23.4	Payroll audit	D	D	
20.1	Effectiveness of expenditure commitment controls.	25.2	Effectiveness of expenditure commitment controls	B	C	

Legend		
Improved	Slipped	No Change

Of importance to note is that only 14 dimensions are directly comparable between the old (2011) and the new (2016) frameworks. Above, table 0.1C provides a summary analysis of performance change since 2012 compared to 2016. Whereas the overall 2016 PFM performance is incomparable with the 2012 assessment, the general observation is that of no improvement and in some cases, there is a decline in performance.

In all four cases below, the assessment, team opines that the 2012 assessment ratings were too high, based on the following:

- Budget Classification: This has remained unchanged since 2012; Budget Classification is based on administrative and economic categories compliant with GFS 2001; COFOG has not been applied since 2012. The Government is working towards GFS 2014, which will include COFOG;
- Quality of Debt Data Recording: In 2012, the team did not consider PPP in assessing this dimension, probably because there were no ongoing PPP arrangements. In 2016, however, PPP was considered, firstly because of a number of ongoing PPP arrangements, and secondly the non-existence of PPP Policy Guidelines and/or Legislation;
- Information on Commitment Ceilings: In 2012, expenditure commitments ceilings are issued quarterly to budget entities; this has not changed;
- Effectiveness of Expenditure Commitment Controls: The 2012 Assessment ignored commitments outside IFMIS; this practice is not new. The 2016 Assessment took account of commitment controls both within IFMIS and outside IFMIS.

It is therefore fair to conclude that performance has remained unchanged since 2012 with reference to the four dimensions outlined above.

Overview of ongoing and planned PFM Reforms and Main Weaknesses Identified

The overall PFM Reform Action Plan is a wide-ranging but interrelated approach to PFM reforms. Development Partners have endorsed this approach, through individually and jointly, providing financial commitments in support of the government's initiatives.

However, the Action Plan is Government of Lesotho (GoL) owned and led at high-level through the Improvement Reform Steering Committee (IRSC), and at an operational level through Component Leaders who are senior government officials, just below the level of Heads of Departments.

The principal stakeholders of EU-Lesotho co-operation are:

i. The European Union Delegation;
ii. The Ministry of Finance key departments and implementing units: National Authorising Office; PFM Secretariat, Budget Department, Macroeconomic Policy Management Department, Legal Department, Private Sector Development and Financial Affairs Department;
iii. The Ministry of Development Planning relevant departments, including: Department of Aid Coordination, and the Project Cycle Management Department;
iv. The World Bank; the African Development Bank, and the IMF.

The PFM Reform Action Plan covers the period of financial years 2012/13 to 2017/18 inclusive and has eight technical and institutional development components, at an estimated cost of USD 27.07million.

Table 0.2: Overall summary of PFM Performance Scores

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	D				**D**
PI-2	Expenditure composition outturn	M1	D	D	A		**D+**
PI-3	Revenue outturn	M2	B	C			**C+**
Pillar II. Transparency of public finances							
PI-4	Budget classification	M1	C				**C**
PI-5	Budget documentation	M1	C				**C**
PI-6	Central government operations outside fiscal reports	M2	D	D	D		**D**
PI-7	Transfers to sub-national governments	M2	C	D			**D+**
PI-8	Performance information for service delivery	M2	D	D	D	D	**D**
PI-9	Public access to key 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	B	B	B	**B**
PI-12	Public asset management	M2	D	D	C		**D+**
PI-13	Debt management	M2	C	C	D		**D+**
Pillar IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		**D+**
PI-15	Fiscal Strategy	M2	D	C	C		**D+**
PI-16	Medium-term perspective in expenditure budgeting	M2	B	A	D	C	**C+**
PI-17	Budget preparation process	M2	C	A	C		**B**
PI-18	Legislative scrutiny of budgets	M1	B	A	C	C	**C+**
Pillar V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	C	C	B	**B**
PI-20	Accounting for revenues	M1	D	B	D		**D+**
PI-21	Predictability of in-year resource allocation	M2	D	D	B	B	**C**
PI-22	Expenditure arrears	M1	D	C			**D+**
PI-23	Payroll controls	M1	D	D	D	D	**D**
PI-24	Procurement	M2	D	D*	D	D	**D**
PI-25	Internal controls on non salary expenditure	M2	A	C	D		**C+**
PI-26	Internal audit	M1	C	D	D	D	**D+**
Pillar VI. Accounting and Reporting							
PI-27	Financial data integrity	M2	D	D	D	A	**D+**
PI-28	In-year budget reports	M1	C	D	C		**D+**
PI-29	Annual financial reports	M1	B	B	D		**D+**
Pillar VII. External Scrutiny and Audit							
PI-30	External audit	M1	C	D	C	D	**D+**
PI-31	Legislative scrutiny of audit reports	M2	D	D	D	D	**D**

1 Introduction

1.1 Rationale and Purpose

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of Public Financial Management (PFM) using quantitative indicators to measure performance. PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes.

The previous PEFA Assessment for the Government of Lesotho (GoL) which was based on the 2011 revised PEFA Framework, was undertaken during 2012 (based on data covering the period 2009/10 – 2011/12 and the PFM status as of mid-2012), and published in November 2012. This means that the results from the new assessment based on the new 2016 framework will create a new baseline for successive assessments. The results from the 2016 assessment are only partly comparable with the previous assessment, as new indicators have been added while most of the remaining indicators have changed composition and scoring calibration. There are two scoring method; the first is M1 which uses the weakest link for averaging the overall score - in this case, the dimension with the lowest rating is taking as the overall score and a '+' is added where the other dimension has a higher rating. The second method is M2 - where a mathematical average is used; for ease of reference, this is accounted for in the PEFA framework on page 10

The 2012 assessment identified a number of areas where significant PFM improvements have occurred since 2009, among them the passing of the Public Financial Management and Accountability Act 2011 and the installation of the new Integrated Financial Management Information System (IFMIS). However, overall progress since 2009 was deemed rather disappointing by the 2012 assessment.

The purpose of this Report is to provide information to stakeholders about the actual performance of the GoL's current PFM system against the new common and standardized Assessment Framework, and thereby facilitate the identification of areas of reform priorities. In addition, the PEFA Report brings out the *status quo* as a guide for future reform priorities of the GoL and provides information to international Development Partners to be taken into account in their future cooperation with and support for the PFM Reform Plans of GoL.

The first step in the preparation of this assessment was planned to be a PEFA training intervention in August 2016 for related GoL departments and agencies, at which the purpose and methodology of the PEFA Assessment was presented and included a number of training activities and workshops for a selected number of GoL key staff. This training was foreseen in the Logical framework of the support to PFM reform, component #8. However, despite its permanent goodwill and constant impressive efforts, the M&E unit of the Planning Directorate did only get a limited number of 10 participants, most of them focal points of the EU PFM support project, which changed the original training plan. Nevertheless, the training intervention carried out daily sessions and collected useful information in advance for the oncoming PEFA team.

The overall objective of this PEFA assessment was to draft a comprehensive "PFM Performance Report" (PFM-PR) prepared according to the PEFA Performance Measurement Framework Methodology of 2016 so as to provide an analysis of the overall performance of the PFM systems of the GoL and to provide a baseline against which future progress can be measured.

More specifically, the results of this assignment will provide the GoL and its Development Partners with:

a) An assessment of the quality of PFM in the GoL in 2016, based on the PEFA methodology, including an assessment of the relative strengths and weaknesses of the three main budgetary outcomes: Aggregate fiscal discipline, Strategic resource allocation and Efficient service delivery, and;
b) A basis for further analysis and dialogue on PFM Reforms, to inform future updates to the PFM SSP and subsequent action plans. Additionally, inform the monitoring and evaluation work of government, development partners and other stakeholders.

1.2 Assessment Management and Quality Assurance

Box 1-1 Assessment Management and Quality Assurance Arrangements

PEFA Assessment Management Organization

Oversight Team – Chair & Members:

- Chair, Mr. Habofanoe Makopela – Director Planning, MoF
- Ms. Maleshoane Lekomola – Chief Budget Officer, MoF
- Mr. Tom Mpeta – Principal Secretary of Finance, MoF
- Mr. Sam Mphaka – Accountant General, MoF
- Mrs. Motena Ts'olo – Chief Executive Macroeconomic Policy Management Department, MoF
- Mr. Ts'olo Maoeng, PFM Monitoring and Evaluation, and Quality Control Officer, MoF
- Assessment Manager: Mr. Ts'olo Maoeng, PFM Monitoring and Evaluation, and Quality Control Officer, MoF

Assessment Team:

- Göran Steen, PEFA Team Leader
- Charles Hegbor, PEFA Expert 1
- James Botha, PEFA Expert 2

Review of Concept Note and/or Terms of Reference

Date of reviewed draft concept note and/or Terms of Reference: August 2016

Invited Reviewers:

- PEFA Secretariat
- Government of Lesotho
- **Michel Sigaud**, PFM/ PEFA Consultant
- Linpico Sarl, Project Manager
- World Bank : **Mr. Gert Van der Linde** - Lead Financial Management Specialist. The World Bank is also instrumental in funding part of the ongoing PFM reform project, specifically

focusing on the upgrade of IFMIS

- European Union : **Mr. Jyrki Torni** - First Secretary. The EU is the lead sponsor of the ongoing PFM reform with funding from the 10th EDF. The PEFA assessment is also funded solely by the EU
- AFDB: **Mr. Kalayu Gebre-Selassie** - Chief Governance Officer. The AfDB is also providing funding to support the PFM reform project with specific focus on strengthening external audit functions
- IMF: **Mrs. Sebongile Nkholise** - IMF Country Office. The IMF is providing technical assistance on cash and treasury management aimed at developing a Treasury Single Account framework for efficient cash management
- Lead agency of the PEFA assessment: European Union

Date(s) of final concept note and/or Terms of Reference: August 2016

Review of the Assessment Report

- Date(s) of reviewed draft report(s): Draft report:January 16, 2017; Draft final report: March 3, 2017 (Both these reports were sent out for review to all reviewers); Final report March 22, 2017
- **PEFA Secretariat**: Reviewed Draft report, Draft final report and Final report
- **Government of Lesotho**: Reviewed Draft report and Draft final report
- **Michel Sigaud**, PFM/ PEFA Consultant: Reviewed Draft report and Draft final report
- **Linpico Sarl,** Project Manager: Reviewed Draft report and Draft final report Reviewed Draft report and Draft final report
- **World Bank** : **Mr. Gert Van der Linde** - Lead Financial Management Specialist. The World Bank is also instrumental in funding part of the ongoing PFM reform project, specifically focusing on the upgrade of IFMIS Reviewed Draft report and Draft final report
- **European Union** : **Mr. Jyrki Torni** - First Secretary. The EU is the lead sponsor of the ongoing PFM reform with funding from the 10th EDF. The PEFA assessment is also funded solely by the EU. Reviewed Draft report and Draft final report
- **AFDB**: **Mr. Kalayu Gebre-Selassie** - Chief Governance Officer. The AfDB is also providing funding to support the PFM reform project with specific focus on strengthening external audit functions. Reviewed Draft report and Draft final report
- **IMF**: **Mrs. Sebongile Nkholise** - IMF Country Office. The IMF is providing technical assistance on cash and treasury management aimed at developing a Treasury Single Account framework for efficient cash management: Reviewed Draft report and Draft final report

1.3 Assessment Methodology

Coverage of the Assessment

The assessment covers budgetary Central Government (inclusive deconcentrated government; education and health operations), the Auditor General and Parliament. Subnational Government have been included insofar as the government's oversight of fiscal risks arising from Local Government Units are concerned. Currently there are 25 Ministries, 10 Offices (including the Offices of His Majesty the King, the Prime Minister and the Auditor-General). At Sub-National level, there are 10 District Councils and Maseru City Council, and

128 Community Councils. Local Government Units per se are not covered in this assessment as they are not separate budget heads but included in the expenditure of Ministry of Local Government.

Public corporations/ enterprises (primarily concerned with water and electricity) form an important part of the economy, and the government has shareholdings in a number of commercial or semi-commercial enterprises and more recently has made financial engagements in Public Private Partnerships (PPP). The coverage includes the governments monitoring of government -owned or -controlled corporations concerning fiscal risks and possibly contingent liabilities related to their operations.

At the level of Government institutional entities, the focus is on PFM practices as evidence of Government performance rather than a review of specific entities.

When Performance was Assessed

Data gathering for the assessment, primarily took place between October and November 2016. Completed Fiscal Years are 2013/14, 2014/15, and 2015/16, the latest three years for which competed budget data is available. The last completed Fiscal Year is 2016, and the latest budget submitted to legislature and enacted is for the Fiscal Year 2016/17. The analyses of the performance indicators in Chapter 3 are based on the latest data available in each case, following the guidelines for each indicator.

The assessment was conducted via the following stages:

a) Concept Note Review – see Box 1.1, above;
b) Launch of PEFA Training for counterpart team, (August 2016). In this period some basic data was gathered for the following PEFA assessment;
c) Assessment Team recruited, (September 2016);
d) Assessment Team successively in place in Maseru, (October 19 – November 2, 2016);
e) Assessment Field Phase, (October 19 – December 14, 2016);
f) Preliminary results presented at stakeholders' validation workshop, (December 8, 2016);
g) Draft Report finalised and circulated to government and stakeholders, (December 2016);
h) Comments received from Government and stakeholders, (January 2017);
i) Final Draft Report finalised and re-circulated, (February 2017);
j) Final Report finalised after input from stakeholders, (March 2017);
k) Final Report presented and discussed in Maseru together with Government and other stakeholders, (March 2017);

Sources of Information

The Assessment Team carried out extensive data collection and consulted with a range of stakeholders, including Government Officials and Development Partner representatives.

The list of persons consulted is visible in Annex 3. Annex 2 provides the main information sources cited.

Dates Sources are provided for all data tables, figures, and boxes.

Other methodological issues for the preparation of the report

The PEFA Training that took place before the assessment was envisaged as being an extensive 4 weeks procedure, which would create a counterpart team capable of providing support to the assessment throughout the field phase. However, it appeared that the attendance at the training had been poor for a number of unknown reasons. Therefore, it was not possible for the Assessment Team to mobilise a counterpart team to play the originally envisaged role.

There was a delay starting the assessment, for various reasons, and subsequently started about 1½ months after the training. Furthermore, oftentimes the Assessment Team experienced considerable delays in organising meetings and getting access to requested data. However, overall, the Assessment Team considers the gathered information and data to form a solid base for the analysis and the following conclusions resulting in the scorings of the Report´s 31 indicators.

2 Country Background Information

2.1 Economic Situation

The following paragraphs outline the Lesotho's economic context with key fiscal Performance Indicators.

2.1.1 *Country Context*

The last population and housing census conducted in 2006, states that Lesotho had a total population of a little over 1.86million. According to the World Bank, Lesotho's estimated population in 2015 stood at 2.135million. GDP in nominal terms was M24billion in 2015 and the real GDP growth rate was 3.4% at constant prices.

Having gained independence in October 1966 from Great Britain, the Kingdom of Lesotho has seen some socioeconomic developments with improvements in the road network, telecommunication, health, and education over the last 50 years. Nonetheless, the level of poverty remains high at 57.1% of the total population and is especially prevalent in rural areas.

Revenues from the Southern Africa Customs Union (SACU) remain the largest share of domestic revenues, at about 44% in 2015/2016 mainly from textiles and other commodity imports into the Southern African sub-region. Royalties from water transfers to South Africa and other non-tax revenues were around 9.4% according to 2015/2016 financial reports from the Ministry of Finance.

In spite of the slowdown in global trade, the resultant effect of which is a decline in SACU revenue, GDP is expected to grow from 3.4%[1] in 2015/16 to 5.5%[2] in 2017/18. This is primarily due to the commencement of production in a new large diamond mine, in 2017.

Current inflation (2015/16) is 4.4% but anticipated to rise to 5% in 2017 mainly due to macroeconomic factors in Lesotho and partly from the economic fundamentals of the Republic of South Africa (RSA) since Lesotho's economy is to a large degree driven by the dictates of RSA. The local currency (Maloti) is pegged to the Rand; therefore any depreciation (or otherwise) impacts on the Maloti.

HIV/AIDS continues to plague the Kingdom, especially the youth at an alarming infection rate of 100[3] new cases per week. That notwithstanding, the Government is committed to eliminating the menace through the 90:90:90 Campaign by the year 2030 - this means, *"90% of Basotho know their status, 90% of those who are positive are put on treatment and 90% maintain viral suppression"*.

As a landlocked country, most of the Kingdom's imports are through its only neighbour, the Republic of South Africa. For this reason, the Lesotho Revenue Authority has automated customs and allied services to facilitate import declarations for improved international trade. The Government acknowledges corruption as a challenge that needs concerted effort in

[1] Budget speech 2016/2017

[2] Budget speech 2016/2017

[3] Refer to 2016/2017 budget speech; page 33

addressing; this according to the GoL will improve investor confidence, stimulate economic growth and create more jobs for the large number of unemployed graduates. Unemployment remains high, especially among the youth.

2.1.2 *Key aspects of the Government's Economic and Fiscal Reforms*

The National Strategic Development Plan (NSDP) 2012/2013 - 2016/2017 outlines the broad spectrum of government reform agenda. It has eight thematic areas, namely:

i. Stability and Democracy;
ii. Human Rights;
iii. Law Enforcement and Administration of Justice;
iv. Policy, Planning and Public Financial Management;
v. Public Administration and Service Delivery;
vi. Decentralisation;
vii. Regional Integration, International Relations and Cooperation, and;
viii. Media.

Currently, the GoL is undergoing PFM reform with sponsorship from the EU under the 10th EDF, World Bank, African Development Bank, and the IMF, which spans 2012-2018. The PFM Reform Action Plan identifies eight strategic objectives to address; aimed at improving the PFM legal framework, macroeconomic performance, transparency and accountability, and external oversight. They include:

- Modernisation and implementation of PFM legal framework;
- Assurance and effectiveness of policy and fiscal transparency;
- Cash flow management for improved central government debt management strategy;
- Improve efficiency and effectiveness of internal control environment;
- Improve and assure compliance with accounting and reporting of budget execution in line with legal framework and international standards;
- Align public procurement with international best practices in relation to efficiency and transparency;
- Improve the external audit and legislative oversight functions to ensure full compliance with INTOSAI and parliamentary best practices respectively;
- Develop a robust monitoring and evaluation framework to track progress of PFM reforms overtime with full government ownership.

Currently, there have not been substantial achievements in terms of actual implementation of the key objectives outlined above, as pointed out in the PFM Annual Report dated May 2016. The exceptions are the initial preparatory work, regarding recruitment and staffing of the PFM Reform Secretariat, and the development of ToRs for short and long-term consultants. Moreover, it has been identified that a lot more effort from the GoL is required by means of ownership and assertiveness of technical departments and component heads, in order to drive the reform agenda.

The World Bank is also funding a number of development programmes for overall government reforms in the following areas:

- Lesotho Scaling Renewable Energy Programme (signed 9th October 2016);
- Social Assistance Project (signed 3rd June 2016);
- Lesotho Education Quality for Equality Project (signed 26th May 2016);
- Public Sector Modernisation Project (signed 24th March 2016);
- Lesotho Continuous Survey Methodology (signed 4th December 2014).

The Government's budget deficit continues to widen, year-on-year, necessitating the legislature to cut government spending in 2015/2016. Unfortunately, however, it appears this has not helped in any way due to provisions in the PFM Act (Section 16(c)) authorising additional expenditure with ex-post legislative approval. The increase in government spending has mostly been on recurrent expenditure to the detriment of development expenditure posing a significant threat to the fulfilment of the NSDP.

The Government, through the 2016/2017 Budget Speech calculated the increase in budget deficit to be 9%, above the desired 3% of GDP. This is mainly due to the reduction in SACU revenue, which is now 17% of GDP (in FY2016/2017) as opposed to 23% in the previous FY. To consolidate fiscal reforms, the government proposed a number of cost cutting measures including cuts in international travels, office rentals, and entertainment. Further, improvement in non-tax revenue collection and accountability has also been identified to bridge the revenue gap.

2.1.3 *Key Economic Indicators*

Table 2.1 below summarises the key economic and financial indicators. The IMF has projected that GDP in nominal terms will hit M27.8billion by end of FY2016/2017; this reflects an increase of M5.83billion from 2013/2014. Actual inflation (CPI) was 4.4%[4] in 2015/2016, 0.5% higher than projected, inflationary pressures from South Africa have contributed to this. The Debt to GDP ratio continues to rise, at 46.2% in 2014/2015; this is expected to increase by 4.1% by end FY2016/2017 mainly due to expansion in government expenditures but with reduction in revenues.

The Fiscal balance excluding SACU stood at negative 30.1% in 2013/2014; however, this is expected to improve by 600 basis points to negative 24.1% by end of 2016/2017. Imports continue to dominate the economy, as there is negligible manufacturing activity. The current account balance excluding official transfers was negative 40.1% in 2013/2014; this is expected to reduce to negative 31.4 by 2016/2017. Import cover (gross international reserves) was a little over 6 months in 2014/2015 but expected to drop marginally to 5.8% in 2016/2017.

Table 2.1: Selected Economic and Financial Indicators (%, unless otherwise indicated)

	2013/2014 Actual	2014/2015 Actual	2015/2016 Projected	2016/2017 Projected
GDP per capita (Maloti million)	21,975	24,071	25,909	27,804
Real GDP Growth	3.6	3.4	2.6	2.9
Non-oil Real GDP	3.6	3.4	2.6	2.9
Inflation (CPI)	5.0	3.8	3.9	4.1
Public Debt (External)	41.1	46.2	50.8	50.3
Public Debt (Domestic)	2.2	1.6	2.6	5.5
Fiscal Balance (excluding grants)	-7.2	-1.4	-6.9	-12.9
Non-SACU Fiscal Balance	-30.1	-28.6	-28.9	-24.1
External Terms of Trade (annual percentage change)	-0.2	5.1	0.5	-1.0
Current Account Balance (including official transfers) % GDP	-10.6	-8.3	-6.4	-12.9
Current Account Balance (excluding official transfers) % GDP	-40.1	-39.2	-33.2	-31.4
Gross International Reserves (months of imports)	5.2	6.3	6.3	5.8

Source: **IMF Article IV Report on Lesotho February 2016 & MoF figures**

[4] Budget speech 2016/2017

2.2 Fiscal and Budgetary Trends

2.2.1 *Fiscal Performance*

As indicated by Table 2.2 below, own revenue including SACU represents 55.6% of GDP in 2013/2014; this is expected to fall by 4.7% in 2015/2016 mainly due to decrease in SACU revenues. Nonetheless, it is anticipated that revenue streams from the new diamond mine in 2017 will shore up own revenues. The Government of Lesotho has lost significant revenue from grants (cancellation of budget support since 2012); project grants in 2013/2014 stood at 4.8% of GDP. Grants fell to 2.1% in 2014/2015 but rose again to 3.7% in 2015/2016. Total expenditures were between 47% and 49% of GDP over the three years under assessment; the lowest was in 2014/2015 at 45.8%. Interest expenditure is expected to rise to 1.2% of GDP in 2015/2016 from 0.9% in 2013/2014 and 2014/2015. Net government financing was negative 2.5% in 2013/2014; this will rise to 3.2% by end FY2015/2016 according to estimates.

Table 2.2: Aggregate Fiscal Data

Government of Lesotho Actuals (% of GDP)	2013/2014	2014/2015	2015/2016
Total Revenue	**60.4%**	**60.6%**	**60.2%**
1. Own Revenues (including SACU)	55.6%	53.0%	50.9%
2. Grants	4.8%	2.1%	3.7%
Total Expenditure	**47.4%**	**45.8%**	**49.0%**
1. Non Interest Expenditure	46.5%	44.9%	47.8%
2. Interest Expenditure	0.9%	0.9%	1.2%
Aggregate Balance (Including Grants)	**13.0%**	**14.8**	**11.2%**
• Primary Deficit	15.5%	14.2%	14.4%
• Net Financing	-2.5%	0.6%	-3.2%

Source: IMF Article IV Report on Lesotho, February 2016

2.2.2 *Allocation of Resources*

Currently, budget allocations are on administrative and economic classifications only; there are neither functional nor programme-based budget allocations. Both the 5-year NSDP and 3-year sector strategies have no cost estimates. The MTEF, existent on paper, has no real medium-term fiscal forecasting framework with impact on outer years cost estimates. Annual budget projections only consider budget year cost implications with very limited macro-forecasting inputs, even though there appears to be a rigorous macro-economic forecasting exercise.

As shown in Table 2.3 below, budget allocations for education and training have consistently been the biggest, with 15.59% in 2013/2014 but declining to 13.23% in 2015/2016. This is closely followed by Health with an allocation of 13% in 2013/2014, 10.49% in 2014/2015, and projected to receive 10.53% in 2015/2016. Most of the Finance budget consists of debt servicing instruments, at 7.61% in 2013/2014, declining to 7.33% in 2015/2016. Roads, transport and public works received an allocation of 7.08% and 7.7% in 2013/2014 and 2014/2015 respectively; this however reduced by a little over 200 basis points to 5.62% in 2015/2016.

Table 2.4 below summarises expenditure by economic classification. There is no doubt that the wage bill remains the largest economic expenditure of government; this was 36.5% in 2013/2014 reducing marginally to 34.7% in 2015/2016. Goods and services account for

22.8%, 19.6% and 21.4% respectively in 2013/2014, 2014/2015, and 2015/2016. Capital expenditure on the other hand received 15.7%, on average, over the last three completed fiscal years.

Table 2.3: Budget Allocations by Administrative Heads

Actual budgetary allocations by administrative heads (as a percentage of total expenditure)			
Administrative Heads	**2013/2014**	**2014/2015**	**2015/2016***
Agriculture and Food Security	2.41%	1.95%	1.72%
Health	13.01%	10.49%	10.53%
Education and Training	15.59%	13.00%	13.23%
Finance	7.61%	6.23%	7.33%
Trade and Industry	0.79%	0.90%	0.51%
Development Planning	5.94%	5.27%	5.29%
Justice, Human Rights and Correctional Services	1.34%	1.23%	1.61%
Home Affairs	1.22%	1.31%	1.76%
Prime Minister	0.86%	0.72%	1.60%
Communication, Science and Technology	1.28%	1.88%	2.66%
Law and Constitutional Affairs	0.42%	0.41%	0.48%
Foreign Affairs and International Relations	2.19%	2.02%	2.01%
Public Works and Transport	7.08%	7.70%	5.62%
Forestry and Land Reclamation	1.49%	1.39%	1.25%
Energy, Meteorology and Water Affairs	3.50%	3.31%	1.05%
Labour and Employment	0.42%	0.36%	0.30%
Tourism, Environment and Culture	0.59%	0.79%	0.84%
Auditor General Office	0.21%	0.17%	0.17%
His Majesty's Office	0.18%	0.05%	0.05%
Public Services Commission	0.05%	0.05%	0.04%
Total of remaining administrative heads	33.83%	40.76%	41.94%
Total expenditure	100.00%	100.00%	100.00%

Source: Consolidated Annual Financial Statements
*** Unaudited**

Table 2.4 Budget allocations by economic classification

Actual budgetary allocations by economic classification (as a % of total exp)			
	2013/2014	2014/2015	2015/2016
Current Expenditure	**84.0%**	**86.0%**	**83.0%**
Wages and Salaries	36.5%	34.0%	34.7%
Goods and Services	22.8%	19.6%	21.4%
Interest Payments	0.8%	1.2%	2.0%
Transfers	13.9%	12.0%	12.8%
Others	10.0%	19.2%	12.1%
Capital expenditure	**16.0%**	**14.0%**	**17.0%**
Total expenditure	**100.0%**	**100.0%**	**100.0%**

Source: Audited Financial Statements; Budget Documents

2.3 Legal and Regulatory Arrangements for PFM

The regulatory framework prescribing public financial management in the Government of Lesotho consists of a comprehensive set of laws and regulations emanating from Chapter 10 on Finance (sections 110 – 117) and from Chapter 13 on Public Service (sections 136 – 151) of the Constitution 1993.

Practical application of the Constitution is facilitated through specific laws and regulations with the aim of promoting compliance and accountability for public financial management. The Public Financial Management and Accountability Act, Act 12 of 2011, is the predominant legislative tool that introduces processes and standards to guide the use, management and control of public funds. It consists of the following pertinent chapters:

- Roles and Responsibilities (functions of the ministers and chief accounting officers);
- Budget (process, format, time frames, reporting and monitoring);
- Financial Management;
- Reporting and Audit;
- Procurement and Government Property;
- Losses of Public Money or Government Property.

The implementation of the Treasury Regulations occurred in March 2014, to provide guidance to leadership and management when dealing with certain specific prescripts contained in the PFMAA.

In addition, aligned to the PFM framework are a number of enabling and operational laws and regulations that are of significance when conceptualizing the comprehensiveness of public financial management and include:

- Legislation dealing with taxes (Income Tax Act 1993, VAT Act 2003; Customs and Excise Duties Act, 1982)
- The Public Services Act, Act 2005 and the 2008 Public Service Regulations
- The Local Government Act, Act No 6 of 1997, as amended
- The Companies Act, Act No 18 of 2011
- The Standing Orders of the National Assembly, 28 May 2008, read with the Parliamentary Powers and Privileges Act, Act No 8 of 1994
- The Central Bank of Lesotho Act, Act 2000
- New Audit Act 2016 (yet to be operationalized; the implementation date of the act was postponed to 01 April 2017)

The Accountant General issues financial management guidelines to assist Chief Accounting Officers and Financial Controllers when executing their responsibilities in terms of the PFMAA and to date consist of:

- Independent reporting is provided for in the Constitution, sections 117 and 142, regulating the appointment, responsibilities and rights of the Auditor General and section 81(1) read with the Standing Orders providing for the oversight function of the Public Accounts Committee. The Audit Act, Act No12 of 1973, provides for the powers and detailed responsibilities of the Auditor General. The year(s) under PEFA review were audited under the old 1973 act.

2.4 Institutional Arrangements for PFM

Legislative

Lesotho is a Parliamentary constitutional monarchy. The Parliament consists of a 120 seat National Assembly, with 80 members elected in single member constituencies and 40 by proportional representation. The King has no executive or legislative powers. There are two

Parliamentary Committees dealing with financial matters, a Portfolio Committee (Economics and Development Cluster) which examines Budget Proposals and a Public Accounts Committee, which can look into any aspect of government financial management, drawing on reports by the Auditor-General. Government supporters, members of the ruling party constitute the majority of members of the PAC, but the Chairman by convention is from the Opposition.

Executive

The Cabinet of Ministers consists of the Prime Minister and other Ministers, and is collectively responsible to Parliament. The Constitution requires there to be at least eight Ministers: at present, there are 25. Following the General Election in 2012, Lesotho has for the first time a coalition government. In accordance with the Westminster model, the initiative rests with the Executive, and the National Assembly is not in a position to initiate significant financial proposals against the wishes of Ministers.

Judiciary

The Judicial branch consists of the High Court (Chief Justice appointed by the Monarch on the advice of the Prime Minister), Court of Appeal, Magistrate Courts and Traditional (Customary) Courts.

Organisation of the Government

In addition to the current 25 Ministries, there are 10 Offices (including the office of the Auditor General and the Directorate of Corruption and Economic Offences) carrying out government functions and wholly financed through the Budget. There are also a number of public bodies (examples are the Road Fund and the Petroleum Fund, which receive some part of tax revenue, but are outside the Budget). At sub-national level, there are 10 districts, Maseru City and 128 community councils.

The Ministry of Finance has recently been responsible for all aspects of fiscal policy, including medium-term fiscal planning and the planning of investment. The Budget Department in the Ministry of Finance remains responsible for budget planning, including the preparation of Budget Framework Papers that extend fiscal planning (including the planning of investment) into the medium term. The Treasury is responsible for the execution of payments, for the management of the government's cash and for financial reporting; debt management department is responsible for managing all central government debt portfolio. The Private Sector Development and Financial Affairs Department also covers procurement and a monitoring function in relation to public enterprises.

The Macro-Economic Unit of the Department of Economic Policy advises on the stance of fiscal policy. At Line Ministry level, responsibility and accountability for public funds rests with the Principal Secretary who is the Chief Accounting Officer (CAO); in each Ministry there is a Financial Controller who has dual responsibilities, first to the Principal Secretary of the line ministry and second to the MoF, reporting to the Accountant-General. Tables 2.5 & 2.6 below provide a snapshot of government structure; table 2.7 provides the fiscal structure of government.

Section 4.2 of the report describes in detail the internal control environment within the government. The control environment has been strengthened by the enactment of Treasury Regulations in March 2014; segregation of duties has been clearly outlined even compliance to PFM laws and regulations remain a challenge. The absence of audit committees reduces the efficacy of measures put in place to improve public finance management.

Table 2.5: Structure of the Public Sector)

Year: 2016	Public Sector				
	Government Sub-Sector		Social Security Funds	Public Corporation Sub-Sector	
	Budgetary Unit	Extra Budgetary Units		Non-Financial Public Corporations	Financial Public Corporations
GoL Ministries	25	35	1	11	18
District Councils	11	0	0	0	0
Community Councils	128	0	0	0	0

Table 2.6: Financial Structure of Government – Budget Estimates (B)

Year: 2016	Budgetary Units	Extra Budgetary Units	Social Security Fund	Total Aggregated
Revenue	15,321,400	No data		15,321,400
Expenditure	12,367,841	No data		12,367,841
Transfers to (-) and from (+) other units of general gov't	860,826	No data	865,741	1,726,567
Liabilities	2,046,000	No data		2,046,000
Financial Assets	1,506	No data		1,506
Non-financial assets	233,41	No data		233,41

Table 2.7: Financial Structure of Government – Actual Expenditure (M'000)

Year: 2016	Budgetary Units	Extra Budgetary Units	Social Security Fund	Total Aggregated
Revenue	14,764,045	No data		14,764,045
Expenditure	16,242,093	No data		16,242,093
Transfers to (-) and from (+) other units of general gov't	1,013,229	No data	1,060,927	2,074,156
Liabilities	2,216,460	No data		2,216,460
Financial Assets	667,473	No data		667,473
Non-financial assets	1,863,409	No data		1,863,409

2.5 Other important features of PFM and its operating environment

Key Features

IFMIS

Accounting and Financial Management is processed through the Integrated Financial Management Information System (IFMIS). All ministries are connected onto IFMIS; staff are adequately trained. The system provides for a decentralised capturing of revenue, procurement and expenditure transactions, capturing the budget and reporting by ministries. Processing of payments are however centralised in the office of the Accountant General. The monthly electronic payroll interface directly into IFMIS and processing changes to the payroll approved by ministries (Casualty Returns) is centralised within the office of the Accountant General. Receipting of cash relating to own revenues and bank reconciliations for commercial bank accounts held by line ministries is done manually on a decentralised basis. The National Treasury reconciles the main treasury bank accounts held by the Central Bank of Lesotho

The system provides real-time validation of orders against available budget (funds) for most categories of procurement creating a commitment of acceptance and issue of an order. However, excluded from this control mechanism are expenditure against contracts (infrastructure projects running over multiple financial years) and services provided by other spheres of government. A significant weakness identified is that the system not closed off for access after year-end by ministries and incidents of backdating of transactions to prior financial years are therefore possible.

Payroll

The previous Unique Payroll System was replaced by the Resource Link system in 2015 and is still in the process of being rolled out. Personnel records are maintained in hardcopy format in ministries whilst monthly payments are done through the electronic centralised payroll under the custody of the Accountant General. There are 5 separate payrolls of which only the public servants have an approved establishment informing the payroll, for example:

- Public Servants
- Police
- Defence
- Educators
- Pensions

The average payroll growth 2013/16 was 14.31% per annum, mainly as result of a 23% salary adjustment in the 2013/14 financial year that is well above the average CPI. A key weakness in employee and payroll management is that the citizens of Lesotho are not issued with identity numbers. The Department of Home Affairs is in the process of registering all citizens and information provided is that at the time of the PEFA Assessment 2016, approximately 50% of public servants have been issued with the personalized identity numbers. This limits the effectiveness of internal controls and significantly increase the risk of duplicating people on the payroll or making payment for non-authentic employees (ghosts).

Transparency (Budget; Procurement; Oversight)

Public participation, as a key stakeholder of government, is limited as not all of the appropriate processes are transparent. The budget process does not allow for input by members of the public and periodic reporting to the public is non-existent.

Most ministries' websites are dysfunctional. Information relating to procurement opportunities is mainly publicised through the printed media. The Public Account Committee hearings are not held in public. However, the PAC Reports are made available by the Secretariat on request.

The absence of the Adjustment Appropriation Act for the adjustments made each year is a significant weakness to the current budget process.

Oversight

The PAC comprises 25 Members of Parliament and its rights are established in the Constitution, Parliamentary Powers and Privileges Act and the Standing Orders. In the absence of a formally adopted Charter, the committee include a list of activities in its reports to Parliament. The most recent available report is that of recommendations made on the Auditor General's report for the financial year 2008/09.

The Auditor General is in the process of tabling its report for the year ending 31 March 2015 in Parliament. For all of the preceding 4 years ending 31 March 2014 the Auditor General issued adverse audit opinions and it is expected that for 2015 the opinion will remain the same.

Financial Reporting

Financial statements are compiled annually but not fully compliant with IPSAS Cash Basis of Accounting; full compliance to IPSAS cash is still work-in-progress. The Minister of Finance tables only the consolidated Annual Financial Statements in Parliament in accordance with the PFMA Act. For the first time (the 2015/16 Financial Year) Ministries have submitted individually signed annual financial statements for consolidation and audit purposes. However, the Auditor General in terms of the PFMAA, issues a report on the consolidated annual financial statements only.

Financial Management

Key to the accounting framework is the maintenance of accurate records to safeguard government assets. Information supplied revealed that the government has in excess of 330 bank accounts under control of the Accountant General and Financial Controllers. At date of assessment, 12% of accounts (1.2% of balances) were reconciled as at 31 March 2016 whilst reconciliations of the remaining balances date back to prior periods. No Fixed Asset Registers are in place that accurately reflect the extent, value or location of the portfolio of moveable property of government, and as such, the value of losses cannot be accurately determined. Whiles all line ministries and most departments and agencies have internal audit units, their effectiveness is very weak largely due to lack of application of international auditing standards, insufficient technical capacities, and insufficient budget allocations for internal audit functions.

3 Assessment of PFM Performance

Pillar I. Budget Reliability

PI-1 Aggregate Expenditure Outturn

This indicator measures the extent to which aggregate actual expenditure deviates from the originally approved aggregate expenditure budget over the last three (3) completed fiscal years: 2013/2014, 2014/2015 and 2015/2016.

One key concern that requires urgent attention relates to data reliability. During the 2012 PEFA Assessment, the same problem, that of the unreliability of Expenditure data, was voiced. Presently, the budget functionality in IFMIS is not active; Government officials use Microsoft Excel in budget preparation. Approved budget figures are manually loaded into IFMIS without a mapping table, which is time consuming. Moreover, the inaccuracy of the figures creates a number of additional shortcomings in an analysis. The budget analysis as shown in Table 1.1 (Result Matrix) below depicts serious budget credibility challenges.

When compared to 2012 Assessment results, it is fair to conclude that there has been a decline in performance even though scores and performance are not directly comparable. However, the results would not change significantly even if the old PEFA methodology had been guiding the evaluation. One contributing factor to the overall decline in performance is that Government Expenditure has increased exponentially compared to marginal revenue appreciation. Another factor could be the discontinuation of direct budget support by donors since 2011/2012 due to serious macroeconomic challenges. As indicated in the table below, aggregate expenditure deviations to originally approved budget were above 15% in two of the last three completed fiscal years; actual deviations were 1.1%, 25.9% and 31.3% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively; with detailed analyses presented in Annexes 4 (tables 1A, 1B, & 1C). This compares poorly to 2012 where deviations ranged between 0.5% and 8.3% from 2009/2010 to 2011/2012.

Dimension rating = D

Table 1.1: Result Matrix for PI-1, PI-2(i) & PI-2(iii)

	for PI-1	for PI-2 (i)	for PI-2 (iii)
Year	Total expenditure deviation	Composition variance by function	Contingency share
2013/14	1.1%	27.3%	0.7%
2014/15	25.9%	37.9%	
2015/16	31.3%	31.1%	

PI-1 (M1)	Dimension	Score 2016	Justification for 2016 score
1	**Aggregate Expenditure Outturn**	D	Actual budget outturn compared to originally approved budget deviated more than 15% in two of the last three completed fiscal years. Actual deviations were 1.1% in FY2013/2014, 25.9% in FY2014/2015, and 31.3% in FY2015/2016

Ongoing reforms

The government is migrating from GFS 2001 to GFS 2014 with technical support from the IMF.

PI-2 Expenditure Composition Outturn

This indicator has three dimensions. Dimension 2.1 assesses the expenditure composition outturn by each line ministry (functional classification) excluding contingency and interest on debt. Dimension 2.2 measures the expenditure composition variance by type of expenditure (economic classification) including interest on debt but excluding contingency. Dimension 2.3 assesses the average amount of expenditure actually charged to the contingency budget. Each of the three dimensions underwent assessment for the last three completed fiscal years.

Context

It is important to draw attention to the difficulty encountered in analysing the budgeted and actual figures. Again, the reliability of these figures has created a number of problems. One major reason for discrepancies in budget and actual figures is the continuous use of manual entry of budget figures into IFMIS; also, there is no mapping table. The originally approved aggregate figures in functional classification are inconsistent with aggregate economic classification. Except for 2013/2014, the Assessment Team had to adjust the 2014/15 and 2015/2016 figures for consistency. In 2014/2015, the economic category budget and actual outturn were adjusted by M2.71bn and M1.85bn (please, refer to Annex 4) respectively. An adjustment of M4.16bn (please, refer to Annex 4) was passed concerning the 2015/2016 approved budget in economic category.

2.1 Expenditure composition outturn by function

The results of the analysis as shown in Table 2.2 below reveal, not only the weakness in the legal framework (Section 15(1) of the PFMA Act 2011 which allows budget reallocations of up to 20% and 10% in recurrent and capital budget respectively), but also in practice the excessive and frequent expenditure reallocations across administrative heads. It is therefore not surprising that actual expenditure composition outturns by administrative heads were 27.3%, 37.9% and 31.1% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively; these variances are not far off the total virements (30% - recurrent plus capital) allowed by the PFMA Act. The outcome of PI-1 coupled with the results of PI-2.1 suggest weaknesses in budget formulation and preparation by line ministries; this also confirms the views expressed by the Macroeconomic Department of the MoF suggesting that budget forecasts have no solid basis but are only 'wish lists' by line ministries.

In addition, one could attribute this to the withdrawal of donor budget support since 2011/2012. In the same period, government expenditure continues to increase, leading to ex-ante Parliamentary approval of supplementary estimates for new staff salaries, payment of software licences, and centralised staff training expenses, amongst others.

Dimension rating = D

2.2 Expenditure composition outturn by economic type

Section 15 of the PFMA Act 2011 allows for budget reallocation within economic classification but only with the approval of the Minister of Finance. The expenditure budget and actual outturns analysed indicate significant reallocations across economic heads. As shown in Table 2.1 below, expenditure composition variance were between 49% and 68%;

actual variances were 49%, 51% and 68.4% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively which are extremely high. The results of the analysis point to serious budget formulation and preparation challenges thereby affecting budget credibility. The effect of which could include misalignment of policy priorities and not achieving set targets according to sector strategies.

Dimension rating = D

Table 2.1: Result Matrix PI-2.2 Composition variance by economic classification

Year	Total Expenditure Deviation (Less Contingency)	Composition Variance by Economic Classification
2013/214	99.0%	49.0%
2014/2015	124.1%	51.0%
2015/2016	129.5%	68.4%

2.3 Expenditure from contingency reserves

Article 114 of the 1993 Constitution and Section 17 of the PFMA Act 2011 provide for the establishment of a Contingency Fund to cater for unforeseen eventualities. The Minister of Finance, according to the law, must seek parliamentary approval for the establishment of the fund. During the three years under review, parliament appropriated M100million in each of the three years for contingencies. The government has consistently respected the use of contingency reserve and has remained unchanged since 2012 assessment. The appropriated figure represents 0.8% of total appropriations. Actual expenditures charged to the contingency fund is averaged at 0.7% as shown in Table 2.2 below; this is less than 3% of the originally approved budget.

Dimension rating = A

Table 2.2 Result Matrix PI-2.1 & PI-2.3 Composition variance by administrative classification and contingency

	for PI-1	for PI-2 (i)	for PI-2 (iii)
Year	Total expenditure deviation	Composition variance by function	Contingency share
2013/14	1.1%	27.3%	0.7%
2014/15	25.9%	37.9%	
2015/16	31.3%	31.1%	

PI-2 (M1)	Dimension	Score 2016	Justification for 2016 score
2	**Expenditure Composition Outturn**	**D+**	
2.1	**Expenditure Composition Outturn by Function**	**D**	Expenditure composition outturn by administrative heads, in FY2013/2014, FY2014/2015, and FY2015/2016 was above 15% in each of the three years; actual outturns were 27.3%, 37.9% and 31.1% respectively.
2.2	**Expenditure Composition Outturn by Economic Type**	**D**	In all three completed fiscal years under review, expenditure composition outturn by economic classification was more than 15%. Actual composition variances were 49%, 51% and 68.4% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively.
2.3	**Expenditure from Contingency Reserves**	**A**	Actual expenditure charged to contingency vote is 0.7% on average; this is less than 3% of originally approved budget

Ongoing reforms

No known reforms

PI-3 Revenue Outturn

This indicator has two dimensions. Dimension 3.1 measures the aggregate revenue outturn compared to originally approved revenue budget by Parliament. Dimension 3.2 measures the revenue composition (revenue type) variance.

3.1 Aggregate revenue outturn

Revenue from SACU remains the main revenue source for the Government; it constitutes about 44% of total government revenues, followed by income taxes on personal emoluments at 12% and grants at 8% according to 2015/2016 revenue data from the Ministry of Finance. It is important to note that revenues from SACU are highly dependent on global economic fundamentals in terms of prices of export commodities. A significant shift from the 2012 PEFA assessment is the exclusion of SACU in the analysis in order to be consistent with the requirements of the 2011 PEFA Framework. The 2016 Framework however considers domestic tax and non-tax revenue, revenues from external taxes (in this case SACU), social security contributions and grants from foreign governments, but excludes loans.

The Macro-Fiscal Unit is responsible for revenue forecasting; the unit works with officials of Lesotho Revenue Authority to project revenues on a three-year medium-term basis with the aid of a revenue-forecasting module. A Medium-Term Fiscal Framework exists but it is very weak as it has very little or no link with current year budget forecasting figures. Forecasting has its foundations based on historical trends of actual collections adjusted in line with current inflation and rate of growth. However, revenue forecasting is weak given that most assumptions underlying revenue projections are estimates from the MoF since actual statistical figures from the National Statistical Service are usually a year late. Revenue projections from the IMF also serve as a basis for government revenue forecasting, as part of the reliability check. As shown in Table 3.1 (Result Matrix) below, aggregate revenue deviation was between 94% and 112% in at least two of the last three completed fiscal years. Actual aggregate deviations were 91.2% in FY2013/2014, 100% in FY2014/2015 and 96.4% in FY2015/2016. The main drivers of these predictable revenues are those from SACU, which are close to 100% of budgeted figures.

Dimension rating = B

3.2 Revenue Composition Outturn

Central Government revenues fall under three categories:

1. Tax revenues made up of taxes on incomes, profits and gains, taxes on goods and services, export trade and property taxes;
2. Grants from foreign governments;
3. Other revenues consisting of property income, investment income, and unclassified income.

The results of the analysis as depicted in Table 3.1 below indicate a composition variance of less than 15% in FY2013/2014 and FY2015/2016. Actual composition variances were 12.2% in FY2013/2014, 20.2% in FY2014/2015, and 10.3% in FY2015/2016. According to the analysis the large composition variance of 20.2% in FY2014/2015 is attributable to an over realisation of revenue from unclassified sources at a rate of 2,933% when compared to the original budgeted figure.

Dimension rating = C

Table 3.1: Results Matrix

Year	Rate of revenue collection	Total revenue deviation	Composition variance
2013/2014	91.2%	8.8%	12.2%
2014/2015	100.0%	0.0%	20.2%
2015/2016	96.4%	3.6%	10.3%

PI-3 (M2)	Dimension	Score 2016	Justification for 2016 score
3	**Revenue Outturn**	**C+**	
3.1	**Aggregate Revenue Outturn**	**B**	Actual aggregate revenue was between 94% and 112% of originally approved revenue budget. Actual deviations were 91.2% in FY2013/2014, 100% in FY2014/2015, and 96.4% in FY2015/2016.
3.2	**Revenue Composition Outturn**	**C**	The revenue composition variance is less than 15% in two of the last three completed fiscal years; actual composition variances are 12.2%, 20.2% and 10.3% in FY2013/2014, FY2014/2015 and FY2015/2016 respectively.

Ongoing reforms

The ongoing project to support PFM reforms funded by the EU is working to ensure a proper and consistent link between MTFF and annual budget figures.

Pillar II. Transparency of public finances

PI-4 Budget Classification

4.1 Budget and Accounts Classification is Consistent with International Standards

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

Since the introduction of IFMIS in 2009, with its then new underlying Chart of Accounts, the annual Budget has been presented with breakdowns of revenue and recurrent expenditure by economic, administrative and sub-functional classifications which are consistent with GFS 2001, but not COFOG standards.

The capital budget is presented with breakdowns by administrative unit, sub-function and project. Outturns with the same breakdowns are in principle provided in the detailed budget books produced each year. The most recent budget book is for 2016/17, while the latest budget that has the outturn and consolidated financial statements available, is 2015/16.

Dimension rating = C

PI-4 (M1)	Dimension	Score 2016	Justification for 2016 score
4	**Budget Classification**	**C**	Budget formulation, execution and reporting are based on administrative and economic classification using GFS 2001 standards.

Ongoing reforms

The GoL has a comprehensive reform programme ongoing supported by the EU and IMF with plans to introduce a new Chart of Accounts in 2017. This is followed in 2018/19, by the most recent cash-basis GFS and COFOG as well as full implementation of cash-basis IPSAS. If this implementation is successful, the score will certainly improve but this is for the next PEFA Assessment to assess.

PI-5 Budget Documentation

5.1 The Comprehensiveness of the information provided in the Annual Budget Documentation is measured against a list of 'basic' and 'additional' items

This indicator has one dimension to assess the comprehensiveness of the information provided in the annual budget documentation presented by the Executive to the Council of Representatives, and is measured using a list of 'basic' and 'additional' elements included in the last budget submitted to Parliament, i.e. the 2016/17 budget.
Of the ***basic elements*** all four (4) are available, of the ***additional elements*** one (1) is complete while others are incomplete or lacking.
Concerning the MTEF, there is an element present, but in its current shape it does not add a realistic input to the Medium Term Budget Framework. To conclude, four basic elements and one additional element are complete which indicates a C score. Since 2012, the indicator has

changed and is not directly comparable with the previous scoring system. However, at the elementary level one finds that the equivalent of the current basic elements 2 and 4 were not available, or were incomplete, in 2012, which suggests an overall improvement, as they are now complete.

Dimension rating = C

Table 5.1: Budget Documentation Benchmarks

No.	Budget documentation benchmarks	Availability
	Basic elements	
1.	Forecast of the fiscal deficit or surplus (or accrual operating result).	Yes, in the budget speech 2016
2.	Previous year's budget outturn, presented in the same format as the budget proposal	Yes, in the documentation for the 2016/17 budget
3.	Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal	Yes, in the documentation for the 2016/17 budget
4.	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-4), including data for the current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates	Yes, in the documentation for the 2016/17 budget
	Additional elements	
5.	Deficit financing, describing anticipated composition	No, but debt bulletin has some information on deficit financing but not describing the anticipated composition
6.	Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	No, only to some extent, GDP and inflation, available in the budget speech, not interest rates and exchange rates
7.	Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	Yes, In the debt bulletin, issued every quarter meaning that one bulletin comes in January, ahead of budget submission
8.	Financial Assets, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard	Not available
9.	Summary information of fiscal risks including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as PPP contracts, etc.	Not available
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	No, only budget allocations on policy initiatives
11.	Documentation on the medium-term framework	No, available, but because of underlying weakness it is not a reliable forecast for year 2 and 3
12.	Quantification of tax expenditures	Not available

PI-5 (M1)	Dimension	Score 2016	Justification for 2016 score
5	**Budget Documentation**	**C**	4 basic elements and 1 additional element are complete, which gives a C score

Ongoing reforms

- The introduction of the Citizen's Budget, with the first issue already published.
- For the 2017/18 budget preparations, a new Budget Strategy Paper is being prepared that will address some information that is currently lacking.
- With the ongoing PFM Reform Project, one expects that more elements will become available, e.g. macro-economic assumptions.

PI-6 Central Government Operations outside Financial Reports

This indicator has three dimensions; Dimension 6.1 measures the extent to which Central Government expenditures are outside its consolidated financial statements; Dimension 6.2 assesses the level of Central Government revenue outside its budget/ financial statements; and Dimension 6.3 examines the extent to which extra-budgetary units' financial reports are submitted to Government.

6.1 Expenditure outside Financial Reports

The Government of Lesotho and its development partners adopted a partnership policy in November 2013 to enhance the effectiveness of development cooperation through greater government ownership and partnership, increase transparency and accountability, and above all to accelerate socio-economic development. The policy instituted clear structures and guidelines for aid mobilisation and management in order to maximise the benefits of future development cooperation. The current policy is under review. The adoption of the policy implied the use of national systems (procurement, banking, accounting & reporting, auditing) as encouraged through the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan Partnership Agreement (2012).

There are seven major development partners in Lesotho, namely: EU, WB, AfDB, IMF, UN, South Africa, and USA. Whilst the Assessment Team was unable to fully quantity development support outside the national budget, interactions with Government Officials suggest that more than 50% of donor-financed projects and programmes remain outside government budget, the bulk of which originate from USAID and China. In addition, at least 50% of expenditures from extra-budgetary units are excluded from central government financial statements. That said, the World Bank's client connect platform uniquely provides direct access to the Government in terms of commitments and actual disbursements. As stated in PI-19.1, the Assessment Team has deduced that less than half (50%) of non-tax revenue is reported to Central Government even though there are no figures to substantiate this claim. It is therefore fair to conclude that at least half of expenditure from non-tax revenue and donor support is outside Central Government financial statements
.

Dimension rating = D

6.2 Revenue outside Financial Reports

With reference to PI-19.1, non-tax revenue represents 9.4% of Central Government domestic revenue, excluding grants. Furthermore, officials believe that only half of non-tax revenue is reported; this implies that about 9.4% of domestic revenue is not reported.

Again, at least half of donor-financed projects/ programmes are believed to be outside Central Government financial reports. Therefore, more than 10% of both budgeted Central Government revenue and revenue from donors are outside its financial statements. The draft report on overview of aid flow to Lesotho (Lesotho development cooperation report 2014/15-2015/16, October 2016, Ministry of Development Planning) revealed that total aid flow (actual disbursements) in 2015/2016 was USD 119.77million. The report concludes that it is unable to determine development partner assistance outside the national budget.

Dimension rating = D

6.3 Financial reports of Extra-Budgetary Units

According to the unaudited consolidated annual financial statements for 2015/2016, there are a total of fifty two (52) State Owned Enterprises, Autonomous Agencies, District Councils and other Extra-Budgetary Units (EBUs), excluded from the consolidated reports. This is contrary to information provided by the Private Sector Development unit of MoF, which calculated there being 62. The breakdown of which is as follows:

State Owned Enterprises:	7
Autonomous Agencies:	28
District Councils (including MCC):	11
Extra-Budgetary Funds	5
Joint Ventures:	1

Evidence presented by the Office of the Auditor General indicates that 28% of extra-budgetary units have up-to-date (2015/2016) audited annual financial statements submitted to the Government through their parent ministries within six months of the end of the fiscal year; 3% of extra-budgetary units have submitted annual financial statements within nine months, yet to be audited. This implies that at least 31% of extra-budgetary units submit annual financial statements to the government between six and nine months. .

Dimension rating = D

PI-6 (M2)	Dimension	Score 2016	Justification for 2016 score
6	**Central Government Operations outside Financial Reports**	**D**	
6.1	**Expenditure outside Financial Reports**	**D**	At least half of government expenditure from non-tax revenue and expenditure from donor-financed projects (more than 10% in total) are not captured in financial reports.
6.2	**Revenue outside Financial Reports**	**D**	Available evidence coupled with interactions with officials suggest that more than 10% of budgeted Central Government revenue is outside its financial reports.
6.3	**Financial Reports of Extra Budgetary Units**	**D**	Only 31% of extra-budgetary units submit annual financial statements to the government within nine months after the end of the financial year.

Ongoing reforms

The upgrade of IFMIS is intended to capture all revenue and expenditure from donor-financed projects and extra-budgetary units.

PI-7 Transfers to Sub-National Governments

This indicator assesses the transparency and timeliness of transfers from the GoL to District Governments that have a direct financial relationship to the Central Government. It considers the basis for transfers from Central Government and whether District Governments receive information on their allocations on time, to facilitate proper budget planning.

Sub-National Government (SNG) in Lesotho is small. Local Government is predominantly two-tier, with District Councils as the upper tier and Community and Urban Councils as the lower tier. There are in total 10 District Councils, 64 Community Councils, 11 Urban Councils and one Municipal (City) Council. According to the Local Government Legislation, urban areas have single-tier Municipal or Urban Councils.

The capital Maseru has its own unique single-tier authority; the Maseru Municipal Council (MCC). In rural areas, directly elected Community Councils are the lower tier and the indirectly elected District Councils representing community councils are second tier. All are separate legal entities with their own administrative, planning, accounting and procurement staff. The main governing legislation for the local government system is the Local Government Act 1997, as amended and Local Government Elections Act 1998. They are subject to the provisions of the 2011 PFMA Act.

However, SNGs have limited financial autonomy, with the exception of MCC, which is part of a pilot project for increased self-governance. All other councils pay their revenues into the consolidated fund and their expenditures, both capital and recurrent, are financed entirely by Central Government through transfers from the Ministry of Local Government (MLG) budget. The costs of local health and education services are borne by the relevant Ministries.

7.1 System for Allocating Transfers

Except for MCC, local council budgets are funded entirely using transfers from Central Government. Grants are appropriated under the MLG for recurrent and capital expenses of the Local Authorities. In the current arrangements, budget allocation and Central Government transfers for financing local authorities, are channelled through the MLG, as the councils are not direct budget heads in the Ministry of Finance (MoF). When councils utilise public funds, their reports go through the MLG, authenticated by the Directorate of Planning (for capital budgets and projects), and the Office of the Financial Controller (in the case of operational and running budgets and expenditures) to the Ministry of Finance. According to the MLG the grants for expenditure are calculated as follows:

- Construction of Rural Roads, Equal share of approved appropriation to 10 districts.
- Development fund for councils, Equal share of approved appropriation to 75 councils
- Solid waste management for urban councils, Equal share of approved appropriation to 10 urban councils.

Of importance to note is that the above system of allocations is not approved by the legislature; they were developed by the MLG in 2012 following complaints from District Councils to the existing rules, which were applicable between 2005 and 2011.

The transfers of these appropriations as block grants encompasses all government contributions and, are given first to the Council level and to then to District and Community level.

Dimension rating = C

7.2 Timeliness of Information on Transfers

SNGs prepare their budgets as part of the budget preparation of MLG. Following receipt of the call circular in September about the preparation of Budget Framework Paper, MLG sends its own circular to Maseru, Urban and District Councils, giving ceilings and requesting them to submit details of their proposed budget expenditure allocations. The proposed budget allocations from SNG form part of the budget submission and budget estimates of MLG. In practise, this is the only opportunity for Councils to engage in budget dialogue. When the final estimates are sent to the ministries, according to the latest budget calendar, only 9 days remain for the line ministries to prepare their submissions. The budget figures for the MLG budget are available when the government makes its budget submission, normally in February. The final information to SNGs about next year's budget cannot be confirmed before the Parliament has approved the budget.

According to MLG, the transfer should take place in the beginning of each quarter and should then be predictable. However, according to the MLG and documented in the MLG strategic plan 2015– 2019, there are severe problems with the timing of the transfers. The budgets from MLG with council financing (especially capital budgets) are received very late in the financial year, sometimes only in the third quarter, and are then usually only a small proportion of what Council requested. The late transfer makes it difficult for the Councils to spend their allocated funds, as the procurement process takes up to two months in many cases. The result of this process is that by the time that Councils are ready to award contracts, the given financial year has ended and the funds must be returned to the Central Government. Thus, although general budget information to the SNGs is available in the beginning of the budget year, it seems unreliable, as information of approved budgets and actual allocations is late.

Dimension rating = D

PI-7 (M2)	Dimension	Score 2016	Justification for 2016 score
7	**Transfers to Sub-National Governments**	**D+**	
7.1	**System for Allocating Transfers**	**C**	Systems for allocating transfers are guided by clear rules based on simple calculations but outcomes are nevertheless unpredictable
7.2	**Timeliness of Information on Transfers**	**D**	Although general budget information to the SNGs is available in the beginning of the budget year timing seems unreliable as specific budgets are coming late and are then lower than expected.

Ongoing reforms

None

PI-8 Performance Information for Service Delivery

This indicator is largely new; only dimension 8.3 remains, (cf PI-23 in previous framework) in a reformulated approach. According to the PEFA Framework explanations and guidelines in the PEFA Field Guide, PI-8 examines the service-delivery performance information in the Executive's budget proposal or its supporting documentation in year-end reports.

It should explain if plans result from strategic priorities and if they can be compared with budget allocations for service delivery. The indicator determines whether there has been an implementation of performance audits or evaluations. In addition, this indicator assesses to what extent information on resources received by service delivery units is collected and recorded.

8.1 Performance Plans for Service Delivery

In the budget book for 2015/16 (as well as for the current year 2016/17), there is a section for Budget and Performance Data outcome and plans for next year for all ministries presented in a table per programme with some objectives/ performance/ output indicators. However, the budget call circular does not contain information about programmes and there is no guidance in the circular on how to present these indicators and data, neither are they costed. There might be more solid plans behind these tables but the Assessment Team has not seen any such documents. Strategic plans exist for some line ministries but they are not detailed into the service delivery levels and they are not costed. One can conclude that in these tables, all ministries are presenting concentrated output/performance plans with indicators but it is unclear if they are derived from stated policies or strategies and with unclear links with the budget as no budget data is attached. The conclusion is that these plans are not meeting the requirements outlined in the PEFA framework and in the PEFA assessment field guide, they are also including administrative performance which is clearly excluded for such reporting in the PEFA framework.

The assessment team has had a closer look at two ministries, Ministry of Education and Ministry of Health, which are concerned with the frontline service delivery units. At the Ministry of Education, there is no overall or detailed documented service delivery plan except the finance contribution. However, the Ministry of Health conducts annual operation plans down to the district level; they also have a quality monitoring/output follow up system based on 25 indicators. The budget follow up and reporting goes down to the district level. These plans are not consolidated in the budget submission.

Dimension rating = D

8.2 Performance Achieved for Service Delivery

As described in 8.1, there is performance output reporting in the Annual Budget with some Performance Indicators, but their accuracy is unclear, and they are not strategically linked to budget outcomes. The conclusion about this performance reporting is the same as for performance plans in 8.1.

For the Ministry of Education, there is no specific information available about performance delivery results. With reference to the Ministry of Health, there are some reports and reviews available from recent years but not as part of an annual performance evaluation system.

Dimension rating = D

8.3 Resources Received by Service Delivery Units

There are no surveys, evaluations or follow up reports, for the last 3 years that provide information on the level or amount of resources received by service delivery units. This applied to both the Ministry of Education and the Ministry of Health. It is noteworthy to highlight that the GoL has entered into a Private Public Partnership (PPP) with a South African company that is now responsible for about 50% of the health service delivery according to information at a meeting with Ministry of Health. This company has its own well-developed planning, and follow-up system. This company would be able to provide data and information from its operations, as far as it is not infringing on their market or business secrets. The other health related service delivery rendered by the Christian Health Association (CHA) on behalf of GoL at a fee, has no framework for reporting on resources (both cash and in kind) received by clinics and health centres.

Dimension rating = D

8.4 Performance Evaluation for Service Delivery

There has not been any independent evaluations of the service delivery for the two biggest service delivery ministries, the Ministries of Education and Health. However, the health services rendered by the PPP arrangement have annually conducted independent evaluations. Nonetheless, overall health sector is not evaluated, independently.

Dimension rating = D

PI-8 (M2)	Dimension	Score 2016	Justification for 2016 score
8	**Performance Information for Service Delivery**	**D**	
8.1	**Performance Plans for Service Delivery**	**D**	The tables with performance indicators presented in an annex to the budget are not meeting the requirements outlined in the PEFA framework and in the PEFA assessment field guide.
8.2	**Performance Achieved for Service Delivery**	**D**	The tables with output for performance indicators presented in an annex to the budget are not meeting the requirements outlined in the PEFA framework and in the PEFA assessment field guide.
8.3	**Resources Received by Service Delivery Units**	**D**	There are no surveys, evaluations or follow up reports from the last 3 years that provide information on resources received by service delivery units. That said, the PPP service provider tracks resources received by its service delivery units
8.4	**Performance Evaluation for Service Delivery**	**D**	There have been no independent evaluations or performance audits of the service delivery for the two biggest service delivery ministries; Ministry of Education and Ministry of Health. However, the PPP arrangement for health service conducts independent evaluation related to its activities

Ongoing reforms

The World Bank funded Public Sector Modernization Project is planning to carry out Public Expenditure Reviews.

PI-9 Public Access to Fiscal Information

The indicator examines the comprehensiveness of fiscal information that is made available to the public through appropriate means (websites, billboards, notice boards, etc.) based on five (5) basic and four (4) additional elements considered critical to the public.

9.1 The Comprehensiveness of Fiscal Information available to the Public

Public access to fiscal information remains crucially important as part of the ethics of good governance, transparency and accountability. It is important to note that public access to fiscal information is not limited to website only but may include notices on billboards, public offices and availability of fiscal information for sale to the public at very affordable price at government printers.

The Government of Lesotho has an official website in addition those of Line Ministries' websites. However, they are outdated with very little or no fiscal information. There is also the Lesotho Government Printer; nonetheless, the availability of fiscal information is very limited.

As shown in Table 9.1 below, only one (Basic Element 2) of the nine fiscal information benchmarks fully meets the PEFA assessment criteria with reference to the public's access to fiscal information. Evaluating the remaining eight benchmarks against the PEFA criteria gives them all the assessment of being either partly met or fully not met. For instance, whereas audited financial statements are made available to the public, they are so done with significant delays of more than one year after end of fiscal year; 2014/2015 audited reports are yet to be tabled in Parliament as of the time of drafting this report. Again, for the first time, the Government of Lesotho through the Ministry of Finance produced a citizens' budget for the fiscal year 2016/2017 dated and released on 19th April 2016. However, this was not published until after three weeks of the passage of the Appropriations Act of 2016/2017, which was gazetted on 24th March 2016. This does not meet the PEFA assessment criteria In addition; Lesotho was not surveyed in the latest 2015 open budget index (OBI) study.

Dimension rating = D

Table 9.1: Public access to key fiscal information

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
	Basic elements		
1.	***Annual Executive Budget Proposal documentation:*** A complete set of executive budget proposal documents (as assessed in PI-5) is available to the public within one week of the executive submitting them to the legislature.	**No**	Annual executive budget proposals are not made public unless passed by the legislature.
2.	***Enacted Budget:*** The annual budget law approved by the legislature is publicized within two weeks of passage of the law	**Yes**	2016/2017 Appropriations Act was passed and gazetted on 24th March 2016; copies are available at the Government Printers within two weeks of passage. .
3.	***In-year budget execution reports***: The reports are routinely made available to the public within one month of their issuance, as assessed in PI-27	**No**	Quarterly in-year budget bulletins are available to the public but with significant delays of at least three months

No.	Fiscal information benchmarks	Availability (Yes/No)	Notes (Means of Availability)
4.	***Annual budget execution report:*** The report is made available to the public within six months of the fiscal year's end	**No**	The Government of Lesotho does not publish annual budget execution reports
5.	***Audited annual financial report, incorporating or accompanied by the external auditor's report:*** The report(s) are made available to the public within twelve months of the fiscal year's end	**No**	There are significant delays in publishing annual audited financial reports. The 2014/2015 annual audited financial reports are yet to be tabled in the legislature and made public
	Additional elements		
6.	***Pre-Budget Statement:*** The broad parameters for the executive budget proposal regarding expenditure, planned revenue and debt is made available to the public at least four months before the start of the fiscal year	**No**	This is discussed at the Cabinet level but not made public until after legislative approval of the annual budget proposal which usually takes place between March and May, just before the start of the new fiscal year
7.	***Other external audit reports:*** All non-confidential reports on central government consolidated operations are made available to the public within six months of submission	**No**	No other external audit reports from the Auditor General are published except for the audited annual consolidated financial reports
8.	***Summary of the Budget Proposal:*** A clear, simple summary of the Executive's Budget Proposal or the Enacted Budget accessible to the non-budget experts, often referred to as a 'citizens' budget', and where appropriate translated into the most commonly spoken local language, is publicly available within two weeks of the Executive Budget Proposal's submission to the legislature and within one month of the budget's approval	**No**	Abridged version of the budget known as the citizens' budget is made available for the first time to the public 3 weeks after the approval of the budget; the Appropriations Act of 2016/2017 was gazetted on 24th March 2016 whiles the citizens budget was published on 19th April 2016
9.	***Macroeconomic forecasts:*** The forecasts as assessed in PI-14.1 are available within one week of its endorsement	**No**	Whiles macroeconomic forecasts are discussed as part of the budget framework[5], they are not made public within a week after its endorsement by the Cabinet

P1-9 (M1)	Dimension	Score 2016	Justification for 2016 score
9	**Public Access to Fiscal Information**	D	Only one (basic element 2) out of the 9 fiscal information benchmarks fully meets the PEFA assessment criteria

Ongoing reforms

No known reforms

[5] The latest budget framework paper published is 2014-2015

Pillar III. Management of Assets and Liabilities

PI-10 Fiscal Risk Reporting

This indicator measures the extent to which fiscal risks to the government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of district governments or public corporations, and contingent liabilities from the GoL's own programs and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. Central government will usually have a formal oversight role in relation to other public sector entities and should be aware of, monitor, and manage fiscal risks at a consolidated level.

Fiscal risk management consists of a set of procedures designed to quantify and report risks. Those risks can arise from many sources: This indicator is concerned with Public corporations, financial position of sub-national (SN) levels of government and contingent liabilities.

10.1 Monitoring of Public Corporations

The PEFA 2016 framework refers to GFS 2014 definitions to determine which entities are public corporations but, GFS 2014 has not been implemented in Lesotho. However, A country need not have adopted a budget classification based on GFS 2014 for public corporations to be assessed as meeting the definition of public corporations GFSN as explained in the PEFA Assessment Fieldguide. The assessment has used available information from the government to determine what to assess. What we have got listed from government sources is a document, "Financial and Governance Oversight of State owned Enterprises", obtained from MOF PDS Department; there are 32 Parastatals, 19 Companies and 11 Agencies; all in all 62. It is a mix of entities that are wholly or partly owned by the government; public enterprises, companies in which the Government has a minority shareholding and a range of autonomous institutions, commissions and boards of varying financial significance. The last PEFA Assessment (2012) states that there are 58 such organizations. The assessment team also obtained a document "Policy on Corporate Governance for Lesotho Public Enterprises, Government Agencies and Entities". The document is undated but it was sent out in August 2009 with a Savingram as an Official working document of the GoL, but it is not approved by the Cabinet and has not been implemented.

The MoF should exercise oversight of relevant entities on behalf of the Central Government, but that is not taking place and the PSD Department does not receive any financial statements or other reports, meaning that there is no central risk monitoring within the MoF. The portfolio ministries, with entities under them are receiving, in some cases, financial statements but are not exercising any oversight either. The Auditor General is only mandated to audit those ones where the government owns 50% or more, and according to documentation from the Auditor General there were 34 such entities of which one is now closed down. Not all financial statements are submitted to Auditor General on time, up to 8 years delay occurs and in 9 cases the Auditor General is giving a qualified opinion in the last audit report meaning that the information in the financial statements is incomplete and/or not following accepted accounting standards. The Auditor General has no information about the financial statements or the audit of the rest of the public corporations outside the mandatory audit.

Dimension rating = D

10.2 Monitoring of Sub-National Governments

There is no systematic monitoring by the MLG of the SNG´s fiscal positions and the MLG does not follow up on financial statements. In information obtained from the Auditor General, the assessment team has found that historically, financial statements from the councils have been submitted late. Currently audit reports concerning 2014/15 are available for 8 of 11 councils while for one council the latest audit report is from 2007/08, for another 2010/11 and for one - not available, but the last 2 completed years of that council is now under audit. In the available audit reports, only one gets an unqualified opinion while the rest have qualified opinions, adverse opinions or disclaimers. The most common opinion is a disclaimer, indicating a very low quality of the financial statement.

Dimension rating = D

10.3 Contingent Liabilities and other Fiscal Risk

The revised Consolidated Statements for 2015-16 contain a note about Contingent Liabilities that shows a total balance by 31 of March 2016 of M88,046,347 . However, it is not possible to confirm if this data is complete as far as central government is concerned. Public Private Partnerships are not included. According to the PSD Department, there is no available knowledge regarding the levels at risk in different ventures, nor is there yet any coordinated oversight exercised over the existing PPPs even though there are two major PPP arrangements currently ongoing in the health sector. The incomplete information about contingent liabilities creates considerable uncertainty about the status and volume of these risks.

Dimension rating = D*

PI-10 (M1)	Dimension	Score 2016	Justification for 2016 score
10	**Fiscal Risk Reporting**	**D**	
10.1	**Monitoring of Public Corporations**	**D**	MoF PSD does not currently receive any financial reports from Public Corporations. However majority of SoEs submit reports to their line ministries but fiscal risks are not monitored
10.2	**Monitoring of Sub-National Governments**	**D**	There is no systematic monitoring of SNG´s fiscal positions and audits have been late due to late submissions of financial statements
10.3	**Contingent Liabilities and other Fiscal Risks**	**D***	Contingent liabilities are disclosed in a limited way that leaves uncertainty about the volume of these risks, particularly contingent liabilities arising out of PPPs

Ongoing reforms

Officials from PSD department say the ongoing PFM reform is now working on creating a functional monitoring framework for Public Corporations but it has, to date, not been established. Such a monitoring function should have the potential to identify and document fiscal risks as well as map out contingent liabilities stemming from Public corporations and PPPs.

PI-11 Public Investment Management

This indicator has four dimensions. It assesses the institutional framework for decision-making on public investments, the economic appraisal, selection and costing as well as the monitoring and management of these investments, taking into consideration the national and policy and strategic objective for achieving and sustaining economic growth, as well as the fiscal space (both capital investment and recurrent costs) for financing these investments.

11.1 Economic Analysis of Investment Proposals

The Ministry of Development Planning is responsible for providing guidelines as well as coordinating all central government capital investment. It works with all heads of planning departments across line ministries through a committee known as the Public Sector Investment Committee (PSIC); a Cabinet decision in September 2013 changed its name from Project Appraisal Committee (PAC) to PSIC. The committee also includes key heads of departments in MoF such as Budget Department, Macro-fiscal Department, Ministry of

Environment, and the Ministry of Gender. The committee's role is guided by established guidelines as contained in the PSIC manual dated November 2013; the guidelines are not currently published on the website due to technical challenges but copies are made available to all line ministries. The strategic role of the PSIC includes but not limited to critically and objectively evaluating all new capital projects in accordance with established rules, recommending projects for funding, approving the final PSIP report, and monitoring project implementation. The economic analysis of all capital investment projects begins with ministerial level appraisal, forwarded to the PSIC for further scrutiny to ensure projects align to the National Strategic Development Plan (NSDP). Once proposed projects pass the appraisal criteria set out in the guidelines, they are included in the Public Sector Investment Programme (PSIP) report (feasibility study report) and submitted to Cabinet for final approval. The outcome of the PSIP report is not published except for internal (inter-ministerial) use only. Of importance to note is the weak technical capacity to critically assess public investment management; also, there is a disconnect between appraisal guidelines in the PIM manual and the actual implementation of those guidelines that will consider project viability, fiscal space, and socio-economic benefit

Dimension rating = C

11.2 Investment Project Selection

Prior to Cabinet approval of capital investment projects for inclusion into the annual budget, the following basic selection criteria must be satisfied in line with established guidelines, namely:

- Alignment of project with the NSDP.
- Achievability– this looks at the project deliverables, funding mechanisms and other environmental constraints and challenges. If funding is not available, project remains in the PSIP until funds are raised either domestically or externally.
- Viability– cost implications and mainstream revenue-generating potentials, management implications, financial sustainability and project economic impact. The overall socio-economic impact is evaluated.
- Project priority - how important is the project; sequencing is not considered at the project selection stage which is a weakness but plays a pivotal role during project implementation.
- Feasibility study report.
- Environmental impact assessment report.
- Evidence of acquisition and ownership of proposed project site.

In addition to the above basic requirements for project selection, capital projects from Line Ministries are required to submit a project concept note (or Proposal). This is a formal presentation by the implementing Ministry or Agency, with the full participation of the Principal Secretary (the Accounting Officer). A desk Appraisal Report from the Department of Project Cycle Management (DPCM) within Ministry of Development Planning, appraisal report from external funding agency where necessary, and evidence of experience in the sector as well as further clarifications of proposals.

Dimension rating = B

11.3 Investment Project Costing

A comprehensive project costing ought to take into account both investment cost and forward linked recurrent expenditure, the cost-benefit analysis through critical sensitivity analysis, consider the public and private interest, among others. It should also ascertain the affordability and cash flow implications referencing fiscal space for both ongoing projects and new investments to be funded by the national budget. A number of capital projects, including the expansion of the Moshoeshoe International Airport, the Rural Electrification Project, the

Rehabilitation of the Sehlabathebe National Park were examined to ascertain whether both capital cost and forward linked recurrent expenditures are budgeted for and included in the 3-year medium-term budget. Project proposals must outline investment costs and forward linked recurrent expenditures; the inclusion of recurrent expenditure into project costing began in late 2013. The annual national budget (MTEF) also includes at least initial capital costs and three-year projections of recurrent expenditure in relation to the project(s); where the capital cost is multi-year, it is spread according to funding/disbursement schedules. However, these estimates appear to have very little impact during the next budget cycle.

Dimension rating = B

11.4 Investment Project Monitoring

The Department of Project Cycle Management (DPCM) within the Ministry of Development Planning (MDP) is the central body responsible for project monitoring and evaluation. The department monitors all capital projects with officials from the planning units of implementing line ministry. A draft PCM manual dated July 2016 prescribes the monitoring and evaluation functions and responsibilities of each stakeholder regarding project implementation. For uniformity, DPCM has developed a reporting template for use by implementing agencies and development partners where necessary. Quarterly site visits are carried out; internal monitoring and evaluation reports are also produced quarterly. Following project completion, M&E report is prepared; however, no reports are published except for internal use only. That said, all capital projects funded by development partners (which constitute more than 50% of total capital investments) entail independent monitoring and evaluation experts; M&E and completion reports are published. A review of one of the periodic M&E reports for rural electrification project funded by AfDB indicates total loan commitment, actual disbursements, undisbursed loan, and percentage of completion, expected completion date and reasons for deviations against targets.

Dimension rating = B

PI-11 (M2)	Dimension	Score 2016	Justification for 2016 score
11	**Public Investment Management**	**B**	
11.1	**Economic Analysis of Investment Proposals**	**C**	Economic analyses of all central government capital investment projects are conducted in line with established guidelines; however the outcome of the investment proposals are not published except for inter-ministerial use only
11.2	**Investment Project Selection**	**B**	Project selection is based on established (but not published) selection criteria. Prior to inclusion in the budget, Cabinet approves all project proposals that have passed the PSIC appraisal process
11.3	**Investment Project Costing**	**B**	Both investment cost and forward linked recurrent expenditures are provided for in both project proposals and MTEF budget documents for at least the first three years
11.4	**Investment Project Monitoring**	**B**	Monitoring and evaluation of all capital projects entail both physical progress of work and financial progress; nonetheless internal M&E reports are not published but those (which constitute more than 50% of total capital investments) by external evaluators are published

Ongoing reforms

No known reforms

PI-12 Public Asset Management

This indicator has three dimensions. Dimension 12.1 assesses the level at which financial assets (government equity investments in public or private companies) are monitored and reported; Dimension 12.2 examines the extent to which non-financial assets (fixed assets) are monitored and reported; Dimension 12.3 measures the level of transparency of fixed asset disposal.

12.1 Financial Asset Monitoring

The Private Sector Development (PSD) Unit within MoF is responsible for monitoring all government equity investments in both public and private companies; however, this unit lacks the dexterity in monitoring and evaluating the performance of government investments in these companies. The institutional framework for managing these investments is incorporated in the Corporate Governance Policy on SOEs. The policy sets out the ministerial responsibilities, management structure, government representation and voting rights, statutory accountability and control, the role of the Auditor General, legislative role, among others. Interactions with officials of the PSD unit suggest serious capacity and professional capability constraints; further, the unit does not keep records of shares certificates even though it is part of their core mandate. Again, rarely does the unit receive copies of annual audited financial statements of these SOEs. Evidence adduced by the PSD shows government equity investment in 18 companies with shares between 5% to 100%. The equity investment schedule does not provide information on the number of shares, value of each share, the total investment cost, date of investment and any movement in equity, including whether dividends are declared or not. In 2015/2016, government received dividends totalling M400.47million as compared to M180million in 2014/2015; this was reported in the 2015/2016 draft consolidated annual financial statements.

Dimension rating = D

12.2 Nonfinancial Asset Monitoring

Section 5(i) of the PFMA Act 2011 mandates all chief accounting officers to prepare a register of all fixed assets including asset management plans; that said, budget entities do not fully comply with this legal provision. There is no centralised government institution responsible for recording and reporting all (consolidated) central government fixed assets; nonetheless, some line ministries do maintain a register of fixed assets funded by development partners since it is a mandatory requirement in the financing agreements. The consolidated annual financial statements only report on fixed assets acquisition, compliant with Section 13(a) of the PFMA Act 2011 but fail to provide a comprehensive list of fixed assets. Given the importance of the efficient management of national assets in ensuring good public financial management, a comprehensive database on both moveable (vehicles, furniture & fittings, machinery & equipment, computers, etc.) and immoveable (buildings & structures, land, mineral and energy resources, etc.) assets will play a significant role towards the attainment of budget credibility through the minimisation of wastage of scarce government resources.

Dimension rating = D

12.3 *Transparency of Asset Disposal*

Sections 13(b) and 46(1)(c) of the Public Financial Management and Accountability Act 2011 regulate asset disposal. Part XI of the Procurement Regulations 2006 also outlines asset disposal framework. However, a relevant missing provision is the composition and membership of the asset disposal committee except for Section 59(2) of the Procurement Regulations, which articulates that public servants involved in the determination of assets to be disposed and their residual values **may** be excluded in subsequent asset disposal processes. Further, there is no clear provision on advertisement of fixed assets to be disposed. Regulation 58(3) requires that public auction be the default disposal method. According to the law, the successful bidder - the highest bidder takes ownership after all the necessary payments have been made and ownership transfer is concluded. Whereas there is no evidence to support the actual asset disposal practices, interactions with officials of MoF suggest a non-transparent asset disposal framework; the same procuring officers are responsible for asset disposal. Nonetheless, the consolidated annual financial statements report on receipts from asset disposal; however, it is not clear as to the full disclosure of disposal receipts.

Dimension rating = C

PI-12 (M2)	Dimension	Score 2016	Justification for 2016 score
12	**Public Asset Management**	**D+**	
12.1	**Financial Asset Monitoring**	**D**	Whereas MoF maintains some record of government equity holdings in SOEs, the information only shows the name of the company and the percentage share. Information on number of shares, cost and date of investments is not available
12.2	**Non-Financial Asset Monitoring**	**D**	The Government does not maintain a consolidated register of all fixed assets in its custody; that said, some line ministries do maintain a register of fixed assets funded by donors
12.3	**Transparency of Asset Disposal**	**C**	The legal and regulatory framework provide for fixed asset disposal procedures The consolidated annual financial statements provide partial information on proceeds of fixed assets disposed

Ongoing reforms

No known reforms

PI-13 Debt Management

This indicator comprises three dimensions; dimension 13.1 assesses the integrity and comprehensiveness of reporting total central government debt (domestic and foreign debts as well as guarantees including PPPs); dimension 13.2 examines the legal and regulatory framework including policy guidelines on approving loans and guarantees; dimension 13.3 assesses whether the government prepares a medium-term debt strategy.

13.1 *Recording and Reporting of Debt and Guarantees*

Public sector debt constituted 42.7%[6] of GDP in FY2013/2014. According to the IMF, this is projected to reach 49.5% of GDP by end FY2016/2017. Given the high currency

[6] Source: 2015 IMF Article IV CR No. 16/33 of February 2016

depreciation, coupled with decline in export revenues posing major threats to debt sustainability, Lesotho is still considered a moderate debt distress country. Total public debt stood at M13.978billion[7] (equivalent to US$1.04billion), composed of M1.274billion and M12.704billion domestic and foreign debt respectively. Further, the 2015/2016 draft consolidated annual financial statements report total government guarantees of M88.05million, up from M47.69million in 2014/2015; this represents 185% rise from the 2014/2015 figure. Presently, the Government does not report on contingent liabilities arising out of Public Private Partnerships (PPPs), even though a couple of such arrangements are ongoing, namely the Mamohato Memorial Hospital and the Health Headquarters. There is also no information on implicit contingencies. The institutional arrangement supporting the ongoing PPPs is very weak; the Health Ministry has a PPP coordinating department that works with the contract management department within the Ministry of Finance: both departments have very low human capacity and technical capability. Given the challenges in relation to the current PPP arrangements, the Government has developed a draft PPP policy, eventually leading to the development and promulgation of PPP legal regulations, going forward. It has also resolved to report on PPPs, henceforth.

The Public Debt Department uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) for recording and managing debt stock. The software is comprehensive and generates monthly analytical and statistical reports within 15 days after the end of the preceding month. Complete reconciliation of debt stock is at least quarterly with information obtained from creditor statements. The CS-DRMS provides information on domestic and foreign debt, bilateral and multilateral loans with respect to transaction date, outstanding opening balance, principal payments, interest payment, principal and interest due date, additional loan commitments, and closing balance. Internal reconciliation concerns between the Public Debt Department and the Accountant General Department, identified during the 2012 PEFA assessment have continued to linger till date; there is no direct interface between IFMIS and CS-DRMS - this results in manual debt data entry into IFMIS thereby leading to inaccurate data recording and reporting.

Dimension rating = C

13.2 *Approval of Debt and Guarantees*

There are four legal and regulatory frameworks governing central government borrowing in Lesotho, namely: (i) Loans and Guarantees Act 1967, (ii) Local Loans Act 2001, and (iii) Public Finance Management and Accountability Act 2011. There is no legislation or policy guidelines on Public Private Partnerships. Whereas the Loans and Guarantees Act 1967 empowers the Minister of Finance to raise external loans and issue guarantees on behalf of government, the Local Loans Act 2001 authorises the Minister to raise domestic loans through the issuance of treasury bills and bonds. Sections 28 and 29 of the PFMA Act 2011 oblige the Minister of Finance to approve all central government loans with prior consent from Cabinet, including loans and guarantees for state-owned enterprises, sub-national governments and parastatals. Section 28(5) of the PFMA Act 2011 requires the Minister of Finance to critically assess whether the borrowing entity or individual has the capacity to repay the loan prior to approval; in practice, however, this is not the case as political pressure overrides professional and legal considerations. Annual borrowing limits are however within agreed thresholds set by the IMF and approved by the legislature. A significant flaw identified in the Loans and Guarantees Act 1967 relates to government guaranteeing loans for individuals and private and/or public corporate entities as outlined in Section 6 (1) of the Act. Even though Section 6(2) requires the Minister of Finance to satisfy himself/herself that the borrower is capable of repaying the loan, political pressure has overridden this provision. This has necessitated the drafting of a new loans bill, currently at

[7] Source: Unaudited consolidated annual financial reports FY2015/2016

the draft stage; the new bill is known as "Public Debt and Aid Management Bill 2016". One critical clause included in the new debt bill is the establishment of a sinking fund to cater for implicit contingent liabilities. It is expected to be finalised and promulgate by end of calendar year 2017. In addition to the flaw identified in the Loans and Guarantees Act 1967, lawmakers have passed a new law, which allows each parliamentarian to borrow at commercial rate with government guarantee; the government pays the loan interest. Officials from the debt department have also raised concerns regarding similar facilities being extended to Permanent Secretaries of line ministries. Another key development is the drafting of a PPP policy; though at the draft stage, it is expected to be finalised in 2017; this will eventually lead to the promulgation of PPP legislation going forward.

Dimension rating = C

13.3 Debt Management Strategy

The first official debt management strategy was developed in 2013 but was never adopted due to major disagreements between the Ministry of Finance and the Ministry of Development Planning regarding the underlying assumptions thereto. To date, there has not been any official medium-term debt management strategy (MTDMS) to guide central government borrowing even though an informal debt strategy comes to play in times of borrowing decision either domestically or internationally. In this regard, the Government of Lesotho has sought the assistance of the World Bank and the IMF to build local capacity referencing the development of MTDMS. The IMF during its Article IV consultations works in tandem with staff of MoF (Public Debt Department) to prepare a debt sustainability analysis (DSA); the most current DSA was annexed to the 2015 IMF Article IV report on the Kingdom of Lesotho dated February 2016. Going forward, the new "Public Debt and Aid Management Bill 2016" when promulgated will make the development of MTDMS mandatory.

Dimension rating = D

PI-13 (M2)	Dimension	Score 2016	Justification for 2016 score
13	**Debt Management**	**D+**	
13.1	**Recording and Reporting of Debt and Guarantees**	**C**	Both domestic and foreign debt including guarantees are recorded and reconciled at least quarterly with information obtained from creditor statements. CS-DRMS generates monthly reports with statistical analyses. However PPPs are neither recorded nor reported. Again, internal reconciliation challenges arising as a result of manual debt data entry onto IFMIS have not been resolved
13.2	**Approval of Debt and Guarantees**	**C**	The legal and regulatory framework grant authorisation to borrow both from domestic and external sources; the Minister of Finance is the sole person authorised to contract loans and issue guarantees on behalf of government and SOEs subject to Cabinet approval. Annual borrowing limits are approved by parliament and are within IMF thresholds. Nonetheless, political pressure overriding the Minister of Finance power to approve all loans remains a significant issue
13.3	**Debt Management Strategy**	**D**	The Ministry of Finance does not prepare a medium-term debt sustainability strategy to guide central government borrowing decisions; however there appears to be an informal debt management strategy in making borrowing decisions.

Ongoing reforms

A new bill on debt has been drafted; it is expected to be promulgated by end of calendar year 2017. The new bill is known as the "Public Debt and Aid Management Bill 2016".

Pillar IV. Policy-based fiscal strategy and budgeting

PI-14 Macroeconomic and Fiscal Forecasting

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.

The Macroeconomic Policy and Management Department (MPMD) was established in 2007 with the aim of building technical capacity and developing forecasting tools. The unit is now well established with a sufficient number of skilled staff. The MPMD mainly uses an IMF-type Financial Programming (FP) model to produce its three-year medium-term macro-fiscal forecasts. These forecasts feed into the formulation of the BSP. The Central Bank of Lesotho (CBL) also produces macroeconomic forecasts using a similar FP model. CBL, like MoF, has received technical assistance from IMF. CBL´s forecasts, which are made biannually, are made for 3 years and published on its website. Differences do exist between CBL's forecasts and those of MoF, but mainly due to different reporting cycles; MoF are linked to the fiscal years and CBL to calendar years. There is some exchange of information between CBL and MoF but of little use to MoF.

However, the macro-fiscal forecasts made by the MoF are hampered by a lack of timely and accurate macroeconomic data (according to IMF report on Strengthening Medium-Term Budget Planning, Cash Management, and Fiscal Reporting, September 2016) and weak coordination across departments and agencies. In addition, CBL points to the problem of data quality. Another challenge is the significant delays in releasing actual statistical figures by the Bureau of Statistics; most data used are forecast figures. The existence of a Macro-fiscal Working Group (MWG) appears to have little impact on data quality and integrity. According to the IMF, there is a need to improve the reliability of macro-fiscal forecasts and the medium-term fiscal framework (MTFF) through:

- Improving coordination and information exchange;
- Strengthening the macro-fiscal forecasting model by correcting historical inconsistencies within the existing database;
- Preparing macro-fiscal forecasts at the beginning of the fiscal year and updating these before the BSP is approved, and;
- Developing analytical capacity to assess the impact of fiscal risks on public finances and incorporate this assessment into the forecasting and fiscal policymaking process.

14.1 Macroeconomic Forecasts

The MPMD prepares forecasts for key macroeconomic indicators for the budget year and the following two fiscal years, but are not disclosing the underlying assumptions publicly. The forecast feeds into the budget strategy paper and into budget process via the budget call circular but in the government's budget submission it appears only as a mentioning of a few indicators in the budget speech. However, there is some sporadic communication with the Parliament during the fiscal year where the Parliament committee for the economic cluster requests for such information.

Dimension rating = C

14.2 Fiscal Forecasts

The MPMD prepares fiscal forecasts for the budget year and the two following years, which are documented in the MTEFF framework. The forecasts include aggregate revenues, expenditures and anticipated deficit. These forecasts are also reflected in the Budget Strategy Paper and in the budget call circular. However, the fiscal forecasts submitted to parliament do not include the underlying assumptions as part of the budget submission to the National Assembly.

Dimension rating = C

14.3 Macro-Fiscal Sensitivity Analysis

This kind of analyses are being developed with IMF model, but are not yet documented and published and not regularly used as an input in the budget submissions although the department is sometimes requested to assess different outcomes. According to the PEFA framework, sensitivity analysis should involve an analysis of debt sustainability as well as impact of fiscal policy decisions; this is not the case in the example of analysis disclosed to the assessment team. In addition, there is no qualitative assessment regarding the impact of the current sensitivity analysis produced by the macro department.

Dimension rating = D

PI-14 (M2)	Dimension	Score 2016	Justification for 2016 score
14	**Macroeconomic and Fiscal Forecasting**	**D+**	
14.1	**Macroeconomic Forecasts**	**C**	The government prepares forecasts for key macroeconomic indicators for the budget year and the following two fiscal years; however, these are not submitted to the Parliament systematically except when requested by parliament economic cluster
14.2	**Fiscal Forecasts**	**C**	The government prepares fiscal forecasts for the budget year and the following two fiscal years with aggregate revenue and expenditure estimates as well as anticipated deficit; however the underlying assumptions are not part of the budget submissions to Parliament
14.3	**Macro-Fiscal Sensitivity Analysis**	**D**	This kind of analysis is under development but is not yet documented and published. There is also no qualitative assessment of the impact of sensitivity analysis currently produced by the macro department

PI-15 Fiscal Strategy

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.

The government's fiscal strategy, although not exhaustive, is reflected in the Budget Strategy Paper and in the Call circular. According to these documents, over the next three years the aim is to maintain long-term fiscal sustainability and to provide a sufficient fiscal and/or foreign reserve buffer against domestic and external shocks and imbalances. Prudent fiscal management will also help to sustain confidence of investors and development cooperating partners and help to secure financing for investment by the private sector and for infrastructure projects. However, according to IMF (Kingdom of Lesotho, Strengthening Medium-Term Budget Planning, Cash Management, and Fiscal Reporting, 2016), the government does not yet have a set of clear fiscal policy objectives to guide budget preparation.

15.1 *Fiscal Impact of Policy Proposals*

The call circular has a section on National Policy goals and key policy charges. The goals are grouped in three clusters with reference to National Strategic Development Plan (NSDP): (i) facilitating job creation, inclusive growth and economic diversification; (ii) reducing economic and social vulnerabilities; and (iii) improving public sector efficiency and service delivery. These are setting overall priorities for the budget but are not clearly linked to priorities in the estimates for revenue and expenditure in the call circular. In the BSP is some information about “Translating Policies into Budget Allocations”. The information in BSP says that the government have taken strategic measures to streamline more resource allocations towards NSDP priority sector ministries and it is also accompanied with a table showing the allocations to some ministries from the last three budget years including the current year. Concerning the capital estimates, the criteria for priorities are more precise and the requirement is that all project submissions and estimates should indicate how the projects reflect national development priorities. To summarize, the government indicates aggregated estimates of the fiscal impact for some proposed changes in revenue and expenditure policy for the budget year.

Dimension rating = D

15.2 *Fiscal Strategy Adoption*

The Fiscal Strategy is reflected in the Budget Strategy Paper and also in the call Circular where each of them contains 1 – 2 pages of brief descriptions. The fiscal strategy over the next three years will thus aim at maintaining long-term fiscal sustainability and providing a sufficient fiscal and/or foreign reserve buffer against domestic and external shocks and imbalances. Prudent fiscal management will also help to sustain confidence of investors and development cooperating partners and help to secure financing for investment by the private sector and for infrastructure projects. As included in the Call Circular, it is approved by the Cabinet but it is not part of the budget submission to the Parliament. Therefore, it is prepared for internal use only, and might be useful for the budget preparation, but it is not published as a comprehensive Fiscal Strategy Document.

Dimension rating = C

15.3 *Reporting on Fiscal Outcomes*

There is a brief quarterly Budget and fiscal bulletin published from the last year and onwards by the MoF that contains some performance on Macroeconomic Developments, Budget and Fiscal Developments and ongoing PFM reforms. The bulletin gives an overview of the quarterly budget operations; revenue collection; recurrent budget performance and capital budget performance.

Dimension rating = C

PI-15 (M2)	Dimension	Score 2016	Justification for 2016 score
15	**Fiscal Strategy**	**D+**	
15.1	**Fiscal Impact of Policy Proposals**	**D**	The government prepares estimates of the fiscal impact for some, but not all, proposed changes in revenue and expenditure policy for the budget year.
15.2	**Fiscal Strategy Adoption**	**C**	The Fiscal Strategy is reflected in the Budget Strategy Paper and also in the call Circular and seems to be for internal use
15.3	**Reporting on Fiscal Outcomes**	**C**	There is a quarterly Budget and Fiscal Bulletin published for the last year by the MoF that contains some performance on Macroeconomic Developments, Budget and Fiscal Developments and ongoing PFM reforms. The bulletin gives an overview of the quarterly budget operations; revenue collection; recurrent budget performance and capital budget performance.

Ongoing reforms

Several improvements have been made to the 2017/18 FY economic and fiscal strategy document (Budget Strategy Paper) to ensure it has a policy effect and is more coherent and consistent. Among other notable changes, is the inclusion and introduction of clear fiscal objectives and targets; a comprehensive corresponding fiscal strategy; a detailed commentary on the current debt status and sustainability analysis as well as its corresponding medium-term strategy and a fiscal risk statement.

PI-16 Medium-Term Perspective in Expenditure Budgeting

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.

The information for dimensions 16.1, 16.2 and 16.4 is sourced from the budget book 2016/17, from the budget call circular December 2015 (in preparation of the budget 2016/17) and the budget strategy paper September 2015.

16.1 Medium-Term Expenditure Estimates

The Annual Budget contained in the Budget book presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification. The economic classification is according to GFS 2001 but COFOG is not applied. Nevertheless, interactions with officials of line ministries, the budget office of MoF, as well as the macro-fiscal unit of MoF coupled with evidence from previous year's budget compared to current year's figures clearly point to a very weak MTEF. The process merely exists but is not functional. At the beginning of each fiscal year, budget formulation and preparation starts afresh without any recourse to previous year's forecast.

Dimension rating = B

16.2 Medium-Term Expenditure Ceilings

Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are part of the budget call circular and approved by the Cabinet before the budget circular is issued. The Medium term Framework is prepared annually beginning with the MOF calling the MDAs (for 2015/16 budget in September 29, 2015) to prepare a Budget Framework Paper (BFP) for medium term (three years). The BFP is intended to be an instrument that facilitates the alignment of identified national priorities to resource allocation. MDAs have been developing Budget Framework Papers (BFPs) with projections for both capital and recurrent expenditure for the upcoming year and two subsequent years. However, these documents are merely incremental projections as the MDAs do not use macro-economic information for the projections. As can be read in the call circular, the MoF regards the BFPs as valuable information for the budget process but the information in the BFPs do not determine the ceilings. The MoF and MoDP determine the ceilings and the Cabinet budget committee based on overall government priorities.

Dimension rating = A

16.3 Alignment of Strategic Plans and Budgets

The team has assessed the following documents, the National Vision 2020, the National Strategic Development Plan (NSDP) 21012/13 – 2016/17, MoF strategic plan for 2015 - 2020 and the MoDP strategic plan for 2013 – 2017. These plans are comprehensive and valuable in their own rights but alignment between the NSDP and the annual budget is weak. In addition, there is no complete costing of strategic plans referencing investment cost and recurrent forward linked expenditure. That notwithstanding, the Ministry of Development Planning as part of its annual formulation and selection of investment projects into the Public Sector Investment Project (PSIP) has begun since November 2013, to include forward linked recurrent cost in all project costing albeit with some reservations. It is therefore fair to conclude that some recurrent cost implications are considered but not comprehensive in all aspects. . The NSDP mentions as an implementation priority to facilitate the integration of the plan into the Medium Term Expenditure Framework (MTEF) and annual budget process, but there is no evidence that this has happened or is ongoing for any of the ministries.

Dimension rating = D

16.4 Consistency of budgets with previous year estimates

In general, budget documents do not provide systematic explanations neither of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level. In the budget speech for the last three years, the Minister of Finance had made some brief comments on the budget performance deviations of the last budgets in the context of presenting the new budget. However, these comments do not fulfill the PEFA framework requirements for consistency analysis in the medium term framework.

Dimension rating = C

PI-16 (M2)	Dimension	Score 2016	Justification for 2016 score
16	**Medium-Term Perspective In Expenditure Budgeting**	**C+**	
16.1	**Medium-Term Expenditure Estimates**	**B**	The Annual Budget contained in the Budget book presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification. The economic classification is according to GFS 2001, but COFOG is not applied
16.2	**Medium-Term Expenditure Ceilings**	**A**	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are part of the budget call circular and approved by the Cabinet before the budget circular is issued
16.3	**Alignment of Strategic Plans and Medium-Term Budgets**	**D**	Medium term strategic plans exist but are not costed or aligned to the budget process
16.4	**Consistency of Budgets with Previous Year Estimates**	**D**	In general, the budget documents do not provide systematic explanations. In the budget speech for the last three years, the Minister of Finance has made some brief comments on the budget performance deviations of the last budgets in the context of presenting the new budget. However, these comments do not fulfil the PEFA framework requirements for consistency analysis in the medium term framework.

Ongoing reforms:

None.

PI-17 Budget Preparation Process

This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the MDAs, including their political leadership represented by Cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions (i) and (ii) are assessed using the last budget submission, for FY2016/17. Dimension (iii) is assessed based on the last three approved budgets: i.e. the FY 2014/15, 2015/16, 2016/17.

17.1 Budget Calendar

The budget calendar/ process is presented as a one page graphic overview for the 2016/17 that contains 12 steps linked to specific months. The Calendar starts April/May 2015 and continues up to February/March 2016 when the budget is submitted to the Parliament and the Appropriation Act is passed. Two successive call circulars complement this overview calendar where the later contains the specific timetable for the budget preparation as follows:

Proposed 2016/17 Budget Timetable	
Budget Estimates Call Circular	2ND December, 2015
Submission of Budget Estimates (Revenue & Expenditure)	11TH December, 2015
Budget Discussion with Line Ministries	21ST December, 2015
Presentation of Budget Estimates to Cabinet Budget Committee	12TH January, 2016
Presentation of Budget Estimates to Cabinet	26TH January, 2016
Presentation of Budget Estimates to Parliament	19TH February, 2016

In the above Table, the first short Call circular is missing. It was issued on September 29, 2016, calling on the ministries to prepare a Budget framework paper for 2016/17 – 2018/19 as a requirement for the MTEF budgeting approach. The actual budget circular with detailed estimates and expenditure ceilings, was issued on December 2, 2015. As the submission of the budget estimates to the MoF was due on December 11, 2015, only 9 days for the budget entities to complete their detailed budget submissions, which is clearly insufficient (see also table below). While most MDAs keep to the calendar, many also frequently delay their submissions to MoF, although not many days.

Table 17.1: 2016/2017 Budget Calendar

Budget for fiscal year	Budget Circular(s) provided by MoF to Ministries and Budgetary Units	Date for Final Submission of Estimates to MoF by Ministries and budgetary units	Cabinet approval of budget before submission to Parliament
2016/17	**December 2, 2015**	**December 11, 2015**	**January 16, 2016**

Dimension rating = C

17.2 Guidance on Budget Preparation

The second Budget call circular includes proposed expenditure ceilings for each ministry's recurrent and capital expenditures as well as indicative ceilings for the two outer years. The guidelines for budget submissions are clear and comprehensive. They include national growth and development policy goals and macroeconomic framework. Cabinet approved the ceilings in the second circular, prior to the distribution of the circular to the budgeting entities, as required by the PFMA Act. However, the ceilings are often not respected as the MDAs are submitting proposals in their submissions to the MoF significantly above their allocated ceilings. Neither are the overall policy goals and macroeconomic framework affecting much on the MDAs budget proposals as the MDAs are mostly making an incremental budgeting exercise based on past budget and expenditure. In the final budget preparation, the government makes the budget in line with the published ceilings regardless of the MDAs overruns. As the indicator primarily is measuring the guidelines, the scoring will be high anyway.

Dimension rating = A

17.3 Budget Submission to the Legislature

The Budget Speech by the Minister of Finance is presented to Parliament on the day the budget is submitted to Parliament. For the last submitted budget, the date of the speech was 19 February 2016 when the budget was also submitted. For the two previous years, the dates are as in the table below. 2015/ 16 stands out, as the budget was not submitted until May. The reason for this was that the Parliament was dissolved before the election and was not in the position to receive the budget earlier. The Parliament has to approve the budget before the end of the FY: it thus have had about one and a half months to review the budget in two normal years 2014/15 and 2016/17.

Dimension rating = C

Table 17.2: Annual budget estimates submissions to Parliament

Budget for Fiscal Year	Date of Submission to Parliament
2014/ 15	February 20, 2014
2015/ 16	May 22, 2015
2016/ 17	February`19, 2016

PI-17 (M2)	Dimension	Score 2016	Justification for 2016 score
17	**Budget Preparation Process**	**B**	
17.1	**Budget Calendar**	**C**	A detailed budget calendar exists and is adhered to but the budgeting entities only get 9 days to prepare their detailed submissions
17.2	**Guidance On Budget Preparation**	**A**	The call circular includes expenditure ceilings for each ministry's recurrent and capital expenditures as well as indicative figures for the two outer years. The guidelines for budget submissions are clear and comprehensive
17.3	**Budget Submission to the Legislature**	**C**	In two of the last three years, the budget has been submitted at least one month before the start of the fiscal years

Ongoing reforms

- Fiscal and budget bulletin has been introduced and is published on quarterly basis.
- Citizen's budget has also been introduced and first issue has already been published.
- Programme performance based budgeting (PPBB) framework has also been rolled out to all MDAs. A comprehensive performance framework is expected to be defined and introduced to complete and consolidate the reform.
- Development of draft national planning and budget regulations completed. The Department is targeting to have the new regulations issued in the 2017/18 fiscal year.
- Development of budget guidebook (i.e guidelines and procedures) is almost completed.

PI-18 Legislative Scrutiny of Budgets

This indicator assesses the legislative scrutiny and debate of the Annual Budget Law as described by: scope of the scrutiny; internal procedures for scrutiny and debate, and the time allocated to that process; the ability to approve the budget before the commencement of new financial year, and the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature.

18.1 Scope of Budget Scrutiny

The Standing Orders of the Parliament guide the budget process in the Parliament. The Portfolio Committee for economic affairs (the Economic and Development Cluster) of the National Assembly is responsible for the scrutiny and preparation of the budget before Parliament's approval. The process starts when the budget is submitted, on which day the Minister of Finance is also delivering the budget speech before the Parliament. The minister is summarising the policy context of the budget, some policy priorities and implications as well as some information about the macro-economic preconditions.

The submitted budget that the committee has to work with contains detailed estimates of expenditure and revenue and aggregates for the coming year as well as forward estimates for the two subsequent years, as required by the PFMA Act. The Budget Speech with its information is also part of the budget documentation; the quarterly Debt bulletin that is submitted in January also forms part of the budget information. After receiving the budget documentation, it is copied to all the members of Parliament. The chair of the portfolio committee convenes the committee and sets the agenda for the committee´s work with the annual budget. All portfolio committees are also involved in the preparation, by working on their specific parts of the budget. During the weeks when the budget examination goes on, all ministries are called in to explain and defend their budget submissions before the committee. Normally, different stakeholders are invited for consultations with the committee to give comments on the budget proposal. The whole process of budget examination in the Parliament takes about 4 weeks, but it has also been as short as 2 weeks in the past. During the process, the different committees and also the budget committee are proposing amendments to the budget resulting in reallocations but not in expansion of the budget. After the process of examining the budget, the Portfolio Committee, presents its report to the full house. The Committee of Supply then debates the Budget proposals, which is the whole House of Assembly. The Standing Orders also specify that the debate on the budget should cover the "general principles of financial and economic policy set forth by the Minister, the financial proposals contained in the estimates and the matters raised in the (Portfolio) Committee's report".

During the review of the 2016/2017 budget, Parliament´s review covered revenue and expenditure estimates for the coming year, but did not cover the figures for the subsequent years. The Appropriation Bill as approved by the Parliament also only covers the coming year; figures for the two subsequent years are given for information only.

Dimension rating = B

18.2 Legislative Procedures for Budget Scrutiny

Following the initial presentation of the Minister of Finance in the Budget speech the Portfolio Committee on the Economic and Development Cluster reviews the proposals, and makes a report to the National Assembly as a whole. When examining the budget and the Portfolio Committee's report, the National Assembly goes into Committee mode and becomes the Committee of Supply. It is at this stage that changes to the draft budget recommended by the Portfolio Committee are discussed. After the National Assembly, the budget goes to the Senate for approval within one day. The Constitution specifies that in general, in the case of disagreements between the two houses of Parliament, the National Assembly's decision will prevail.

The Standing Orders describe the procedures for the review and approval of the budget in detail under Chapter X, Financial Procedures*. The functions of the Portfolio Committee are also described in the Chapter X, as well as negotiation and debate procedures for any proposed amendment to the draft budget. Section 71 of Chapter X also outlines the relations between the National Assembly, the Minister of Finance and the Cabinet if amendments are to be approved. The Orders also include provisions for the Parliament for public hearings on the budget and other matters.*

Dimension rating = A

18.3 Timing of Budget Approval

The budget for, 2016/17 was submitted in February 19, 2016, early enough in the process (almost one and a half months before FY-end 2015/16) to allow time for the Parliaments budget process and ensure passage before the end of the fiscal year.

The dates of the budget submissions to the Parliament and the dates of the approval are as shown in the table 3.18 below. In 2015/16 there was a significant delay of 3 months as the Parliament was dissolved and new elections held.

Table 18.1: Budget Submission to Parliament and Approval (2013/14-2015/16)

Budget Year	Draft Budget Submitted to Parliament	Budget Adopted by Parliament
2013/14	February 22, 2013	March 26th, 2013
2014/15	February 15, 2014	March 24tht, 2014
2015/16	May 22, 2015	June 26th, 2015

Dimension rating = C

18.4 Rules for Budget Adjustments by the Executive

There are clear rules for in-year changes described in the Constitution, chapter X and in the PFMA Act. 15 – 16. They provide that the Executive cannot make budget amendments during the year that entail an increase of total expenditure without *ex-ante* approval (through a supplementary appropriation bill) by Parliament. This is not respected by the government, which only submits one supplementary bill Ex Post each year, summarising several amendments. This has also been accepted by the Parliament although it contravenes the Finance Act.

In-year amendments that involve reallocations between administrative headings and economic expenditure categories are allowed within the same subhead, with some restrictions and subject to approval by MoF; the rules do not specify a limit for the reallocations that can be made without the approval of Parliament. The PFMA Act (Article 15, *Virement or Reallocation)* specifies that a Chief Accounting Officer can only make transfers within a program and for up to 10% of approved expenditure for capital expenditure and 20% for recurrent. The Ministry of Finance can only determine any transfer that is not within the same program or is above the 10% or 20% ceilings. There are no limitations on the size and types of reallocations that the Minister can make without the approval of Parliament, except that they are not allowed to increase in total expenditure.

Dimension rating = C

PI-18 (M1)	Dimension	Score 2016	Justification for 2016 score
18	**Legislative Scrutiny of Budgets**	**C+**	
18.1	**Scope of Budget Scrutiny**	**B**	The Parliament's review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue
18.2	**Legislative Procedures for Budget Scrutiny**	**A**	The legislature´s procedures to review and approve the budget are adhered to
18.3	**Timeliness of Budget Proposal Approval**	**C**	The budget has been approved before the start of the fiscal year in two of the last three completed fiscal years, but for one year with more than one month delay
18.4	**Rules for Budget Adjustment by the Executive**	**C**	Clear rules exist but they allow for extensive administrative reallocations and expansion of the budget is accepted with ex post approval

Ongoing reforms:

None.

Pillar V. Predictability and Control in Budget Execution

PI-19 Revenue Administration

There are four dimensions. Dimension 19.1 measures the rights and obligations of taxpayers including redress; dimension 19.2 examines the risk associated with revenue management; dimension 19.3 assesses the audit and fraud investigation measures; and dimension 19.4 assesses the mechanisms for monitoring and collecting revenue arrears. The assessment of this indicator cuts across the entire revenue administration of central government including tax and non-tax revenue.

Background

Act 14 of 2001 established the Lesotho Revenue Authority (LRA) as an autonomous government entity under the Ministry of Finance; the new Act repealed Acts 14 of 1967, 6 of 1999 and Order No.6 of 1988. It was established to administer the else while functions of Income Tax, Customs and Sales Tax; the Sales Tax has also been replaced with the VAT Act 9 of 2001 and following amendments. LRA became operational in January 2003 with the core mandate to improve efficiency and effectiveness in revenue administration and collection at minimal operating cost to both taxpayers and the Government. While it is important to state that the Public Service Act 1995 does not cover LRA, the Authority is mandated by law to report to the National Assembly and administratively to MoF.

19.1 Rights and Obligations for Revenue Measures

LRA has a functional website. Information on taxpayer obligations and rights to redress is clear and simple to understand. Also available on the website are public rulings and court judgements on tax cases; for instance a court of appeal judgement between LRA and Zainab Moosa dated November 2015, and LRA public ruling relating to VAT on Hire Purchase dated December 2013. A one-page LRA charter summarises the obligations and rights of taxpayer and LRA service standards. Across LRA offices (Large Taxpayer Office - LTO; Small & Medium Taxpayer Offices), there are tax leaflets providing information on taxpayer obligations; for instance, there is a leaflet on taxation of employment income, guide to filing income tax returns, guide to Customs duties and VAT, income tax return forms, and individual self-assessment income tax forms. One can also download tax registration (business and individual) forms, income tax forms, customs forms, and ASYCUDA forms on the website. At the entrance is situated a client service desk for enquiries and directions. Even though tax information on printed materials is in English, the client service desk assists taxpayers in the local dialect. There is also a toll-free client service number for enquiries. Furthermore, LRA conducts public forum and media discussions on taxation especially where new and/or revise legislations and administrative processes have been promulgated and adopted.

Income Tax

The Income Tax Act 1993, Act No. 9 of 1993, provides comprehensive and easy provisions on taxpayer obligations. Chapter I defines tax terminologies; this helps to forestall any ambiguity. Sections 4 to 8 describe individual, partnership or corporate resident or non-resident legal entities liable to tax. Part III Sections 9 to 12 define the income tax rates for both individuals, partnerships and corporate bodies, as prescribed in Schedules 2 to 5. Chapter III Sections 115 to 127 state the allowable and disallowable fringe benefits for taxpayers and applicable taxes thereon; these include loan, debt, superannuation, domestic assistance, meals, utilities, medical and fuel/car fringe benefits, among others. The procedure for filing income tax returns is clearly spelt out in Section 128; a taxpayer must file returns on the stipulated form with full disclosure of income and source of income. Self-assessment is well captured under Section 133.

Just as taxpayers have an obligation to pay tax, so do they have a right to redress; Sections 137 to 140 prescribe rights of objections to tax assessed. The provisions allow for administrative tax appeal within 4 years of assessment of initial assessment or 60 days following from the revised assessment. Where the taxpayer and the Commissioner General of LRA are unable to resolve assessment differences, Sections 138 and 139 (replaced with Act 2 of 2005 - Revenue Appeals Tribunal), and 140 prescribe resolution in a tax tribunal (high court) and further appeal in the Court of Appeals. The taxpayer reserves the right to file an appeal within 60 days after the decision of the high court.

Customs
The Customs and Excise Act (1982) in addition to accompanying amendments (Customs Amendment Act 3, 1984; Order 2, 1986; and Act 25, 1986) are the laws governing customs and excise duties administration. Officials of LRA have indicated that the Customs and Excise Act 1982 is being revised but still at the early stages. Chapter III spells out import and export of goods. Section 46 outlines applicable customs and excise rates as prescribed in the accompanying schedules. The provisions in the law criminalise tax evasion and avoidance, as well as smuggling, all punishable by law. Referencing tax appeals, the Revenue Appeals Tribunal Act 2 of 2005 is also applicable; taxpayers have rights to redress. Sections 13 to 15 stipulate the framework for hearing procedures and adjudication of tax cases.

VAT
The Revenue Appeals Tribunal Act 2 of 2005 also applies to VAT taxpayer rights to redress. Besides the administrative appeals mechanism, taxpayers after exhaustive internal processes may opt for tax tribunal and even appeal to the Court of Appeals. The main legal framework on VAT is the Value Added Tax Act (2001); there are some amendments and regulations to the original law, namely: VAT Amendment Act 6 of 2003, VAT & Income Tax Regulations 2014. All taxable supplies and imports are liable to VAT in accordance with Section 5; Section 6 details exempt supplies and imports - these include educational materials and institutions of education, public transport, medical services, and financial services, among others. Whereas Section 7 deals with persons liable to VAT, Sections 12 to 14 prescribes taxable supplies, services and imports.

Non-Tax Revenue
Actual non-tax revenue, according to the 2015/2016 unaudited consolidated financial statements, was M1.3bn; this represents about 8.8% of total government revenue including grants and 9.4% excluding grants. At present, there is no unit or department within MoF responsible for coordinating non-tax revenue budgeting as well as monitoring actual collections against approved budget, except for the Treasury Department reporting on actual outturns from line ministries. It is believed, with official confirmation from MoF, that less than half of non-tax revenue collected by line ministries is actually reported. Further, it appears there is neither legal nor regulatory policy framework on the management of non-tax revenue besides Sections 21, 26 and 27 of the PFMA Act 2011 mandating line ministries to report and account for all state funds.

Dimension rating = A

19.2 Revenue Risk Management

Revenue risk management is vital to revenue maximisation through mitigation measures against tax evasion; for this reason, the 2014-2019 LRA strategic plan considers the establishment of a Revenue Risk Management Unit (RRMU) and the implementation of an Enterprise Risk Management (ERM) policy is a crucial stage in attaining the overall strategic objective. Whereas the RRMU was established in 2015, the full rollout of the ERM is yet to commence which will, among others automate selection and management of cases. A draft

ERM policy has been developed; this is dated August 2016. The key objectives of the draft policy include instilling risk management into all LRA business processes, create LRA risk management reporting framework, establish a robust risk-proof working culture, and above all hold staff accountable on risk management practices. Currently, case selection for investigation and audit is manual; the main criteria for selection are identification of high-risk taxpayers, tax informants, and intelligence gathering. The control environment concerning the manual case selection process involves the use of LRA internal audit unit to check for compliance. At present, LRA uses two sets of software for tax management; (i) ASYCUDA version 4.2 for Customs and Oracle-based Enterprise Taxation and Policy Management (ETPM) for VAT and Income Tax. The two platforms are linked only on the payment segment; meaning any information and/or update on ASYCUDA cannot be automatically viewed by ETPM and vice versa. In addition, neither of the software is linked to IFMIS. There is an in-built audit trail to track entry of authorised staff into both systems. Self-assessment continues to be the main form of taxpayer liability assessment. Even though Tax Identification Numbers (TINs) are automatically generated, it remains a challenge to uniquely detect multiple registrations of taxpayers especially with the absence of a single national identification system - the current practice involves the use of either a driver licence or passport. Another challenge is the inability of LRA to detect tax evasion from company directors/shareholders with multiple companies.

Dimension rating = C

19.3 Revenue Audit and Investigation

Tax revenue - LRA tax audits and investigations

There are two units responsible for audits and investigations: the tax audit unit and the enforcement unit. Each unit prepares separate plans - annual tax audits and enforcement plans. The 2015/2016 enforcement plan envisaged to undertake four normal and criminal investigations per quarter, the outcome of which will be 32 intelligence reports for further investigations, 8 intelligence reports referred to the anti-smuggling unit, and the closure of 80% debt collection cases. The annual progress report (FY2015/2016) dated 30th June 2016 briefly mentioned investigations and enforcement activities, resulting in 13.1% improvement in collections; however the report fails to provide statistical analysis of targets against outcomes for both planned investigations and tax audits. Statistical analysis can be extracted from detailed information provided by the tax audit unit (large tax & small and medium tax); as shown in table 19.1 below, a total of 8813 tax audits were planned of which only 491 were completed representing 5.6% completion rate. Completion rates of 79.1% and 2.1% were achieved for large tax and small & medium tax units respectively, with total recoveries of M633million in 2015/2016. It appears the targets set for the small and medium tax units were too ambitious in relation to audit staff numbers and hours. It should be noted that large taxpayers constitute more than 72% of total domestic tax collected by LRA; for this reason tax audit is concentrated at large taxpayers and therefore a tax audit completion rate of 79.1% denotes an overall performance of at least 56.8% for large taxpayers

Table 19.1: Analysis of LRA Tax Audits FY2015/2016

Tax Type	Planned Tax Audits	Completed Tax Audits	Percentage Completed	Amount Recovered (M million)
Large Tax	399	316	79.1%	560.1
Small & Medium Tax	8413	175	2.1%	72.9
Total	8813	491	5.6%	633.00

Non-tax revenue audits

Audit of non-tax revenue is part of the routine annual external audit undertaken by the Office of the Auditor General. Available evidence from the 2015/2016 consolidated annual financial statements shows non-tax revenue of M1.3billion; this is subject to external audit from OAG. It is believed that at least half of non-tax revenue remains unreported.

Dimension rating = C

19.4 Revenue Arrears Monitoring

The debt department of LRA has been restructured for efficiency since 2014 to focus on two segments; large taxpayers, and small and medium taxpayers. Tables 19.2 and 19.3 below provide summarised analyses of stock of revenue arrears. The results in table 19.2 indicate that total revenue arrears is 18.1% of total revenue collections for FY2015/2016, with the assumption that unreported non-tax revenue of about 9.4% (refer to PI-19.1 above) is accrued. Given that there is no reliable data on unreported non-tax revenue, the assessment team extended the analysis to consider only tax revenue even though the assessment of this dimension requires the inclusion of non-tax revenue. Therefore, stock of tax revenue arrears stood at 10.3% of total tax revenue collected for the fiscal year 2015/2016 (please refer to table 19.3 below). The data on tax revenue arrears from LRA is not age-profiled; the analysis shows that 41.8% of tax arrears for FY2015/2016 are older than 12 months taking into consideration the outstanding tax revenue for FY2014/2015 less total tax arrears collections of M244.6million in 2015/2016. Of importance to note is the rise in stock of tax arrears from M312.4million in 2013/2014 to M1.3billion in 2015/2016, 413.4% above the 2013/2014 figure.

Table 19.2: Stock of Revenue Arrears (Tax and Non-Tax)

Total Revenue Arrears	2013/2014	2014/2015	2015/2016
Tax Revenue Arrears	312,398,793.28	784,606,009.28	1,291,510,815.95
Non-Tax Revenue Arrears	No Data	No Data	No Data
Total Revenue Arrears	312,398,793.28	784,606,009.28	1,291,510,815.95
Total Revenue (Tax And Non-Tax)	13,274,400,000.00	15,761,747,000.00	14,764,035,000.00
% Of Revenue Arrears To Total Revenue	2.4%	5.0%	8.7%
Assumption: Non Tax Revenue Not Reported			9.4%
Total % Of Revenue Arrears To Total Revenue			18.1%

Source: LRA and Annual Consolidated Financial Statements

Table 19.3: Stock of Revenue Arrears (Tax Revenue)

Tax Revenue Arrears	2013/2014	2014/2015	2015/2016
Tax Revenue	312,398,793.28	784,606,009.28	1,291,510,815.95
Total Tax Revenue	11,202,200,000.00	12,660,800,000.00	12,551,900,000.00
% Of Tax Arrears to Total Tax Revenue	2.8%	6.2%	10.3%

Source: LRA and Annual Consolidated Financial Statements

Dimension rating = B

PI-19 (M2)	Dimension	Score 2016	Justification for 2016 score
19	**Revenue Administration**	**B**	
19.1	**Rights and Obligations for Revenue Measures**	**A**	Lesotho Revenue Authority, collecting more than 90% of domestic revenue, provides tax information to taxpayers; the information is easily accessible on LRA website as well as physical offices. A non-tax revenue unit does not exist within MoF to coordinate and monitor non-tax revenue
19.2	**Revenue Risk Management**	**C**	LRA uses structured and systematic procedures for ensuring tax compliance but there are major issues regarding detecting multiple registration as well as directors/shareholders with multiple

PI-19 (M2)	Dimension	Score 2016	Justification for 2016 score
			companies who evade tax. Again, the ERM policy is yet to be adopted. Also, case selection for audit and investigation is still manual
19.3	**Revenue Audit and Investigation**	**C**	LRA undertakes tax audits and fraud investigations in accordance with its annual enforcement and audit plans; nonetheless, aggregate completion rate of 5.6% was achieved. Completion rate for large taxes is however 79.1%
19.4	**Revenue Arrears Monitoring**	**B**	In FY2015/2016, total revenue arrears represent 18.1% of total revenue with the assumption that non-tax revenue (about 9.4% of domestic revenue) is not reported/collected. Further, by extension, tax revenue arrears represent 10.3% of total tax revenue and arrears more than 12 months are 41.8% of total tax arrears as at end of FY2015/2016

Ongoing reforms

A tax administration bill has been developed. This process began 3 years ago but with little progress. The Customs Department is automating customs declaration that will allow real-time online declaration; again, a traveller-system is being developed for tourists in order to facilitate tax refund at border posts. There is also revision of all tax laws (Income Tax, VAT, and Customs) to meet current trends in global trade.

PI-20 Accounting for Revenue

This indicator has three dimensions. Dimension 20.1 examines the information provided by all revenue collecting agencies to MoF; dimension 20.2 measures the effectiveness of revenue transfer from all revenue collecting agencies to MoF; and dimension 20.3 assesses the complete revenue reconciliation mechanism in terms of assessment, collections, transfers to MoF and revenue arrears.

20.1 Information on Revenue Collections

Lesotho Revenue Authority collects about 45% of central government domestic tax revenue (excluding SACU which is 46% of total domestic revenue); the Office of the Accountant General reports on non-tax revenue (representing about 9.4% of domestic revenue) collected by budget entities. Whereas the Office of the Accountant General could generate a monthly non-tax revenue report from IFMIS, a quarterly in-year budget outturn report is produced instead. The 2016/2017 first quarter in-year report indicates 9% growth in non-tax revenue compared to the same period in 2015/2016 even though the outturn was 22.8% below target; actual collection was M206.5million. The Lesotho Revenue Authority also produces a quarterly performance report detailing tax collections, refunds and net revenue according to tax type even though monthly reports could be generated; this report is sent to MoF. Total tax collections (excluding SACU) net of refunds for quarter 2 of 2016/2017 was M1,552.24million; total refund was M181.43million. Revenue from income tax was M978.36million representing 63% whiles VAT was M573.88million representing 37%. According to the report, overall tax revenue performance exceeded target by 0.7% in the second quarter of 2016/2017. The report provides statistical analysis of revenue growth and pattern.

Dimension rating = D

20.2 Transfer of Revenue Collections

The institutional framework for revenue transfer to the Treasury has not changed since 2012. The Lesotho Revenue Authority (LRA) is the largest single domestic tax revenue collector for the Government. It collects about 45% (excluding SACU, which is 46% of domestic revenues) of central government domestic revenues, the remaining 9% is non-tax revenue from line ministries. LRA has at least one commercial bank account in each of the 10 districts across Lesotho; it maintains no account with Central Bank of Lesotho (CBL). Once a week, transfers of revenue collections are effected to the Treasury Main Revenue account held by CBL. According to CBL, there are 106 government bank accounts in its custody; 5 main treasury accounts (main expenditure account, consolidated fund account, capital account, trust account and line ministries non-tax revenue account) and 103 line ministries donor project accounts. At the end of each week, the balances in the line ministries revenue account are swept automatically into the Treasury Main Revenue account.

Dimension rating = B

20.3 Revenue Accounts Reconciliation

Currently, there is no mechanism for complete and comprehensive revenue accounts reconciliation within the revenue administration framework, both for tax and non-tax revenue. The only reconciliation that takes place within LRA is between collections and remittances as well as the usual bank reconciliations. 'Complete Revenue Accounts Reconciliation' refers to the process of comparing total revenue (tax and non-tax) assessed in a given period to actual revenue collected, then arrears which arise as a result of the difference between revenue assessed and revenue collected, and finally comparing actual revenue collections to total revenue transferred to Ministry of Finance Treasury. Complete revenue account reconciliation assures effective revenue accountability.

Dimension rating = D

PI-20 (M1)	Dimension	Score 2016	Justification for 2016 score
20	**Accounting for Revenue**	**D+**	
20.1	**Information on Revenue Collection**	**D**	At present, both LRA and the Office of the Accountant General produce quarterly reports with information on tax and non-tax revenue according to type
20.2	**Transfer of Revenue Collection**	**B**	Once a week, LRA transfers revenue collections to the Treasury Main Revenue Account at CBL. Non-tax revenue is also remitted weekly to the Treasury account
20.3	**Revenue Accounts Reconciliation**	**D**	At present, LRA does not do a complete reconciliation of tax assessment, collections, transfers and arrears; reconciliation is limited to collections and transfers only. Non-tax revenue is also not completely reconciled

Ongoing reforms

No known reforms

PI-21 Predictability of in-year Resource Allocation

This indicator has four dimensions. Dimension 21.1 assesses the extent to which central government consolidated cash and bank balances are prepared; dimension 21.2 measures the extent to which cash flow forecast is prepared and updated regularly; dimension 21.3 examines the timely transmittal of expenditure commitment ceilings to line ministries and budget entities; and dimension 21.4 assesses the significance and transparency of budget reallocation.

21.1 Consolidation of Cash Balances

The systemic failures identified during 2012 have remained largely unchanged. There is no Treasury Single Account (TSA) within the central government banking framework. The Government of Lesotho has five main treasury bank accounts, namely: (i) Main Revenue Account; (ii) Recurrent Expenditure Account; (iii) Trust Account; (iv) Main Consolidated Fund Account and (v) Capital Account. Additionally, the Treasury system includes about 20 ministry own revenue collection accounts (which are regularly swept into the Main Consolidated Fund Account), 9 sub-accountancy revenue accounts (also swept weekly) and about 18 sub-accountancy bank accounts for payments and trusts. Furthermore, there are about 254 government bank accounts outside the treasury system, maintained and operated by line ministries with authority from the Treasury. Most of these bank accounts are donor financed project accounts and own revenue (internally generated fund) account; the Treasury has no information referencing running balances thereto. Also lacking is the electronic banking platform needed to provide an interface between the banks and IFMIS that will facilitate real-time daily, weekly or monthly reconciliations; the treasury only obtains hard copies of bank statements for reconciliation purposes. Consolidation of treasury managed bank balances is done monthly; the remaining 254 or so bank accounts remain outside this consolidation system. Efficient and effective cash management is enhanced through daily cash consolidations as a catalyst for ensuring judicious use of government cash resources. The treasury management functions are weak. One crucial factor that needs to be identified and addressed is the inevitable link between dimensions (PI-21.1) and PI-13.1 and PI.13.3; the effectiveness of consolidation of all government cash balances (including treasury managed bank accounts and line ministries own revenue accounts) reduces the need to borrow domestically leading to the payment of huge interests as well as crowding out funds for private sector businesses.

Dimension rating = D

21.2 Cash Forecasting and Monitoring

There has been no improvement since the 2012 assessment. The Lesotho National Assembly usually passes the Appropriations Act before the beginning of the new fiscal year; the only exception was in 2015/2016 where the Act was passed on 3rd July 2015 due to the dissolution of parliament for which new members were elected. Line ministries are required, as prescribed under Section 13 of the Treasury Regulations 2014, to prepare and submit annual cash flow plans to MoF for consolidation by the Cash Management Unit; in practice however, this is not done. While the Treasury Regulations clearly spell out the importance of cash flow planning, actual implementation remains a challenge. For instance, Section 13(1) states that the Accountant General, in collaboration with the Central Bank, the Budget Department, the Macro-fiscal Unit and other departments shall ensure the existence of a functional cash flow management framework including cash flow monitoring for efficient and effective use of government cash resources; this is not happening.

Dimension rating = D

21.3 Information on Commitment Ceilings

As indicated above (PI-21.2), the legislature usually approves the annual budget estimates prior to the commencement of the new fiscal year. In exceptional cases where delays occur in passing the Appropriations Act, Section 18 of the PFMA Act in accordance with Article 113 of the Constitution allows the Minister of Finance to spend a third of the preceding year's allocations. Good practice suggests that once the appropriations are approved by the legislature, line ministries prepare annual procurement plans as input to annual cash flow plans, in order to facilitate the issuance of expenditure commitment ceilings; the current practice however is not effectively coordinated as a result of non-existence of annual cash flow plans. The Ministry of Finance issues quarterly expenditure commitment ceilings to line ministries; actual cash is released monthly for payment of expenditure. It appears this dimension was overrated in 2012 since the practice of quarterly expenditure commitment ceilings (warrants) has remained unchanged. It may have been misunderstood by the previous assessment team, that the continuous expenditure commitment outside IFMIS meant six months or more warranty to spend of which the resultant effect is unknown stock of expenditure arrears (please, refer to PI-22 below).

Dimension rating = B

21.4 Significance of in-year Budget Adjustments

There has been no change since the last assessment in 2012. In-year budget virements are frequent, especially in March, but transparent. Section 15(1) of the PFMA Act 2011 allows for 20% and 10% of budget reallocations within the same programme for recurrent and capital expenditure respectively, at the level of the Chief Accounting Officer; any extra virements above the set threshold must be approved by the Minister of Finance. Given that budget reallocations could potentially distort policy priorities, Section 15(2) guards against any virements with significant changes to policy intent. Nonetheless, the analysis in PI-2 clearly points out huge expenditure composition variances with potential distortion of policy intent. Once, in each of the last three completed fiscal years, the National Assembly passed ex-ante supplementary appropriations in accordance with Article 112(3) and Section 16 of the Constitution and PFMA Act respectively. These occurred six months after the beginning of the fiscal year. Virements are reported to parliament twice - first during supplementary appropriations, and second during submission of annual budget estimates. In 2015/2016, budget reallocations for recurrent and capital expenditure were 124 and 32 times respectively, with a total value of M950.7million, representing about 8% of originally approve budget.

Dimension rating = B

PI-21 (M2)	Dimension	Score 2016	Justification for 2016 score
21	**Predictability of in-year Resource Allocation**	**C**	
21.1	**Consolidation of Cash Balances**	**D**	There is no TSA. Even though treasury managed bank balances are consolidated monthly, there are over 254 other government bank accounts (donor-financed projects and own revenue bank accounts) maintained and operated by line ministries that are not part of the monthly consolidation system
21.2	**Cash Forecasting and Monitoring**	**D**	Section 13 of the Treasury Regulations 2014 mandates all budget entities to prepare and submit annual cash flow plans to MoF for consolidation and monitoring; in practice however, this is not done
21.3	**Information on Commitment Ceilings**	**B**	MoF issues quarterly expenditure commitment warrants to budget entities; actual cash releases are monthly
21.4	**Significance of in-year Budget Adjustments**	**B**	In-year budget reallocations are significant but done in a transparent manner. Once in each of the last three completed fiscal years, parliament passed ex-ante supplementary appropriations six months after the beginning of the fiscal year

Ongoing reforms

No known reforms

PI-22 Expenditure Arrears

This indicator has two dimensions. Dimension 22.1 assesses the level of stock of expenditure arrears; dimension 22.2 examines the framework for monitoring expenditure payments arrears.

22.1 Stock of Expenditure Arrears

According MoF officials, expenditure arrears in Lesotho are defined as obligations fallen due after 45 days. There are no reliable figures on stock of expenditure arrears from central government. The trend regarding expenditure commitment outside IFMIS has not changed since 2012 assessment, as most line ministries procure goods and services without an IFMIS generated and approved purchase order. As part of measures to comply with IPSAS, the Ministry of Finance, for the first time in FY2015/2016 reported expenditure arrears in the consolidated annual financial statements. However, the aggregate expenditure arrears of M58.58million is unreliable given that the figure relating to Ministry of Defence and National Security has been duplicated; the said figure was M20.32million. The 2012 PEFA assessment recognised an expenditure verification exercise conducted by the internal audit department of MoF to establish the quantum of expenditure arrears; that exercise appeared to be ad hoc. Officials from the Office of the Accountant General confirmed that stock of expenditure arrears outside IFMIS are significant but could not determine the exact figure. Further, expenditure arrears from state-owned enterprises pose fiscal risk to central government; for instance, available evidence from Lerotholi Polytechnic and Lesotho Electricity Company indicates that stock of expenditure arrears amounts to M103.2milion at March 2016; the team is still awaiting data from WASCO. The analysis in Table 22.1 shows that arrears were 0.4% of aggregate expenditure for FY2015/2016 implying a very low ratio; however this cannot be true since a greater part of expenditure arrears remain unknown.

Table 22.1: Analysis of stock of expenditure arrears (Million Maloti)

Particulars	2013/2014	2014/2015	2015/2016
Stock of Expenditure Arrears	No Data	No Data	58,578.00*
Total Expenditure	12,802,043.00	14,930,346.00	16,242,093.00
% Of Total Arrears to Total Expenditure	No Data	No Data	0.4%

Source: MoF Consolidated annual financial statements 2013/2014, 2014/2015, and 2015/2016
*** Figure not reliable since Head 37 (Defence & National Security) figure of M20.322million is duplicated**

Dimension rating = D*

22.2 Expenditure Arrears Monitoring

For the first time in 2015/2016, the Government of Lesotho reported stock of expenditure arrears in its consolidated annual financial statements; these statements are yet to be audited. The monitoring and reporting of expenditure arrears is now done annually since FY2015/2016; it is not comprehensive as officials of the Office of Accountant General confirmed expenditure commitments outside IFMIS by line ministries is still a major challenge. Line ministries do not report on expenditure arrears arising out of commitments outside IFMIS. The expenditure report contained in the consolidated annual financial statements provides an age analysis of arrears classified under more than a year, six months and three months. This was achieved by activating Section 35(3) of the PFMA Act 2011, which requires the preparation of annual financial statements in accordance with International Public Sector Accounting Standards (IPSAS); IPSAS requires the full disclosure of expenditure arrears falling due within the period. The draft consolidated annual financial statements for FY215/2016 showed total expenditure arrears of M58.58million from 17 line ministries; one must however point out that there is a duplication of M20.32million relating to Head 37 - Defence and National Security, the implication of which has resulted in an overstatement of expenditure arrears by that margin.

Dimension rating = C

PI-22 (M1)	Dimension	Score 2016	Justification for 2016 score
22	**Expenditure Arrears**	**D+**	
22.1	**Stock of Expenditure Arrears**	**D***	There is no reliable data on the stock of expenditure arrears. The 2015/2016 figure of M58.578million, though reported in the 2015/2016 draft consolidated annual financial statements, is unreliable.
22.2	**Expenditure Arrears Monitoring**	**C**	Information on age-profiled stock of expenditure arrears is now generated annually and reported in the consolidated annual financial statements; however the expenditure report is not comprehensive as it does not include arrears outside IFMIS

Ongoing reforms

No known reforms

PI-23 Payroll Controls

This indicator is concerned with how the payroll is managed, how changes to the payroll are handled and how personnel records are aligned to the payroll in order to promote predictability in the availability of resources when needed. The indicator contains four dimensions that focus on the integration of payroll and personnel records, the management of payroll changes, and the internal control of the payroll and the extent of payroll audit activities.

Employee costs is the most significant expenditure item in the budget representing on average 47% of total recurrent expenditure budget over the past 3 fiscal years as illustrated in Table 23.1. The significance of the Education Payroll has a dominant impact on the assessment of the indicator as it represents 37% of the budget for employee costs in 2015-16 (2016-17: 35%), refer chart 23.1a, and these implications are discussed in more detail under the individual dimensions.

It is important to take cognisance of how the GoL budget process is implemented as it is an incremental basis that is used and ministries need to align the establishment to the budget and not necessary to its mandate and/or service delivery (performance) requirements. As discussed in dimension 23.4, there are significant risks pertaining to the accuracy of the payroll because of the existence of 'ghost'.

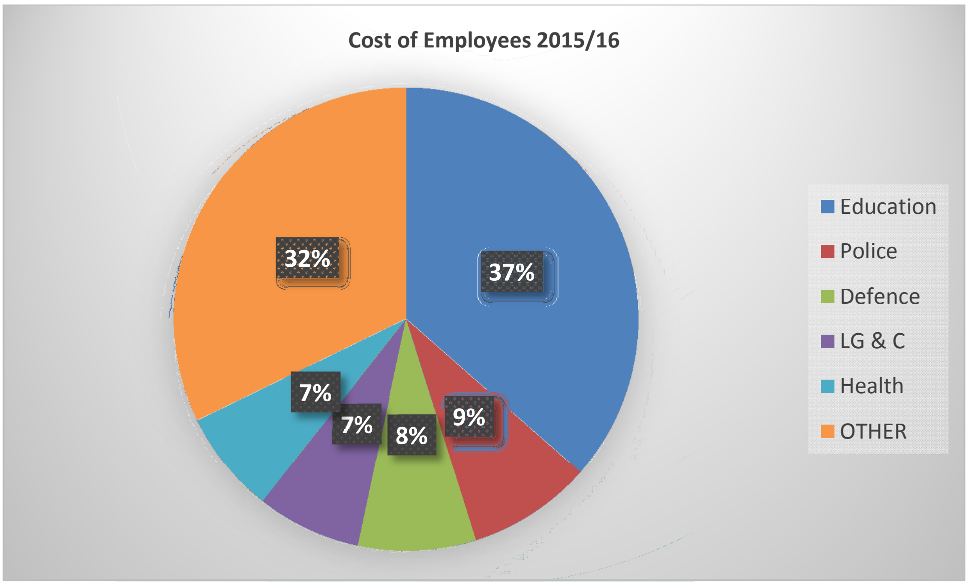
Table 23.1: Significance of the Employee Cost Budget (M) for the GoL

	2013/2014	2014/2015	2015/2016
Cost of Employees	3 429 742 086	3 346 225 344	5 645 355 267
Total operating budget	6 613 998 600	7 018 622 439	13 254 438 304
%	51.9%	47.7%	42.6%

Source: Budget Books 2013/2014 – 2016/2017

The most recent available audited consolidated financial statements (31 March 2014), note 7, reflect an overspending on payroll in excess of M822m.

Chart 23.1a: Significant Payroll Components



Source: Budget Book 2016/17

During the period under assessment, the GoL replaced the former Unisys Payroll system and implemented a new system, Resource Link, effective April 2016. Not all modules are active yet, however the payroll module for all ministries is active.

23.1 Integration of Payroll and Personnel Records

Personnel records are manually maintained in hardcopies (personnel files) whilst an electronic payroll system is used and by implication requires capturing changes into the payroll system manually. In the absence of an automated integration, pre-numbered *Casualty Return* documents serve as the basis for ensuring that the payroll is aligned to individual personnel records.

Ministries maintain the personnel records whilst management of the payroll is centralised within the Ministry of Finance. There is no evidence to suggest frequent validation of the payroll and personnel data takes place. Interactions with officials of Ministry of Public Service, Ministry of Education and Office of the Accountant General, indicate that the accuracy of the payroll especially for Education is a major concern. The existence of 'ghost teachers' is a significant risk.

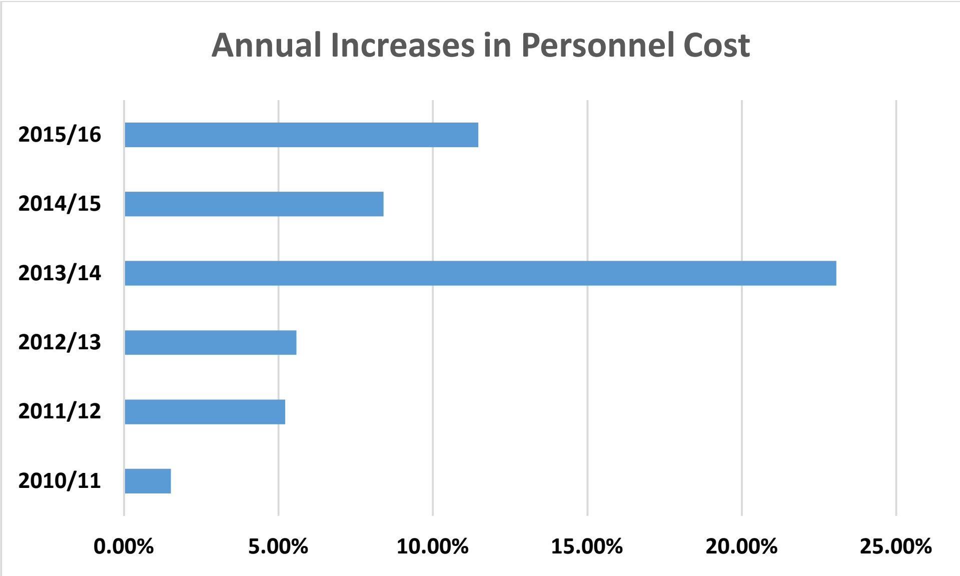
Two additional factors that prohibit accurate and timely integration is that of the country not having allocated identity numbers to citizens and secondly, at the start of each financial year each ministry approves and adopts a new establishment once approved by the Public Service Ministry. There is however no approved established that informs the payrolls for the majority of the workforce.

Dimension rating = D

23.2 Management of Payroll Changes

There are three specific types of changes i.e. changing the establishment, centralised adjustments for annual salary increases processed by the MoF and those changes pertaining to personnel records with impact on actual payroll expenditure. Details of the changes pertaining to personnel costs mainly as result of salary increases are illustrated in Chart 23.2.

Chart 23.2: Annual increase (%) in Employee Costs (Monetary Impact of Changes made)



Source: Consolidated Annual Financial Statements 2010/13 to 2015/16; Budget Book 2016/17

A manual pre-numbered document, the *Casualty Returns ("CRs")*, is used by the individual ministries for effecting changes to individual employee payroll information such as new appointments and terminations. Changes occur daily and the prescribed process provides for daily submission of CRs for centralised processing by the MoF. However, there is no audit trail generated to track changes and the timely and accurate processing of CRs. Significant delays in processing terminations resulted in salary payments to officials who have left their post. The internal control system over CRs and the payroll are weak. The individual payrolls for the education, police and defence are not based on an approved establishment and as such, over- and short supply of officials to workstations are experienced.

Payroll is not reviewed and/ or certified for accuracy and there is no evidence that ministries review the monthly *Payroll Analysis* sent out by the MoF. Delay in submission of CRs is as a major concern. Distances between cost centres and head office, budget constraints to conduct a physical verification and in general a lack of compliance for speedy removal of officials from the payroll on termination of services were among the main reasons for existence of 'ghost workers'. It was not possible to quantify the impact of the delays in processing CRs as there is no audit trail to track processing and salary overpayments are not processed through suspense accounts indicating debt to be recovered from employees.

Dimension rating = D

23.3 *Internal Control of Payroll*

Since the 2012 PEFA assessment 2 distinct HR-Manuals (*Human Resources Management & Development Policy Manual; Human Resources Management (HRM) Standard Operations Guide*) have been formulated and implemented in 2012 and the Treasury Regulations (PART VIII, sections 44 -50) was issued 28 March 2014. These documents, together with the prevailing legal framework, serve as guidelines for HR practitioners. The CR system provides adequate controls for safeguarding the payroll integrity, if compliance is complete. In terms of the CR system, authority for making changes are set at two levels i.e. the Principal Secretary within the ministry approves the CR, which is then sent for final approval by the Ministry of Public Service. However, there is a lack of adherence to the payroll controls.

The OAG reported (2013/2014 audit report - PART 11 (2); 2010/13 – PART 9 (9.1)) that systems of internal controls were inadequate to support achievement of programme objectives, e.g. control measure with regard to updating the payroll and dispatching lists were found to be weak and led to fraudulent activities. In addition, non-compliance to laws and regulations was noted and in specific spending units, incidents of overpayments, wrongful payments were reported. Delays in effecting changes in salaries resulted in over and under payments of public officers mainly as result of the delay in issuing CRs.

Dimension rating = D

23.4 *Payroll Audit*

Interaction with officials suggests that the “audit” of the payroll was limited to a headcount conducted in 2015 by the Ministry of Public Service on the payroll of the ministries of Health and of Local Government. The project was suspended due to capacity constraints and effectiveness of the project. As mentioned earlier, Lesotho citizens have not been issued with national identity cards, which limits the effectiveness of verification of individuals. Numerous anomalies were already identified during the 2014 project, representing possible ghosts and employees being paid after termination of services.

The OAG and IA units have both confirmed that no information technology audit was conducted on either general or application controls over the past 5 years. In addition, there is no evidence that the risks surrounding the payroll and salaries were adequately prioritised in the audit plans of both the OAG and IA unit.

Dimension rating = D

PI-23 (M1)	Dimension	Score 2016	Justification for 2016 score
23	**Payroll Controls**	**D**	
23.1	**Integration of Payroll and Personnel Records**	**D**	There is no automatic integration or reconciliations between personnel records and the payroll system
23.2	**Management of Payroll Changes**	**D**	Personnel records and the payroll are not updated at least quarterly and incidents of retrospective adjustments happen so frequently that it has been highlighted as a challenge to ministries and the office of the Accountant General
23.3	**Internal Control of Payroll**	**D**	There are no controls to validate and ensure the

PI-23 (M1)	Dimension	Score 2016	Justification for 2016 score
			integrity of the payroll data
23.4	**Payroll Audit**	**D**	There were no payroll audits, inspections or surveys conducted during the past three years

Ongoing reforms

The GoL is currently implementing a number of reforms that may have an impact on payroll management processes:

- The Department of Home Affairs is issuing each citizen with an identity number to be captured onto payroll and updating personnel files;
- The roll out of the Government Human Resource Information Management System (HRIMS);
- The execution of the Public Service Biometric and Payroll Census;
- The Public Financial Management Reform Project;
- The Public Service Modernization Project (PSMP).

PI-24 Procurement

This indicator is concerned with the management of procurement expenditure, in order to promote predictability of resource availability. The indicator contains four dimensions that focus on key aspects of procurement management; procurement monitoring; transparency, openness and competitiveness of procurement methods applied; public access to procurement information; and the management of procurement complaints and redress arrangements.

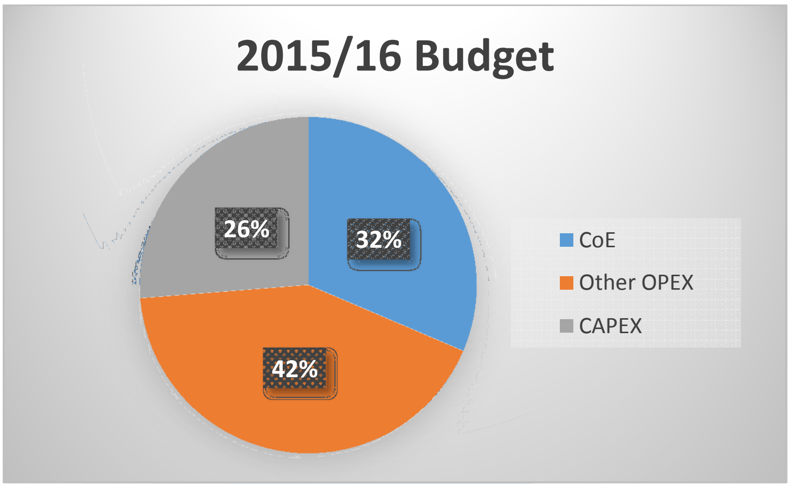
The GoL has established a procurement system and a comprehensive regularity framework to ensure that the use of public money in acquiring inputs for, and achieving value for money in, the delivery of Government programmes and services, is effective.

The regularity framework consists of:

- The Public Financial Management and Accountability Act, Act 12 of 2011, PART VII providing for procurement and management of government property. The Chief Accounting Officer of a given Ministry is responsible for ensuring that the principles of value for money, open and effective competition, transparent and ethical behaviour and management of risk, are observed in the procurement processes of that particular Ministry
- Treasury Regulations, 28 March 2014, PARTS IV – VI, deals with procurement and spending of public monies
- The Public Procurement Regulations, 2007, provides for a detailed procedural framework
- The GoL Code of Good Practice in Procurement
- Procurement Plans by each ministry

Non-employee expenditure represents 68% of the total 2015/16 budget as illustrated in chart 24.1, of which capital expenditure represents 26%. Please, note that these categories of expenses are analysed in relation to total national budget which include debt servicing cost, subscriptions, and transfers.

Chart 24.1: Share of GoL Budget by Economic Classification

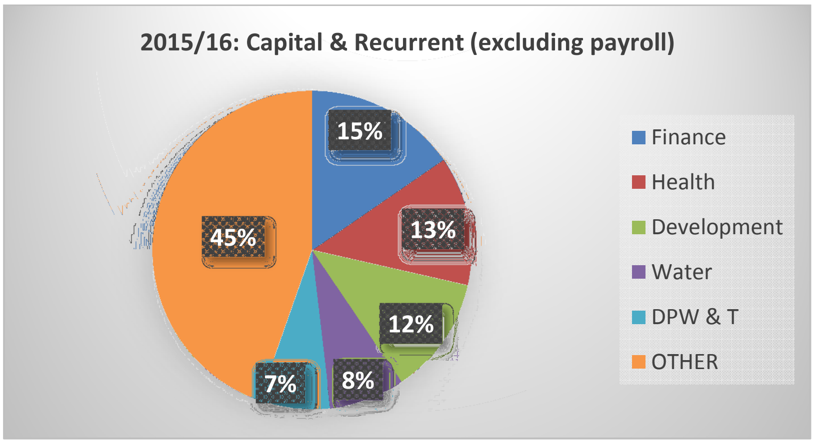


Source: Budget Book 2016/17

Key: CoE = Cost of Employees; OPEX = Operating Expenses; CAPEX = Capital Expenditure

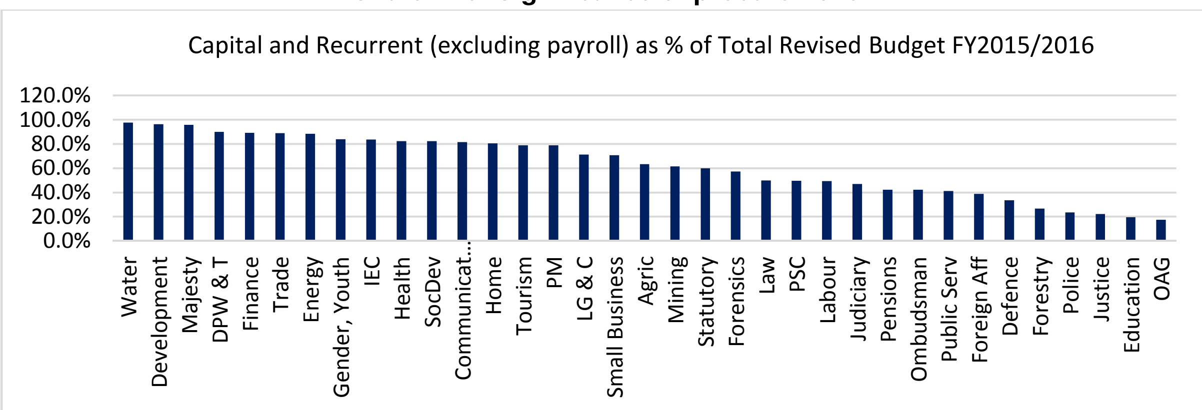
The main spending ministries are set out in chart 24.2 and the relative size of non-employee budgeted expenditure within each ministry is set out in chart 24.3.

Chart 24.2: Revised Budget 2015/16 - Top 5 Ministries



Source: Budget Book 2016/17

Chart 24.3: Significance of procurement



Source: Budget Book 2016/17

24.1 Procurement Monitoring

Procurement is decentralised, with each ministry managing its own procurement process in line with the regulatory framework. At the time of the assessment, the most recent audit report from the OAG is for the financial year ending 31 March 2014 and no reports have been received from the Internal Audit unit. The following thresholds apply for procurement of Works, Goods, and Services

- Below M 30 000, : Direct Purchasing
- M 30 001 → M 100 000, : 3 Quotations
- Above M 100 000 : Tender Process

. There is no evidence of ministries, departments, and agencies maintaining records of what has been procured under the various thresholds.

Dimension rating = D

24.2 Procurement Methods

As mentioned in dimension 24.1, appropriate data is not available. The assessment of this dimension requires data on methods of procurement especially for procurement using sole sourcing and restricted tender in order to ascertain the level of compliance as well as justification for using non-competitive procurement methods.

Dimension rating = D*

24.3 Public Access to Procurement Information

The assessment revealed that the individual websites for ministries do not disclose any information on tenders or procurement documents except for advertisements in weekly newspapers that carry bidding opportunities. The following ministries and websites serve as examples:

- Finance: www.finnce.gov.ls 1 tender listed for 2016/17
- Health: None– use only portal
- Development Planning: www.planning.gov.ls 8 tenders, dated 2014
- Water: www.lesmet.org.ls No tenders
- Public Works, Transport: None – use only portal
- Government Portal: www.gov.ls 9 tenders listed (2016), 0 for 2015

Ministries and the PPAD confirmed during interviews that information is not readily available to the public on websites. Only tenders are advertised when issued, but mainly in printed media.

Table 24.1 below provides an analysis of public access to procurement information against the PEFA benchmarks.

Table 24.1: PEFA requirements to rate this dimension

The following key procurement information is available to the public through appropriate means:		
No.	**Key procurement information**	**Yes/No**
1	**Legal and regulatory framework for procurement:** These documents are not freely available to the public as they are not traceable on websites, not all ministerial websites are active. It can be purchased from the Government Printers but not readily available at the time of the assessment.	**No**
2	**Procurement plans:** Procurement plans are prepared but not reliable; they not made available to the public	**No**
3	**Bidding opportunities:** In the 2014 regulations – decree no 2, advertising in 3 newspapers are required. At least, the weekly national newspaper advertises bidding opportunities	**Yes**
4	**Contract awards (purpose, contractor and value)** These are not disclosed to the public in terms of contract value and other details	**No**
5	**Data on resolution of procurement complaints** Complaints Register for 2012 – 2015 received from the PPAD with 11 incidents reported. They are not publicized	**No**
6	**Annual procurement statistics** Statistics are not published	**No**

Dimension rating = D

24.4 Procurement Complaints Management

There are three levels within the government before a service provider can approach a court of law. Whilst within the ministry there is no segregation of responsibilities as it falls within the mandate of the Procurement Officer, the second tier is the PPAD in the MoF and thereafter the Procurement Tribunal .The Tribunal is not yet fully functional. The legal framework allows for judicial review of decisions of Procurement Tribunal.

Interactions with the private sector (Lesotho Chamber of Commerce and Industry) suggest that for fear of victimisation and blacklisting, very few bidders take advantage of the court system; also because of the very slow justice delivery system.

Table 24.2: Mechanisms for reviewing procurement complaints

Complaints are reviewed by a body which:		Yes/No
1	**Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions**	No; procurement tribunal not functional
2	**Does not charge fees that prohibit access by concerned parties**	No; procurement tribunal not functional
3	**Follows processes for submission and resolution of complaints that are clearly defined and publicly available**	No; procurement tribunal not functional
4	**Exercises the authority to suspend the procurement process**	No; procurement tribunal not functional
5	**Issues decisions within the timeframe specified in the rules/regulations**	No; procurement tribunal not functional
6	**Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions**	No; procurement tribunal not functional

Dimension rating = D

PI-24 (M2)	Dimension	Score 2016	Justification for 2016 score
24	**Procurement**	**D**	
24.1	**Procurement Monitoring**	**D**	There is no reliable record/database for monitoring procurement management
24.2	**Procurement Methods**	**D***	There is no record/database of what has been procured using which method. Details on the extent of deviations are not available centrally at PPAD
24.3	**Public Access to Procurement Information**	**D**	Only one of the procurement elements is publicly available (that is, bidding opportunities in newspapers)
24.4	**Procurement Complaints Management**	**D**	Procurement tribunal not yet fully functional

Ongoing reforms

Public Finance Management Reform Action Plan 2012-2018, Component 6

PI-25 Internal Controls on Non-Salary Expenditure

This indicator covers a wide range of processes and types of payment across central government including existence of segregation of duties, effectiveness of expenditure commitment controls and compliance with payment rules and procedures ensuring that resources are obtained, and used as intended and only where appropriate authority is exercised.

A comprehensive regularity framework consisting of international and national standards, laws and regulations guide ministries in designing, implementing and applying control processes and procedures. In Lesotho both the PFMA Act of 2012 and the Treasury Regulations, 2014 directly address internal controls and allocate specific duties and responsibilities to accounting officers in ministries. There are also International frameworks such as the COSO (Committee of Sponsoring Organisations of the Treadway Commission) Internal Control – Integrated Framework and the INTOSAI standard on Governance, ISSAI 9100 – Guidelines for Internal Control in the Public Sector that serve as guidelines when considering the internal control environment; these are not applicable in Lesotho.

25.1 Segregation of Duties

The GoL expenditure process provides for specific roles and responsibilities and at a high level consists of the following separate activities i.e.:

- Annual budget allocations by the MOF
- Procurement plans compiled by Ministries
- Procurement process managed by Ministries
- Accounting records integrated and managed by the MOF
- Payments initiated by line ministries, processed and paid by the MOF

Within ministries, a generic organogram exists for each finance section that includes functions such as procurement, administration, and payments. This structure provides for implementing the prescribed procurement and payment process within ministries and all positions have formal job descriptions. The financial management process provides for an officer responsible for raising purchase requisitions within each department; the purchase requisitions are then authorised by the head of department, sent to head of budget for clearance and then to the Chief Accounting Officer for approval before the local purchase order is raised. The head of accounts authorises for payment once goods and/or services are delivered with the appropriate Goods Received Note with confirmation from the head of stores where necessary. Each ministry has an officer responsible for stores and assets management who is supposed to ensure strict compliance. There are also clear segregation of responsibilities when it comes to recording of financial data, reconciliations and internal audit. However, compliance remains a major concern due to high vacancy levels, lack of skills and capacity.

Dimension rating = A

25.2 Effectiveness of Expenditure Commitment Controls

The procurement process provides for a commitment to be raised and offset against available funds (budgets) on the IFMS system once an order is generated. Based on interviews conducted any procurement outside of the process is regarded as irregular and service providers will not be paid. There are instances where commitments are raised outside IFMIS, for example, payments for infrastructure projects where the projects span over multiple financial years. The impact of incurring “expenditure without placing orders” has a material impact on the effectiveness of commitment controls.

The Auditor General has reported (on the consolidated financial statements) that 14 ministries that overspent M277m in 2013/14 *(2012/13 information incomplete in audit report (par 3.6)*) pertaining to recurrent expenditure (par 5.31). It is however not clear to what extent overspending in personnel costs, if any, contributed to the overspending due to a lack of reporting or disclosure by economic classification in the report.

Dimension rating = C

25.3 Compliance with Payment Rules and Procedures

Available evidence points to serious disregard for payment rules and procedures. Purchase orders not processed through IFMIS are rejected for payment; however, there are numerous instances where commitments are made outside IFMIS, thereby creating huge expenditure arrears. Nonetheless, IFMIS functionality disallows all commitments that are in excess of approved limits within IFMIS. There are identified instances and risks that indicate a high level of non-compliance i.e. the Auditor General has reported on overspending by ministries, bank reconciliations that are not up to date (not all expenses therefore necessary captured) and the fact that expenditure on capital projects is not committed prior to payment.

Dimension rating = D

PI-25 (M2)	Dimension	Score 2016	Justification for 2016 score
25	**Internal controls on Non-Salary Expenditure**	**C+**	
25.1	**Segregation of Duties**	**A**	Appropriate segregation of duties is prescribed throughout the expenditure process and responsibilities are clearly laid down
25.2	**Effectiveness of Expenditure Commitment Controls**	**C**	IFMIS functionality is capable of controlling commitments; however not all expenditures are processed through IFMIS

PI-25 (M2)	Dimension	Score 2016	Justification for 2016 score
25.3	**Compliance with Payment Rules and Procedures**	**D**	Clear internal controls exist but they are rarely adhered to

Ongoing reforms

None

PI-26 Internal Audit

This indicator assesses the standards and procedures applied in internal audit and contains four dimensions dealing with the coverage of internal audit, the nature of audits and standards applied, implementation of internal audit plans and the response to internal audit reports.

In the public sector, the function is primarily focused on assuring the adequacy and effectiveness of internal controls: the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations and programs; the safeguarding of assets; and compliance with laws, regulations, and contracts. Effectiveness of risk management, control, and governance processes should be evaluated by following professional standards such as the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. These include: (a) appropriate structure particularly with regard to organizational independence; (b) sufficient breadth of mandate, access to information; and power to report; and (c) use of professional audit methods, including risk assessment techniques.

The Internal Audit Unit functions on a “shared-service” basis reporting to the Accountant General, both functionally and administratively, as the intended Audit Committee has not been yet been established. The regulatory framework within what the IA conducts its business consists mainly of:

- the Public Financial Management and Accountability Act, Act 12 of 2011, section 38
- the Treasury Regulations 2014, section 11
- the International Standards for the Professional Practice of Internal Auditing, 2012 (this is partly adopted by Lesotho)

26.1 Coverage of Internal Audit

There is insufficient evidence that internal audit activities are prioritising risks as prescribed in the PFMAA and in accordance with IA standards. As stated above, internal audit services are rendered on a “shared service” basis with the IA Director (Chief Audit Executive) reporting to the Accountant General (MoF).

Though individual auditors are deployed in ministries, this is mainly an operational arrangement and does not necessary result in adequate audit coverage in terms of the risk areas including payroll, fixed assets, non-tax revenue, procurement, cash management, ICT, among others even though majority of line ministries, departments and agencies have functional internal audit units. IAD (MoF) confirmed that no audit has been carried out on information technology system(s) used in government for the past 3 to 5 years to test the general and application control strengths. The Lesotho Revenue Authority, on the other hand, has a dedicated team of internal auditors to cover the majority of revenue (tax revenues) collected for central government.

Dimension rating = C

26.2 Nature of Audits and Standards Applied

There is no evidence that there is an adequate Quality Assurance in process and the Internal Audit Unit has not conducted any self-assessment or arranged for an external assessment as prescribed in IIA standard 1300. Based on discussions there is no Risk Management Framework in government and there is no evidence that audit assignments prioritized risks using alternative means.

In the absence of copies of IA reports, it is not possible to determine the main audit areas, that is, risks, effectiveness of internal control or compliance matters. The OAG has concluded in its audit strategy that it places no reliance on IA due to lack of coverage, limited compliance to standards, incomplete working paper files and lack of comprehensive internal audit reports. Internal audit standards manual was unavailable for the team's review.

Dimension rating = C

26.3 Implementation of Internal Audits and Reporting

Treasury Regulation 11(14) requires that the IA unit prepare *(in consultation with the Audit Committee)* the following documents:

a) A three-year rolling strategic plan;
b) An annual work plan for the first year of the rolling strategic plan; and
c) An annual report *(for the Audit Committee)* detailing its performance against the annual work plan to allow for effective monitoring and possible intervention.

As stated above, the Audit Committee has not yet been established and based on discussions, the three year rolling strategic plan has not been prepared. The last internal work plan available was for FY2015/2016 as presented in table 26.1 below for majority of line ministries; not much is achieved in terms of implementation of audit plans. A number of internal audit reports for FY2015/2016 were reviewed; the main issues arising out of these reports include non-compliance with procurement rules, non-reconciliation of bank accounts, incomplete documentation to support expenditure payments, missing payment vouchers, poor non-tax revenue accounting, among others.

Table 26.1: Internal Audit Unit Work plans - 2015/2016

Ministry	Planned Engagement in 2015/16	Conducted Engagements 2015/16

Agriculture and Food Security	1. District Administration Office (DAO). 2. Project – Smallholder Agricultural Development Programme 3. DAO – Berea 4. DAO – Mafeteng 5. DAO – Butha Buthe Follow up – OAG' s	
Health	1. Follow-up audits 2. Revenue National Health Training College (NHTC) 3. (Project) Performance Based Funding (PBF) Management 4. Procurement follow-up audit: Quthing hospital and DHMT, Mokhotlong hospital and DHMT, Berea Hospital and DHMT 5. To carry out special assignments 6. Follow-up on Auditor General's recommendation	1. **Quthing Hospital and DHMT:** Procurement processes 2. **National Health Training College (NHTC):** Revenue collection process 3. **Special assignment:** Housing allocation for Doctors
Education and Training	1. Revenue collection 2. Project – Free Primary Education Follow –up on procurement	1. **Admin– Accounts:** Revenue Collection Process
Finance	1. Ministerial projects – management of projects. 2. Accounts – Civil pensions & gratuity payments	
Trade and Industry	1. Issuance of traders' licences, permits and revenue collection 2. Accounts Section - payments and revenue collection 3. Follow-up on Auditor General's recommendation 4. Special; assignment requested by management Facilitate in Auditor General's report queries (PAC).	1. **Procurement:** Follow up –on procurement processes 2. **Transport:** Management of vehicle fuelling
Development Planning	1. Loan bursary Revolving Fund 2. Monthly allowances to NMDS students 3. Advance allowances given to universities for students NMDS credit balances within institutions	1. **Accounts:** Expenditure on water bills 2. **Procurement:** Procurement processes 3. **Manpower Development Secretariat - Scholarships:** Local Schools Allowances
Justice and Correctional Services	1. Human Resource Section – Safekeeping of employees files 2. LCS Projects – Follow-up in Leribe, Mafeteng & Maseru LCS Institutions in 10 all districts	1. **Legal Aid**: Confirmation of payment of clients' maintenances fees by the High Court

Home Affairs	1. Contract -security companies. 2. Financial audit of Kings Birthday Ceremony 3. Coordination of Auditor Generals responses 4. Visas and Residence Permits 5. Application and distribution of passports 6. Safekeeping and distribution of birth certificates and identity cards	1. **Contracts:** Security services 2. **Accounts:** Financial audit of King's birthday 3. Coordination of auditor general responses
Communication, Science and Technology	1. Procurement & Accounts - procurement & payment systems 2. Human Resources payroll system	-
Foreign Affairs and International Relations		1. **Embassy of Lesotho London**: Special Assignment - Overall control processes in the Embassy
Public Works and Transport	1. Human Resources – Payroll 2. Traffic – Issuance of vehicle number plate 3. Follow up – annual leave & work attendance Procurement – procurement wood & gas in Qacha's Nek, Thaba Tseka & Mokhotlong	1. **Department of Traffic & Transport:** Issuance of drivers' licences
Forestry and Land Reclamation	1. Revenue collection 2. Recurrent Expenditure 3. Human Resource – compliance with training & development processes 4. Procurement and Stores - Inventory management process 5. Management of immovable property 6. Poverty Alleviation Project. 7. Performance at catchment areas Follow –up.	1. **Procurement Section:** Stores control. 2. **Mafeteng District:** Capital and recurrent expenditure 3. **Procurement Section:** Tendering process 4. **Human Resource Section:** Institutional Housing 5. **Human Resource Section:** Training & development of staff
Energy, Meteorology and Water Affairs	1. Human Resource – Headcount 2. Procurement of goods & services 3. Accounts – Tour imprest 4. Special assignment	1. **Human Resources:** Head Count 2. **Accounts**: Controls on Tour Imprest
Tourism, Environment and Culture	1. Administration - application and issuance of Trading Licenses 2. Mohale and Lesotho Northern Parks - revenue collection at Mohale and Northern Parks Human Resources – training & development	1. **Procurement:** Procurement processes

Defence and National Security	1. Administration Department - compliance with policies, procedure & financial regulations 2. Administration – compliance with public procurement regulations 3. Makoanyane Military hospital Revenue collection LDF Department – compliance with financial regulations	1. **Administration:** Follow Up-Procurement & Accounts
Local Government and Chieftainship	1. Open tender procurement. 2. Local Government Development Grant (LDG) in all 10 districts 3. Human Resource 4. Special Assignments by the Management 5. Facilitate of delivery of affordable quality houses to Basotho within property planned settlements (Housing)	1. Districts Council audits on donor fund 2. Local Development Grant projects (LDG) and Capacity Building Grant (CBG) for 10 district councils and Maseru City Council (MCC)
Gender, Youth, Sports and Recreation	1. Accounts - Pending Payments 2. Subventions and Subscriptions 3. Ministry's Projects Follow Up - Procurement and Revenue processes	1. **Setsoto Stadium: Revenue collection** 2. **Re-opening of Matheko Youth Centre:** Procurement of equipment 3. **Administration:** Controls related to clearance of equipment to be used by the vocational training centres
Social Development	1. Administration & Accounts - Fleet Management 2. Accounts – budget & expenditure on communication 3. Procurement, Stores and Accounts 4. Accounts, Procurement, Stores – compliance with procurement & financial Regulations in 10 districts 5. Special Assignments	1. **Procurement & Stores:** Procurement processes

Dimension rating = C

26.4 Response to Internal Audits

The majority of internal audit units within line ministries prepares and issue periodic internal audit reports to management (chief accounting officers); however, available evidence (sample of internal audit reports from forestry, works, defence, finance, trade, and foreign affairs) indicates no executive action or response to audit findings. Officials from IAD MoF have expressed serious concerns regarding non-executive action to audit (internal and external) findings.

Dimension rating = D

PI-26 (M1)	Dimension	Score 2016	Justification for 2016 score
26	**Internal Audit**	**D+**	
26.1	**Coverage of Internal Audit**	**C**	Majority of line ministries and budget entities have functional internal audit units
26.2	**Nature of Audits and Standards**	**D**	There is no evidence of the nature of audits

PI-26 (M1)	Dimension	Score 2016	Justification for 2016 score
	Applied		conducted or that appropriate standards were applied
26.3	**Implementation of Internal Audits and Reporting**	**C**	Annual internal plans are prepared; majority of these plans are implemented. Some internal audit reports are issued to chief accounting officers
26.4	**Response to Internal Audits**	**D**	Even though periodic internal audit reports are prepared and issued to management, there is neither execution action nor responses to audit queries

Ongoing reforms

The ongoing PFM reform project is providing the support needed to implement change to GoL's Internal Audit.

Pillar VI. Accounting and Reporting

PI-27 Financial Data Integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. Timely, relevant, and reliable financial information is required to support fiscal and budget management and decision-making.

Reliable reporting of financial information requires a system of consistent checking and verification of accounting records and practices as a critical part of internal controls to ensure quality decision-making information. This is an important part of internal control and a foundation for good information for management and for external reports that underpin aggregate fiscal discipline, strategic allocation of resources, and the efficiency of service delivery. Care should be taken to properly account for losses to be recovered and expenditure to be appropriately classified.

In order to enhance data integrity the regulatory framework and circular(s) issued by the office of the Accountant General provide guidance to ministries:

- Public Financial Management and Accountability Act, Act 12 of 2011
- The Treasury Regulations, 28 March 2014 –
  - PART VII *(sections 32 - 43: Advances);*
  - PART XII *(section 81: Bank Reconciliations)*;
  - PART XVII *(sections 93 – 99: Financial Reports)*
- Accountant General Circular: Bank Reconciliations, February 2016

27.1 Bank Account Reconciliation

There are in total 364 bank accounts (outside treasury control) spread between the ministries who are responsible for doing the reconciliations on a monthly basis (Note 9, AFS 2015/16). Reconciliations are manual, as the IFMIS reconciliation module, where an automatic bank statement upload is done unto IFMIS for direct reconciliation, is not active. Inaccurate reporting on revenue and cash and bank balances (material differences) are included as qualification matters for the OAG to issue adverse audit opinions for the four years ending 31 March 2014. The office of the Accountant General shared the concern that there is a high risk of significant delays (backlog) in compiling the required reconciliations by the ministries. Statistics provided for October 2016 indicates that of all the bank accounts managed by government treasury, 98% (by value) has a backlog of more than 12 months whilst 1.2% are 8 months in arrears. There is only one Treasury managed bank account reconciled as at 30 September 2016 (Lipam-CDSM). Most donor-funded project accounts are however reconciled regularly and within 4 weeks after month-end; these reconciliations are more regular due to donor insistence and periodic monitoring which is lacking within the government framework

Dimension rating = D

27.2 Suspense Accounts

As reported during the 2012 PEFA assessment, “below the line” suspense accounts have not been reconciled since 2007/08. These balances remained un-reconciled and cleared up to the 2015/16 financial year. The Accountant General stated that these suspense accounts would be cleared during the 2016-17 financial year. The OAG has raised serious concerns regarding the non-acquittal of these suspense accounts. Accounting for salary over-payments as result of the delay in processing terminations on time through the payroll are not processed to record the monies owed to the state. These debts are therefore unaccounted for and not disclosed appropriately.

Suspense Account - Receivables

An analysis of the suspense accounts as per the annual financial statements indicates a growing or static balance, which could be indicative of non-reconciliation of other suspense accounts and/or non-collection of monies owed to the GoL as illustrated in table 27.1:

Table 27.1: Disclosure as per the audited annual financial statements

SUSPENSE ACCOUNTS (RECEIVEABLES) AND ADVANCES (M'000)							
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Domestic	0	0	0	0	0	In terms of IPSAS Cash Basis of Accounting no detailed information disclosed	In terms of IPSAS Cash Basis of Accounting no detailed information disclosed
Annual Advances	0	0	0	0	0		
Other Accounts Receivable	72	65,001	87,709	87,436	87,436		
Other Temporary Advances	218	218	638	1,506	1,736		
Staff Debtors	0	0	0	-24	-24		
Tour Impress	2,366	8,314	2,624	39,414	52,886		
	2,656	**73,533**	**90,971**	**128,332**	**142,034**		

Source: Audited Annual Financial Statements 2010/13 and 2013/14; AFS 2014/15 and 2015/16

The following "Miscellaneous Other Expenditure" was reported on in the annual financial statements without adequate disclosure of the nature of these payments, which could represent possible transactions that should have been allocated to suspense accounts and not expensed. Refer Table 27.2. In addition, the OAG reported on the fact that losses to the value of M138m were expensed in the 2013/14 financial year and not earmarked to be recovered by raising a debt (suspense account).

Table 27.2: Disclosure as per the audited annual financial statements

"MISCELLANEOUS OTHER EXPENDITURE" (M'000)							
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Miscellaneous	651 165	693 298	920 822	740 051	767 583	729 392	878 833
% of Total Expenditure (excluding CoE)	**10.6%**	**12.8%**	**14.1%**	**11.8%**	**9.4%**	**8.2%**	**9.0%**

Source: Audited Annual Financial Statements 2010/13 and 2013/14; AFS 2014/15 and 2015/16 (Total excluding Personnel Costs)

Suspense Account- Payables

The annual financial statements reflected no credit balances pertaining to suspense accounts as at 31 March 2014.

Ministries informed the PEFA team that suspense accounts are reconciled by the office of the Accountant General. In addition, not all salary over payments are processed timely as payroll controls are inadequate to identify 'ghost' employees.

Dimension rating = D

27.3 Advance Accounts

Refer also table 27.1 above. Temporary Advances and Tour Imprest increased by 100%+ between 2013/14 and the prior year (Note 17 of the Annual Financial Statements) to M53m. No explanation is provided for this growth. Ministries have indicated that as part of the control measure, an official will not be granted a further advance if previous advances have not been retired; nonetheless, advance balances continue to increase, as it appears the control measure is ineffective.

Dimension rating = D

27.4 Financial Data Integrity Processes

IFMIS is managed by the MoF and should a ministry require a transaction change, the initial transaction must be cancelled and re-captured. Access to information is limited to authorised staff only and changes can only be made to transactions that have not been processed. The system generates audit trails to track entry. Processed data is encrypted; users have entry passwords that are changed periodically by the system administrator. There is also a reconciliation team responsible for ensuring financial data integrity; however, the process is less effective; there is also limited technical capacity. Of concern is the fact that the systems were not closed and ministries were allowed to process and backdate transactions and changes into prior years. Howver, all changes were recorded and the system (IFMIS) generates an automatic audit trail of all authorised users. It should also be noted that neither the OAG nor the Internal Audit sections have done any General Control or Application Control review over the past 3 – 5 years.

Dimension rating = A

PI-27 (M2)	Dimension	Score 2016	Justification for 2016 score
27	**Financial Data Integrity**	**D+**	
27.1	**Bank Account Reconciliation**	**D**	There is a significant backlog in bank reconciliations, 98% are 12 months or more in arrears
27.2	**Suspense Accounts**	**D**	There are suspense balances dating back 2007/2008; no reconciliation and clearance takes place annually
27.3	**Advance Accounts**	**D**	There are advances dating back 2007/2008; no reconciliation and clearance takes place annually
27.4	**Financial Data Integrity Processes**	**A**	IFMIS assures financial data integrity process with audit trails; access is limited to authorised staff only. There are however incidents where ministries have backdated and processed transaction to prior financial years; that notwithstanding, all such changes were recorded with IFMIS generating automatic audit trail

Ongoing reforms

PFM Reform Project; Upgrading IFMS

PI-28 In-year Budget Reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and timely use of corrective measures. There is a comprehensive regulatory framework dealing with budget (and weekly cash flow) monitoring and reporting and specifically the following:

- the Public Financial Management and Accountability Act, Act 12 of 2011 (refer sections 4(c),(e); 27; 34(1)(a)
- the Treasury Regulations, 2014 (refer sections 12(2); 13; 14; 93(1); 98

When assessing the indicator it is important to take note of the process implemented whereby the office of the Accountant General takes overall responsibility for cash flow management, which includes strict monitoring of both revenue and expenditure. Quarterly warrants are issued to spending units to facilitate procurement and expenditure payments in line with the prescribed procurement plans, taking into account the extent of commitments. All (procurement and payment) transactions are processed on the IFMIS, which is managed by the office of the Accountant General and reports are available on a daily basis allowing aggregate monitoring.

28.1 Coverage and Comparability of Reports

Reporting is done directly from the IFMIS, which is used by all ministries. There is a standardised Chart of Accounts ("SCOA") in place and the entire budget is manually captured onto the IFMIS, updated when the budget is adjusted. At the stage of issuing a Government Order, the IFMIS is updated by registering the commitment and the eventual payment is processed against the commitment. This ensures alignment of expenditure by ministries, departments and agencies, and according to administrative and economic sub-votes and sub-sub-votes.

Transfers to de-concentrated and extra-budgetary units within central government are considered as expenditure and captured onto the IFMIS as these units are regarded as autonomous and not integrated into reporting processes. As discussed in dimension 28.2 there are three levels of reporting done as part of the in-year monitoring process i.e. weekly, monthly and quarterly and are fully compatible with the budget.

Dimension rating = C

28.2 Timing of in-year Budget Reports

The availability of information in IFMIS on a real-time basis promotes budget monitoring. However, budget monitoring is weak. This is of significance, as procurement cannot proceed without available commitment. The PFMAA (section 98) provides for reports to be submitted within 14 days of the end of each month, inclusive of the bank reconciliations, to the Accountant General. In line with section 98, the Accountant General shall report to the Cabinet throughout the year (no timeframes nor frequency is prescribed), and to National Assembly on a quarterly basis. Whiles IFMIS is capable of generating in-year budget reports real-time, there are significant delays of more than 4 months in producing quarterly in-year reports. As of the time of drafting this report, only the first quarter in-year budget report for FY2016/2017 has been published on MoF website.

Dimension rating = D

28.3 Accuracy of in-year Budget Reports

As stated above, financial data from IFMIS is available on a real-time basis, providing electronic information ready for reporting on both payments to date as well as commitments and that of the captured budget. The most recent available OAG report is that of 31 March 2014 and it highlighted the fact that the accounts are not accurate due to significant backlog in bank reconciliations, suspense accounts not properly cleared and that ministries are backdating transactions into prior years.

The 'Grey Nkungula' report on *"Effectiveness of IFMIS EFT module Audit assignment*" dated 8 January 2016, highlights the following main concerns:

- The IFMIS system not closed monthly, allowing backdated entries (3.2.11);
- Bank reconciliation issues (4.13)

Though this report deals with the readiness for rolling out the EFT module, it highlights concerns that affect the accuracy of reporting. However, data is generally useful for analysis of budget execution in terms of comparing originally approved budget to actual outturns and statistical variance analysis reports. Again, the budget execution reports are useful for preparing annual financial statements even though concerns regarding data accuracy continue unabated.

Dimension rating = C

PI-28 (M1)	Dimension	Score 2016	Justification for 2016 score
28	**In-Year Budget Reports**	**D+**	
28.1	**Coverage and Comparability of Reports**	**C**	Expenditure by de-concentrated and extra-budgetary units within central government is not consolidated into IFMIS. The report is compatible with approved budget classification and allows for direct comparison
28.2	**Timing of in-year Budget Report**	**D**	In-year budget reports are issued quarterly but with significant delays of more than 4 months
28.3	**Accuracy of in-year Budget Reports**	**C**	There are significant concerns regarding data accuracy as backdated adjustments are possible and not all bank reconciliations are done timely. However, data is generally useful for budget and statistical variance analyses reports

Ongoing reforms

- PFM Reform Project
- Strengthening Medium-Term Budget Planning, Cash Management, and Fiscal Reporting assignment
- IFMIS: Upgrade the current Epicor version 7.3.5 solution to Epicor version 10.

PI-29 Annual Financial Reports

This indicator used three dimensions to assess the extent to which annual financial statements are complete, submitted by MoF to the office of the Auditor General in a timely manner, and whether accounting standards are consistently used and disclosed.

The regulatory framework is explicit in prescribing timeframes, target dates, responsibilities and set the basis for preparing financial reports on the IPSAS Cash Basis of accounting, namely:

- the Public Financial Management and Accountability Act, Act 12 of 2011 (sections 34; 35; 36; 37); Public Entities (PART VI)
- the Treasury Regulations, 28 March 2014 (PART XVI)
- International Standard on Cash Basis issued by the Public Sector Accounting Standards Board (IPSAS)

It is important when assessing the indicator to take note of the significant delays in finalising accounts, presenting them for audit purposes and the eventual tabling in parliament. In addition, the regularity framework provides for the OAG to issue an audit report (and opinion) on consolidated financial statements and that ministries compiled individual annual financial statements for the first time for the year ending 31 March 2016.

29.1 Completeness of Annual Financial reports

The Government's annual financial statements are comparable with originally approved budgets. The GoL 31 March 2016 consolidated annual financial statements are prepared on the IPSAS cash basis consisting of the following:

I. Report by the Minister of Finance
II. Report by Accountant General
    a. Commentary on Consolidated Financial Statements
III. Consolidated Financial Statements For the year ended 31st March, 2016
    a. Consolidated Statement of Cash Receipts and Payments
    b. Consolidated Statement of Comparison of Budget and Actual Amounts
    c. Statement of Accounting Policies
    d. Statement of Consolidated Entities
IV. IV. Notes to the Consolidated Financial Statements

- Appendix 1: Analysis of Receipts and Payments by Spending Unit
- Appendix 2: Budget Comparison – Analysis by Spending Unit
- Appendix 3: FY2015/16 Original to Revised Budget

A generic template is in use for ministries for compiling the 31 March 2016 individual financial statements providing for disclosure of the following i.e.

- Report by the Accounting Officer
- Certificate by the Chief Accounting Officer
- Statement 1: Statement of Cash Receipts and Payments
- Statement 2: Statement of comparison of Budget and Actual amounts
- Statement 3: Special Funds
- Statement 4: Accounting Policies
- Notes to the financial statements
- Schedule of Cash Balances
- Schedules of Revenue Arrears and other debtors
- Schedule of Payment Arrears
- Schedule of Contingent Liabilities
- Schedule of Losses and Write-off
- Schedule of Spending Units
- State owned entities
- External Assistance and borrowings
- Below the line accounts

Local Authorities, Public Entities (state owned enterprises and autonomous bodies) and Extra Budgetary Funds are excluded from the consolidated financial statements for the year ending 31 March 2016 and as such the consolidation represents an amalgamation of ministries, offices and special purpose accounts e.g. “Interest Charges”; “Refund Erroneous Receipt”, etc. The successful consolidation is dependent on the extent of applying a similar accounting framework. Table 29.1 outlines information contained in 2015/2016 annual financial statements:

Table 29.1: Information Contained in the GoL Consolidated Annual Financial Statements 31 March 2016

Financial heading	Sub-financial heading	Presence in Financial Statements	
Revenue	Direct Tax	Yes	
	Indirect Tax	Yes	
	Investment Income	Yes	
	Non-Tax Revenue	Yes	
	Grants	Yes	
Expenditure & transfers	Personnel Emolument	Yes	
	Goods and Services	Yes	
	Interests	Yes	
	Investments	Yes	
	Losses	Yes	
	Statutory Payments	Yes	
	Subsidies and Transfers	Yes	
Assets	Cash and Bank Balances	Note 9	M 8,914,270,000
	Advances		
	Public Loans (Receivable)	Note 15	M 926,024,738
	Equity and Other Investments	Note 10	
	Revenue Arrears	Note 11	M 9,213,000
Liabilities	Public Debts (Domestic)	Note 14	M 1,274,768
	Public Debts (Foreign)	Note 14	M 13,978,406
	Long Term Borrowings	Yes	
	Suspense Accounts	Note 12	M 170,464,121
	Contingent Liabilities- Pension Fund	Note 13	M 2,046,000,000
	Contingent Liabilities - Guarantees	Note 16	M 88,046,347
	Expenditure Arrears	Note 17	M 58,578,000

Source: Consolidated Financial Statements 31 March 2016

Dimension rating = B

29.2 Submission of Reports for External Audit

The OAG is required to issue an opinion on only the consolidated annual financial statements as prescribed by the PFMAA. As shown in Table 29.2 below the Accountant General submitted consolidated annual financial statements within 5 months after the end of the fiscal year for external audit.

Table 29.2: Timeliness of Submission of AFS by Accountant General to OAG

Financial Year	Financial Statements for	Date of Submission to OAG
FY2014	Consolidated Fund	01 September 2014
FY2015	Consolidated Fund	31 August, 2015
FY2016	Consolidated Fund	31 August 2016

Source: OAG

Dimension rating = B

29.3 Accounting Standards

The PFMAA specifies that the IPSAS Cash Basis of Accounting framework should be adopted and applied for compiling financial statements. Compliance to IPSAS was evaluated as indicated in Table 29.3 below using the consolidated annual statements and four line ministries annual financial statements (Education, Finance, Public Works, and Agriculture). The Accountant General has indicated that 2015/2016 was the first year of compiling the financial statements on the IPSAS Cash Basis and the process will be fully phased in over a period of two financial years. As shown in the table below, compliance to IPSAS cash averaged 94%; however, this is not consistent overtime since 2015/2016 was the first year of adopting IPSAS cash

Table 29.3: IPSAS Compliance

Financial Year	Consolidated AFS	Ministries (4) AFS	Observations	
			Consolidated AFS	Ministries AFS (4)
FY2015/2016	Yes	Yes – Sample Tested	91%	Average: 94%
FY2014/2015	Yes	No – Not Compiled	86%	N/A
FY2013/2014	Yes	No – Not Compiled	75%	N/A

Dimension rating = D

PI-29 (M1)	Dimension	Score 2016	Justification for 2016 score
29	**Annual Financial Reports**	**D+**	
29.1	**Completeness of Annual Financial Reports**	**B**	Most of the minimum requirements of IPSAS have been complied with. AFS contains information on revenue, expenditure, financial assets and financial liabilities, although not complete
29.2	**Submission pf reports for External Audit**	**B**	The consolidated annual financial statements (2015/2016) were submitted to OAG within 5 months of the financial year (31 August 2016)
29.3	**Accounting Standards**	**D**	It is only in 2015/2016 that both ministries and consolidated financial statements were more IPSAS compliant. Accounting standards have not been consistently applied for the last three years

Ongoing reforms

PFM Reform Project – Implementing IPSAS Cash Basis

Pillar VII. External scrutiny and audit

PI-30 External Audit

This indicator assesses the quality of the external audit in terms of the scope and coverage of the audit, adherence to appropriate audit standards (including independence of the external audit institutions). The timeliness of submission of audit reports to the legislature is also important in ensuring timely accountability of the executive to the legislature and the public, much as it is for a timely follow up of the external audit recommendations. The assessment covers the central government institutions including all agencies and extra-budgetary funds (where they exist) and focuses on the last 3 financial years, FY2013/2014; 2014/2015; 2015/2016. It is important to note that the 2014/2015 audit report has been finalised by the OAG and submitted to the Minister of Finance in accordance with the PFMA Act; this is yet to be made public since the Minister of Finance as provided for by the law has not tabled it in parliament

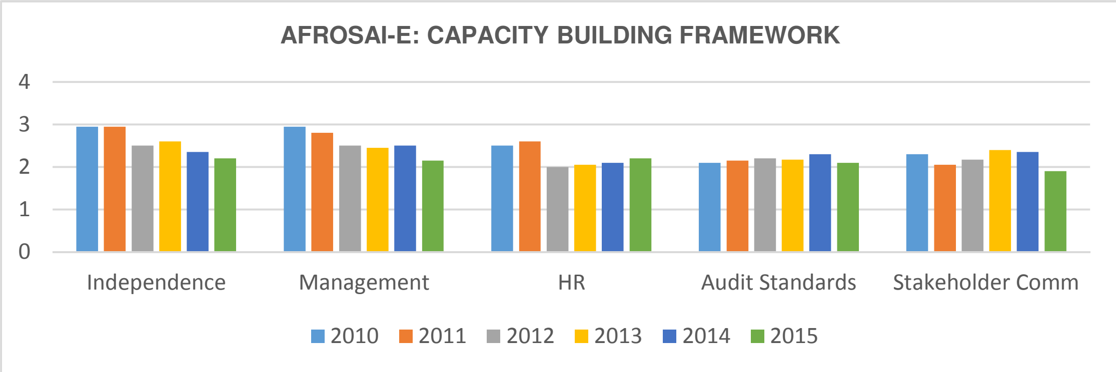
The regulatory framework that determines the mandate and requirements for the OAG is as follows:

- Public Financial Management and Accountability Act, Act 12 of 2011;
    - Sections 35 and 37 to audit the consolidated annual financial statements of the GoL;
    - Section 39 to audit the annual financial statements of local authorities;
    - Section 45 to audit the annual financial statements of public enterprises;
- Audit Act, Act 12 of 1973. The year(s) under PEFA review were all audited under the old 1973 Act;
- New Audit Act 2016 (yet to be operationalised), the implementation date of the act was postponed to 01 April 2017);
- International Standards for Supreme Audit Institutions (INTOSAI).

The OAG (SAI) is responding to the Accountant General as it submits the annual GoL financial statements which resulted in the combined 3-year period 2010-2013 audited and reported on 26 February 2014 (adverse audit opinion) and the 2013/14 reported 20 February 2015 (adverse opinion). The audit reports for both 2014/15 and 2015/16 have not yet been tabled or released.

Of significance, for the assessment of this indicator is the fact that the OAG only needs to issue a report (opinion) on the consolidated annual financial statements and secondly, that there is a significant delay in tabling Audit Reports in Parliament. The OAG (SAI) is affiliated to AFROSAI-E that promotes annual self-assessments through the Capacity Building Framework (CBF). The results of these assessments as published and are illustrated in graph 30.1. In terms of the assessments, the Lesotho SAI remains in the bottom quartiles in most of the indicators amongst the 26 countries assessed.

Graph 30.1: Lesotho SAI Performance



Source: AFROSAI-E Transversal Activity Reports, 2014, 2015

30.1 Audit Coverage and Standards

The PFMAA provides for the consolidated annual financial statements of the Government of Lesotho, all local authorities and public entities to be audited. In order to assess the level of coverage, each of these three spheres of government was analysed separately. In addition to regularity audits (financial and compliance), OAG also conducts performance audits.

Coverage - Consolidated Annual Financial Statements

The OAG confirmed that components within a selected sample of ministries are subjected to audit and that not all risks are necessary appropriately covered, this mainly due to capacity and budget constraints. Audit coverage was 53% and 79% of line ministries, and about 60% by value between 2013/2014 and 2014/2015. OAG audit sampling was at least 15 of high-risk line ministries out of 25. Majority of risk areas are covered including revenue, payroll, procurement, asset management. Nonetheless, as confirmed by OAG, no audit of the information technology environment (general and application reviews) were conducted for the period under review.

Local Authorities

The OAG is in the process of conducting the 2015/16 audits in most instances. The audits of three councils are significantly in arrears due to non-submission of annual financial statements. 72% (by number including Maseru City Council) and which represent more than 50% by value of sub-national governments were covered by OAG according to available evidence.

Public Entities

The 2016 audit of only 13 entities (38% by number) have been concluded, and especially that of the extremely important Lesotho Revenue Authority collecting revenues. There are however 18 entities (53%) where the audit is in arrears for more than 3 years.

In all of the above three categories of government entities, the OAG raised significant financial management issues including but not limited to incomplete bank reconciliations, poor record keeping, non-acquitted of staff advance and suspense accounts, unauthorised expenditures, poor asset management including non-existence of fixed assets register, among others

Dimension rating = C

30.2 Submission of Audit Reports to Legislature

The most significant component when conducting the assessment is that of the Central Government of Lesotho and it should be noted that GoL reports of Local Authorities and Public Entities are not tabled in Parliament. As discussed in dimension 30.4, the Auditor General submits its reports to the Minister of Finance in terms of the PFMAA (section 37) and it is the Minister's responsibility to table the report in Parliament. Table 30.1 below outlines date of submission of audit reports to parliament

Table 30.1: Schedule of date of receipts of Audited Reports by Parliament

Financial Period	AFS approval date	Audit Report Date	Date Tabled
2010/2013 (3 years)	01 October 2013	26 February 2014	April 2015
FY2013/2014	December 2014 (Revised)	20 February 2015	May 2016
FY2014/2015	31 August 2015	Not Issued by MoF	Not Tabled
FY2015/2016	31 August 2016	Not Issued	Not Tabled

Dimension rating = D

30.3 External Audit Follow-Up

The executive provides formal responses to OAG audit queries. Scrutiny of the management letters indicates that auditees respond in some instances (not all) to findings giving undertakings on how to address findings. The delays in submitting consolidated financial statements and eventually issuing the audit reports as is evident for the period under review, limits the opportunity to address the audit findings effectively and timely so that better audit outcomes can be achieved. It was also confirmed that there is no formal written plan formulated (for example “Audit Intervention Plans”) by ministries to ensure that timeframes and responsibilities are allocated to activities in order to address weaknesses and incidents of non-compliance.

Dimension rating = C

30.4 SAI Independence

The prevailing regularity framework provides for the Auditor General to submit its audit reports to the Minister of Finance but not directly to Parliament. In addition, the OAG staff is recruited through the Public Services Act and not independently. A new Audit Act of 2016, was gazetted but is not yet implemented, as it appears it is not aligned to the Constitution and PFMAA. Further delays in implementing the new Audit Act affect OAG's independence. Table 30.2 illustrates the current status of OAG's independence according to INTOSAI standards.

Table 30.2: Independence of SAI in relation to INTOSAI standards

INTOSAI Standards	Adherence of External Audit Practices to INTOSAI Standards
AG Independence i.e. Appointment, Termination, Salary	The Auditor General is appointed by the King with advice from the Prime Minister in terms of the Constitution Article 142. The Constitution guarantees AG's tenure in office until retirement age. The Constitution does not prescribe the terms of remuneration of the AG
Financial Independence of OAG and Staffing Arrangements	The OAG is funded through the national budget process and recruit its staff through the legal framework provided for public services. This has two implications i.e. budget constraints to increase capacity and prescribed salary scales that prevent the OAG to attract skills and experience.
Access to Public Records	In terms of the PFMAA the OAG has access to all records. During discussion held with the AG, it was confirmed that there were no incidents where any restrictions was placed on the OAG.
Independence in Preparation of Annual Audit Work Plan	The OAG is responsible for preparing its Annual Work Plan independently from ministries, parliament or parliamentary committees for example the PAC.

Dimension rating = D

PI-30 (M1)	Dimension	Score 2016	Justification for 2016 score
30	**External Audit**	**D+**	
30.1	**Audit Coverage and Standards**	**C**	OAG audits cover the consolidated financial statements and majority of line ministries, highlighting significant financial issues. International standards have been applied to a limited extent
30.2	**Submission Of Audit Reports To The Legislature**	**D**	Significant delays of more than 10 months occur in submitting audit reports to parliament
30.3	**External Audit Follow-Up**	**C**	The executive provides formal responses to OAG audit queries requiring remedial action
30.4	**SAI Independence**	**D**	The independence of the OAG is compromised through the prevailing regulatory framework prescribing reporting through the MoF. Also, MoF approves OAG budget. OAG staffing is through the Public Service Scheme

Ongoing reforms

New Audit Act, 2016 passed awaiting regulations

PI-31 Legislative Scrutiny of Audit Reports

This indicator focuses on legislative scrutiny of the audited financial reports of Central Government, including institutional units; with reference 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. It has four dimensions that focus on the timing of audit report scrutiny, hearings conducted on audit findings, the legislature's recommendations on the audit, and the transparency of the legislative scrutiny of audit reports. The assessment of the first dimension is based on the audit reports submitted to legislature within the last three years, while the assessment of the other dimensions is based on the last 12 months.

Of significance when assessing this indicator is to note that the ***Westminster System of Government*** is used and that the following regularity framework applies specifically to the Public Accounts Committee i.e.

- The Constitution of Lesotho, 1993, section 81(1);

- The Parliamentary Powers and Privileges Act 1994, Act No 8 of 1994, sections 9 and 10;
- The Standing Orders No 77(1); 95, 97(5) and 105(1);
- International Best Practices Guidelines issued by APAC, AFROPAC and SADCOPAC;
- The Public Financial Management and Accountability Act, Act 12 of 2011; and
- The Treasury Regulations 2014.

The Public Accounts Committee (PAC) is responsible for parliamentary scrutiny of OAG Reports. The PAC is a sessional Committee of the National Assembly (the committee is reconstituted for each parliamentary session. This is unlike the Portfolio Committees, which continue until the next General Election). The Committee has power, according to the Parliamentary Powers and Privileges Act 1994, to summon persons and to require the production of any documents and records. The duties and responsibilities are derived from the Standing Orders.

The overall effectiveness of the oversight function and impact on budgetary outcomes are severely compromised by the lapse of time between the end of the Financial Year under review and the date of the actual hearing. For the period under review for the 2016 PEFA Assessment, only one report was issued for the hearings held February 2014, focusing on the 2008/09 Financial Year. The PAC made 379 recommendations.

Audit reports for Local Authorities and Public Entities are not tabled in Parliament but the PAC has the authority to consider the audit findings when conducting hearings on the relevant ministries.

31.1 Timing of Audit Report Scrutiny

The OAG issued a "combined" Audit Report for the three years 2010/11; 2011/12 and 2012/13 on 26 February 2014, with hearings conducted in May 2016. Cognizance should be taken of the delays in tabling audit reports in Parliament as assessed under PI 30.2. These delays have a significant impact on the effectiveness of any oversight function aimed at monitoring and improving public financial management and budget oversight.

Dimension rating = D

31.2 Hearings on Audit Findings

There is no Charter in place that sets out the process for the PAC when conducting their business. In the PAC Report following the hearings on the 2008/09 audit findings, section 4 sets out the approach that was actually adopted. This approach does not refer to, or include a process or opportunity for consultation with the OAG. However, OAG is in most cases consulted prior to PAC review of audit reports. Based on the PAC Report it is evident that in-depth hearings were held. In many instances, the hearings refer to sources other than the audit reports. A comprehensive set of 379 recommendations was compiled following the hearings based on the 2008/09 OAG and other findings. Nonetheless, the significant time delay impacts negatively on the good work done.

Dimension rating = D

31.3 Recommendations on Audit by the Legislature

The most recent recommendations are those made on the 2008/09 Financial Year, hearings held February 2014. However, there is no evidence that the PAC Report was tabled in Parliament. Based on discussion at Ministries, no formal recommendations were received.

Dimension rating = D

31.4 Transparency of Legislative Scrutiny of Audit Reports

Hearings are not held in public and reports are not published for public scrutiny at least for the last three completed fiscal years 2013/2014, 2014/2015, and 2015/2016. Members of the public can however obtain copies of PAC reports (prior years - the latest relates to 2008/2009) at the PAC Secretariat at reasonably low cost.

Dimension rating = D

PI-31 (M2)	Dimension	Score 2016	Justification for 2016 score
31	**Legislative Scrutiny of Audit Reports**	**D**	
31.1	**Timing of Audit Report Scrutiny**	**D**	The legislature (Public Accounts Committee) has not conducted reviews of OAG audit reports for the last three completed fiscal years. PAC is still reviewing 2013/2014 audit reports
31.2	**Hearings on Audit Findings**	**D**	Even though PAC hearings include summoning chief accounting officers and senior staff, the last review is for FY2013/2014 which is still ongoing
31.3	**Recommendations on Audit by the Legislature**	**D**	PAC is still conducting hearing related to 2013/2014 OAG audit reports; it is more than 24 months behind schedule
31.4	**Transparency of Legislative Scrutiny of Audit Reports**	**D**	PAC hearings exclude public attendance. The PAC report, for the last three completed fiscal years 2013/2014, 2014/2015, and 2015/2016 is not published on a website neither are they available for purchase at reasonably low cost.

Ongoing reforms

External consultant intervention and advisory services

4 Conclusions of the analysis of PFM systems

4.1 Integrated Assessment of PFM Performance

Budget Reliability

The budget is not credible as far as expenditure budgeting is concerned. Actual budget outturn compared to originally approved budget deviated more than 15% in two of the last three completed Fiscal Years. Actual deviations were 1.1% in FY2013/2014, 25.9% in FY2014/2015, and 31.3% in FY2015/2016. Even though not directly comparable with 2012 Assessment, it is clear that there has been budget overruns during the assessment period. Officials of MoF have indicated ex-post supplementary budget approvals by the legislature but no Supplementary Appropriations Acts were created in support of these increases. The situation is worse when it comes to administrative and economic budget reallocations; variations were as high as 37.9% and 68.4% for administrative and economic classifications respectively. That said, the government has respected the use of contingency reserves since 2012, which was below 3% of total actual expenditure; actual contingency use averaged 0.7%

Revenue budgets on the other hand have been credible at the aggregate levels with variances between original budget and actual outturn ranging between 94% and 112%. Composition variance, which examines deviations in the type of revenues, has been satisfactory, at 15% of original budget. Even though not directly comparable, it is fair to conclude that performance of revenue budgeting has remained unchanged since 2012.

Transparency of Public Finances

Budget formulation, execution and reporting are based on administrative and economic classification using GFS 2001 standards; at present, COFOG is not yet applied and this has been the case since 2012. Information included in budget documents has improved marginally. The introduction of citizens' budget, as part of transparency framework, in 2016 is commendable. The budget contains forecast of fiscal deficit, previous year's budget outturns, consistent budget estimates, and aggregation and detailed presentation of budget estimates for both revenues and expenditures. However, both budget estimates and financial reports since 2012 have not comprehensively captured all Central Government revenues for both donor-financed projects and non-tax revenues; it is estimated that non-tax revenues outside the budget (and financial reports) amounts to at least 9.4% of total government domestic revenues (excluding grants).

Whilst there are simple and clear rules for sub-national transfers, they exist without Parliamentary approval. The most challenging issue with sub-national transfers is the significant delays and unreliability of transfers, especially with capital grants, thereby negatively affecting investment project implementation. Service delivery benchmarks are not clearly identified, and are likewise not published. Monitoring and reporting on resources received by frontline service delivery units is poor and non-existent apart from monitoring and evaluation of the PPP arrangement in the health sector which covers about 50% of total health delivery; the educational sector is seriously lagging behind.

Public access to fiscal information is very limited; apart from bidding opportunities advertised in weekly newspapers. Information on contracts awards and resolution of procurement complaints are not publicised. In-year budget reports are posted on the website, but significantly late. Annual budget documents are available to the public at moderate cost. Annual financial statements (both audited and unaudited) experience significant delays in publishing.

Management of Assets and Liabilities

At the centralised level, the Private Sector Development (PSD) Department within MoF is ill-capacitated to effectively monitor fiscal risk from public entities and parastatals; it receives no financial statements (audited and unaudited) from State Owned Enterprises (SOEs) and parastatals.

At the decentralised level (Line Ministries), the situation is almost the same; monitoring of public entities is non-existent. The Office of the Accountant General is responsible for recording and reporting contingent liabilities; it does this in a very limited way. Whilst some explicit guarantees are recorded and reported, there is no information on implicit contingent liabilities. In addition, the Government has no idea on the contingent liabilities that could arise out of the ongoing PPP arrangements.

Monitoring of sub-national governments is poor. However, there has been some improvements in recent months thanks to an EU funded project known as the "Deepening Decentralisation Programme (DDP)", which has compelled District Councils to prepare Annual Financial Statements. The management and monitoring public (capital) investment projects is robust and well-coordinated by the Ministry of Development Planning, except that economic analysis of investment projects and evaluation (completion) reports are not published but for donor-financed projects which are mandatory.

Public Assets Management is non-existent; Line Ministries have no Fixed Assets Register let alone a centralised Fixed Assets Register. There are rules on fixed asset disposal but these are rarely respected. Information on equity investments is scanty; it fails to provide very important details such as number of equity shares as well as cost per equity.

Whiles the debt management (recording and reporting) is comprehensive, at present, it is incomplete due to failure to record and report on PPPs. Again, there is no formalised (and internal) debt management strategy apart from IMF-led debt strategies during Article IV consultations.

Policy-Based Fiscal Strategy and Budgeting

Macro-fiscal forecasting is satisfactory but it has very little impact on MTEF; sensitivity analyses are undertaken but are not properly documented or utilized in order to guide policy decisions going forward. The GoL prepares estimates of the fiscal impact for some, but not all, proposed changes in revenue and expenditure policy for the budget year. Both the

Budget Strategy Paper and Call Circular reflect changes in fiscal strategy but neither of these pieces of documentation are circulated to Parliament.

Reporting on fiscal performance is scanty; this is usually contained in the quarterly budget bulletin. MTEFs exist on paper but are meaningless as far as medium-term budgeting is concerned; as each year the budget formulation and preparation processes begin afresh with no link to previous year's estimates in the MTEF. Guidance to budget preparation is satisfactory; the budget calendar is clear and simple but provides very little time for Line Ministries to complete their annual estimates once MoF releases the approved budget ceilings. Budget ceilings are not respected, resulting in huge budget cuts.

Clear rules exist for Legislative Scrutiny and approval of budget estimates and are respected. The procedures include public consultations. Legislative approval of the budget was delayed in 2015/2016 due to political elections; otherwise, approvals occur before the beginning of the new Fiscal Year in time for budget execution. Rules for in-year budget amendments (supplementary appropriations) are clear but these rules allow for extensive administrative reallocations; legislative approvals for these reallocations and amendments are ex-post.

Predictability and Control in Budget Execution

Tax revenue administration is good in terms of providing taxpayer information on tax liability; the Client Service Department of LRA assists taxpayers on their tax obligations; a recent introduction is the toll free client service telephone facility. Tax Identification Numbers (TINs) are automatically generated for taxpayers but at present there is no unique national ID system in Lesotho, TINs are generated using driver licenses and passports.

Information on non-tax revenue is very limited; there is currently no dedicated Non-Tax Revenue Unit within the MoF to coordinate and monitor non-tax revenue budgeting and collection. The Office of Accountant General performs the back-end function of recording and reporting non-tax revenues. Revenue risk management is still undeveloped; it needs to be upgraded to effectively track tax evasion. Tax audits are compiled but case selection management is still manual and could be compromised. The understanding is that efforts are underway to automate case selection for efficiency. Even though tax arrears are below 20% of total tax collections, they are increasing year-on-year and as such must be monitored and collected on time to reduce the incidence of bad debt.

The estimated that non-tax revenue loss is approximately 9.4% or more when compared to total domestic revenue since not all is collected and properly accounted for. Transfers of tax revenue to the treasury is weekly, through commercial bank accounts operated by LRA; there is no doubt that government is losing revenue to commercial banks who are trading with Government Cash. Daily transfers will be ideal or operating a centralised revenue account with CBL will reduce revenue losses to government

Consolidation of government cash balances does not take place. Cash flow projections are not prepared; where they exist, they are neither monitored nor updated. Expenditure commitment ceilings are satisfactory; they are issued quarterly to budget entities for expenditure commitment. By law, budget virements are allowed up to 20% and 10% for recurrent and capital expenditure for programmes within votes at the level of Chief

Accounting Officers; any excess requires the approval of the Minister of Finance. The biggest drawback is the fact that the law fails to limit the level of additional virements at the level of the Minister of Finance.

Monitoring and reporting of expenditure arrears have begun since 2015/2016 but it is not comprehensive as it fails to report on expenditures outside IFMIS. Payroll controls are extremely weak; establishment controls are poor; the most alarming is the use of casualty returns for change of Personnel and Payroll Records which remains unprocessed between three to nine months, thereby resulting in payment of 'ghost employees'. Procurement management is still a challenge; the entire process is opaque. Apart from advertisement of bidding opportunities in the newspapers, Contract Awards are not published. The procurement legal framework allows for redress but the Private Sector is of the view that it provides very little confidence for remedy.

The general internal control framework is weak. Processes for non-salary expenditure are clearly defined for purposes of segregation of duties; however, compliance remains a challenge. The use of simplified processes to circumvent the rules is prominent leading to expenditure arrears outside IFMIS. Internal audit functions are widespread across line ministries, but their efficacy leaves much to be desired; periodic reports are not produced; very little international standards are observed.

Accounting and Reporting

Reconciliation of bank statements, those managed by the Treasury and Line Ministries' commercial bank accounts have huge backlogs of more than 12 months; Available evidence with statistical computation suggests that only 1.9% (in value) of Central Government bank accounts are fully reconciled until March 2016. Therefore, this significantly affects data quality. Huge suspense and advance accounts have not been reconciled as far back as 2009/2010.

The use of IFMIS leaves an audit trail, with sufficient passwords for authorised users necessary to guarantee financial data integrity process. However, prior years' are not closed within IFMIS, which then allows retrospective data entry. In-year budget execution reports are compatible with original budget classifications and allow for easy statistical analysis. Whiles IFMIS is capable of generating real-time financial information, quarterly reports are produced between 3 to 4 months after end of preceding quarter.

For the first time in 2015/2016, Line Ministries prepared Annual Financial Statements partially compliant with IPSAS cash, likewise consolidated Annual Financial Statements. Annual Financial Reports were prepared and submitted within 5 months to the Office of the Auditor General.

External Scrutiny and Audit

The independence of the Office of the Auditor General is severely compromised due to its inability to recruit its own staff, but rather through the Public Services Commission/ Ministry of Public Service, the consequence of which is poor remuneration and fringe benefits to attract very competent skilled labour. Again, the MoF determines the Office's Budget. A new

Audit Bill has been passed awaiting the necessary regulatory framework; this is expected to provide some leverage to the OAG to improve independence.

Whilst OAG undertakes its annual financial audits largely compliant with INTOSAI standards, the current legal framework does not permit submission of Audited Financial Reports directly to the legislature. The consolidated Audit Reports are submitted to the Minister of Finance who in turn submits these reports to the National Assembly even though OAG completes its audits within three months. For this reason, the Audit Reports for 2014/2015 have been completed and submitted to the Minister of Finance but they are yet to be tabled in the legislature. At present, performance audits are carried out but not ICT audits due to lack of capacity. The executive provides formal responses to audit queries; however very little is done with recommended remedial actions.

The legislature, over the last three completed fiscal years, has not reviewed Audit Reports related to these periods. It is still reviewing reports up to 2013/2014. PAC hearings do not provide for public participation; that said, government officials are summoned for hearing.

4.2 Effectiveness of the Internal Control Framework

Control Environment

The Internal Control Framework was strengthened by introducing the Treasury Regulations 2014 (28 March 2014) in support of the PFMAA by including sections 10 and 11 on Internal Control activities. The PFMAA (Sections 1(a) and 2(g)) makes it the responsibility of both the Minister and Chief Accounting Officer to implement and maintain sound systems of internal control. The Auditor General however continuously reports on such a high degree of non-compliance to the framework that it cannot rely on the effectiveness of internal controls when conducting audit assignments.

International standards and best practices have been designed serving as a benchmark for governments, the most relevant and appropriate being:

- the COSO (Committee of Sponsoring Organisations of the Treadway Commission) Internal Control – Integrated Framework
- the INTOSAI GOVERNANCE - 9100 – Guidelines for Internal Control Standards for the Public Sector

One significant issue of non-compliance that could have addressed weaknesses is the absence of an Audit Committee steering Internal Audit activities as provided for in TR11. The impact and effectiveness of the Internal Audit Unit is severely compromised contributing to the poor state of affairs pertaining to financial management and more specifically the weaknesses in internal controls.

The time lag (periods) between the end of a financial year and eventual tabling of resolutions and recommendations by the Public Accounts Committee to Parliament is of concern. The Assessment Team was unable to establish to what extent recommendations are implemented by relevant Ministries. Further, there is no evidence following up on these recommendations by oversight structures and processes such as audit and portfolio committees. There are no formal written plans, compiled by Ministries, to guide management in addressing those shortcomings reported on by the Auditor General and Internal Audit Unit.

There are two computerised systems of significance i.e. the Payroll System and IFMIS System where the effectiveness of internal controls have been compromised to such an extent that data integrity is regarded as doubtful. Neither the OAG nor the Internal Audit unit has conducted any information technology audits on the environment surrounding these systems *("general control reviews and application control reviews")* which is of great concern. Table 4.1 outlines some roles and responsibilities for effective internal control.

Table 4.1 Roles and Responsibilities (INTOSAI Governance 9100 - Guidelines for Internal Control Standards for the Public Sector)

Key Role Player	Areas of Responsibility	Assessment
Managers	Are directly responsible for all activities of an organisation, including designing, implementing, supervising proper functioning of, maintaining and documenting the internal control system. Their responsibilities vary depending on their function in the organisation and the organisation's characteristics.	The office of the Accountant General have been charged with the custodianship of designing systems and processes. Not all processes have appropriate detailed guidelines yet- only developed for Budget Process, Payments and Procurement
Internal auditors	Examine and contribute to the ongoing effectiveness of the internal control system through their evaluations and recommendations and therefore play a significant role in effective internal control. However, they do not have management's primary responsibility for designing, implementing, maintaining and documenting internal control.	The Internal Audit unit lacks capacity and does not comply with all the standards. The OAG is not relying on the work of the Internal Audit function.
Staff members	Contribute to internal control as well. Internal control is an explicit or implicit part of everyone's duties. All staff members play a role in effecting control and should be responsible for reporting problems of operations, non-compliance with the code of conduct, or violations of policy.	The lack of skills and experience was identified as a major root cause for the ineffective functioning of internal controls.
External parties	Also play an important role in the internal control process. They may contribute to achieving the organisation's objectives, or may provide information useful to effect internal control. However, they are not responsible for the design, implementation, proper functioning, maintenance or documentation of the organisation's internal control system.	Donors, partners in joint ventures (PPPs), and the Banking industry play a significant role, however were not able yet to address all weaknesses. There are currently a number of projects aiming at reforming PFM in the GoL, improving and modernising the public serve as a whole.
Supreme Audit	Encourage and support the establishment of effective internal control in the government. The assessment of internal control is essential to the SAI's compliance, financial and performance audits. They communicate their findings and recommendations to interested stakeholders.	The OAG has continuously alerted ministries and the legislature of significant weaknesses and concerns. These reports have not yet yielded the desired improvements.
Legislators	Establish rules and directives regarding internal regulators control. They should contribute to a common understanding of internal control. Other parties interact with the organisation (beneficiaries, suppliers, etc.) and provide information regarding	The regularity framework was put in place, with the Treasury Regulations of 2014 being a significant step in the process of strengthening PFM.

	achievement of its objectives.”	

Risk Assessment

Through TR (section 10(b)) chief accounting officers are charged with the responsibility of appropriate risk management. There is currently no formal process that enables an appropriate assessment of the risk maturity level as there is no proof that any of the generic risk management steps have been implemented i.e.

- Risk Identification
- Risk Evaluation
- Assessment Of The Risk Appetite Of The Organisation;
- Development Of Responses

In designing an internal control system, it is important that the control activity established is proportionate to the risk. Fundamental to risk assessment is an ongoing, iterative process to identify changed conditions (risk assessment cycle) and take actions as necessary. Risk profiles and related controls have to be regularly revisited and reconsidered in order to have assurance that the risk profile continues to be valid, that responses to risk remain appropriately targeted and proportionate, and mitigating controls remain effective as risks change over time.

Control Activities

The high degree of manual processes and use of documents require specific internal control activities but which have been compromised. ***Bank Reconciliations***, in a cash-base accounting framework, is of such significance to ensure completeness and accuracy of the financial records reported on, effective internal control and timely reporting, have an alarming backlog of more than 12 months**. *Fixed Asset Registers*** are not maintained resulting in a high risk that government property is not safeguarded, that all losses are timely reported and investigated and that financial records are accurate. It is of concern that chief accounting officers are not reviewing and following up on these backlogs.

It is only the ***payroll*** for public servants that are informed by an approved establishment and with monthly payroll certification that is done after date of payment, controls are regarded as ineffective. The manual system of using Casualty Returns to effect changes to the electronic payroll has no audit trail to track timely and accurate processing of approved changes and as such, the integrity of the payroll is doubtful. A pilot project on physical verification of employees was conducted in 2014 with limited success but the absence of a comprehensive and frequent verification procedure is a significant shortcoming.

Ministries have confirmed that the ***lack of capacity*** is one of the main root causes for not maintaining effective internal control systems. There is inadequate ***segregation of duties*** due to high vacancy rates experienced in comparison to approved organisational structures for the finance and administration sections. The filling of posts is incomplete due to budget constraints. A lack of skills and experience, specifically pertaining to financial management, contributed to the ineffective functioning of internal control measures and procedures.

The Auditor General in its reports refers to the changing in comparative figures in the financial statements. This is mainly due to allowing ministries access to prior financial years for purpose of processing backdated transactions.

Performance management at ministry level is not working. The Ministry of Public Services highlighted the fact that the individual performance management framework is not yet in place and as such, performance-based incentives are automatically rewarded annually to all employees.

Information and communication

There is a significant doubt over the integrity of information. Both the payroll and financial accounting system are deemed as not being up to date, accurate and complete. This severely limits the level of making informed decisions and accuracy of reporting. The significant delay for reporting on audited financial statements and oversight functions limits the effectiveness of the entire internal control framework.

Information and communication machinery of central government leaves much to be desired; information requests between departments and across Line Ministries are painfully slow; there is no urgency in providing up-to-date information. Most, if not all line ministries have serious internet challenges, to the extent that most government employees are forced to use their personal email addresses for official internet communication since government internet facilities cannot be trusted. In this modern era of ICT, Government websites are functioning badly or not at all; therefore, obtaining useful government information electronically is very difficult.

Monitoring

The significant delay in tabling the OAG findings and subsequent issuing of the PAC resolutions and recommendations has a severe detrimental impact on the effectiveness and efficiency of the monitoring and evaluation of audit findings. Ministries have not compiled formal written plans to address audit findings which can be monitored and the impact or success (rate of achievement) measured, evaluated for redress or change of strategies.

Internal monitoring, in terms of Chief Accounting Officers, is weak. Internal audit functions provide very little to assure quality monitoring function. Most ministries have no dedicated M&E units; the planning units perform this function

Significant revenue and expenditure (at least 9.4% of total domestic revenue) are processed outside government budget; these are from non-tax government revenues as well as donor-financed projects. Fiscal risk is very high to the extent that government has no idea of its implicit and explicit contingent liabilities; monitoring of SOEs and parastatals is almost non-existent. Whiles there control over management and selection of capital investment projects; budget constraints hinder their successful implementation and maintenance. The management of central government financial and non-financial assets is extremely poor. There is some level of debt management strategy but this does not include PPPs, which are high-risk areas. MTEF exists on paper but so far irrelevant to the entire fiscal forecasting and budgeting process. Administration of domestic tax revenues is relatively strong; however, the risk management environment is poor leaving room for tax evasion. Even though tax revenue arrears are below 20% of total tax collections, they need to be monitored since they are increasing overtime. Cash management and expenditure arrears management are of concern. There is no framework for consolidating Central Government cash balances on a periodic basis. This is the same situation for the stock of expenditure arrears, especially those occurring outside IFMIS. Payroll controls are weak, likewise procurement management.

4.3 PFM Strengths and Weaknesses

This section assesses the extent to which the PFM system, as measured by the performance indicators, constitutes an enabling factor for achieving the planned fiscal and budgetary outcomes that encompass aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery.

Aggregate Fiscal Discipline

Aggregate fiscal discipline requires that the budget be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The PFM functions that are focused on compliance must work well as measured by relevant PFM, performance indicators. The most relevant of these indicators and their assessment results indicate that compliance and fiscal discipline at the component level are inadequate, and that performance needs significant changes to improve financial management systems that support accounting and reporting:

- In-year control of spending. PI-1 (aggregate expenditure outturn) rated "D" and PI-2 (expenditure composition outturn) rated "D+", implying a need for better information systems to support control and provide budget reliability and credibility, and more consistent and integrated reporting frameworks.
- In-year control of revenue. PI-3 Dimension 1 (aggregate revenue outturn) rated "B", but PI-3 Dimension 2 (revenue composition outturn) rated "C", demonstrating a problem for the individual taxes in that the collections do not match expectations at disaggregated level
- Timely accounting and reporting. PI-27 (financial data integrity) rated "D+" and PI-28 Dimension 2 (timing of in-year budget reports) rated "D", both poor results that put into question management capacity to exercise control over bank accounts and expenditures through the year, in addition the management and acquittal of suspense and advance accounts . PI-29 (annual financial reports) rated "D+", taken overall these results demonstrate the urgent need for improvement in basic accounting systems that operate more effectively and with proper audit trails and reconciliations so that expenditure can be managed in accordance with budget intentions. However there is marginal improvement in submission of annual financial statements by sub-national government thanks to the EU funded Deepening Decentralisation Programme (DDP). Improved accounting and reporting is also needed to remedy the present situation where reports for several years from the Auditor General have given qualified opinions on annual financial statements.
- Central control over cash. PI-21 Dimension 1 (consolidation of cash balances) rated "D", and PI-21 Dimension 2 (cash forecasting and monitoring) rated "D", are poor results, indicating probable higher borrowing costs and loss of interest but also making the planning of government spending difficult .
- Adequate internal controls. The indicator for payroll controls, PI-23 is rated "D" indicating that the controls are deficient or not working at all for salary spending which is a large part, 34,7%, of the government budget 2015/16. For non-salary expenditure controls, the overall rating is "C+", indicating that the control framework as such is in place but is not providing appropriate control. Internal audit functions are weak

leading to overall weakness in financial management (PI-26 rated D+). Of major concern is the management and control of expenditure arrears (PI-22 rated D+); whiles some effort has been made to report on expenditure arrears, they are not comprehensive particularly with those outside IFMIS

- Adequate external controls. PI-30 (external audit) rated "D+" with an important deficiency in reporting. Dimension 2 (Submission of audit reports to the legislature) is rated "D" not because the Auditor General is late but because the report has to go to MoF before it is submitted to Parliament. The last report was sent from the Auditor General to the MoF within stipulated 90 days but it is still not tabled in the Parliament 150 days later, causing lack of transparency and making Parliament unable to perform its constitutional accountability role. Dimension 4 (SAI independence) is rated "D" as the Auditor General is not allowed to report directly to the Parliament, neither does she have control of her staff as it is recruited on its behalf by the Ministry of Public service under the Public Service Act. Parliamentary scrutiny of audits reports is severely hampered by delays in tabling these reports; further lack of executive action on both OAG and PAC reports endangers financial accountability

Strategic Allocation of Resources

Strategic allocation of resources requires planning and executing the budget to be in line with government priorities aimed at achieving policy objectives. Some of the relevant indicators and their ratings show that the upstream processes of budget formulation and budget process perform fairly well but that policy objectives are too weak or undeveloped to have an impact on the allocations in the downstream processes of in-year budget execution. In addition, Processes are hampered by delays and deficient transparency and control:

- PI-14, PI-15 and PI-16; Policy based fiscal strategy and budgeting. Indicators for macro-economic and fiscal forecasting, fiscal strategy and, medium-term perspective in expenditure budgeting all score low, "D+", "D+" and the latter with "C+". The Macro Department is currently developing useful analysis but it is not yet implemented in the budget process and the budget documentation, as the forward estimates in the budgets so far seem to be derived from incremental calculation processes.
- Budget preparation process, PI-17, score "B" legislative scrutiny of budgets PI-18 score "C+", showing that these processes are in place and working fairly well.
- Expenditure composition outturn. PI-2 rated "D+", showing the final year-end result did not deliver the resource allocation intended at the beginning of the year
- Predictability and control of the budget is showing disappointing results with the exception of PI-19, revenue administration that obtained an overall scoring of "B", with strong controls. The weak scores under accounting and reporting demonstrate the difficulty for budget managers to monitor and manage their budgets, and resource allocation is jeopardised in these deficient structures.
- Fiscal risks, assets and liabilities are areas of concern. There are obvious and systematic weaknesses in the systems for monitoring different risks leading to control weaknesses and risk of considerable government losses. An exception is debt management, PI-13, which is fairly well developed although lack of debt strategy is giving the score of "C+", in addition to non-recording and reporting on PPPs, which poses significant fiscal risk to government. Economic analysis and selection of capital project are quite robust (PI-11 rated B); however, the management of both financial

and non-financial assets (PI-12 rated D+) is very poor, especially with the non-existence of fixed assets register and comprehensive equity investment listings.

Efficient Use of Resources for Service Delivery

Efficient service delivery requires that actual spending match budget allocation of resources available for service delivery as planned, and costs are minimised. Non-compliance with the budget may lead to a shift across expenditure categories.

The PFM system in Lesotho hampers efficient service delivery. The budget process does not have a strong policy or strategic focus. There is not yet an applied medium-term fiscal strategy to guide the budget process.

The most relevant indicators and their ratings show an appropriate budget development process but inadequate performance in budget execution:

- PI-2 (expenditure composition outturn) is rated "D+", a major concern for service delivery as this indicator is crucial for providing the resources needed to meet the policy intentions for the various economic sectors
- Transparent budget information. PI-4 (budget classification) rated "C", PI-5 (comprehensive budget documentation) rated "C", PI-8 (performance information for service delivery) rated "D", and PI-9 (public access to fiscal information) rated "D". The above indicate a general deficiency providing a good performance in delivering on the requirement for transparency of information on public finances, except for the recent publication of the first citizens' budget in 2016/2017.
- Policy-based budgeting with a multi-year perspective. PI-17 (budget preparation process) is scoring "B" and PI-16 (medium-term perspective) rated "C+", shows a mixed result. The current budget process is able to deliver such a perspective, but it does not have the correct tools to do the task.
- Competitive tendering processes. PI-24 (Procurement Management) rated "D", is demonstrating a need for an urgent total rehabilitation of the government procurement system as both performance and controls are deficient and causing considerable risks to the government.

Overall, these results show that the Government has strong incentives to continue and even strengthening the PFM Reform Programme along the lines that have already been established. Even if the challenges are considerable, there are great rewards to be reaped in a near future. The budget development is at the core of the PFM reforms and there are some low hanging fruits already in sight if the reform work is kept on track. Other urgent areas are strengthening internal control and managing fiscal risk, which has the potential of draining the government's resources and damaging its credibility.

4.4 Performance Changes since a Previous Assessment

Table 0.1 (Executive Summary) above provides a summary of PFM performance change since 2012 Assessment. The new PEFA Framework has 31 Performance Indicators divided into 94 Dimensions as against the old (2011) Framework with 31 Indicators made up of 76 Dimensions. It is important to state that only 14 Dimensions are directly comparable between the old and the new framework. Four dimensions appeared to have slipped in performance, namely: Budget Classification, Quality of Debt Data Recording, Information on Expenditure Commitment Ceilings, and Effectiveness of Expenditure Commitment Controls.

In all four cases, the assessment team opines that the 2012 assessment ratings were too high based on the following:

- Budget Classification: This has remained unchanged since 2012; budget Classification is based on administrative and economic categories compliant with GFS 2001; COFOG has not been applied since 2012. The Government is working towards GFS 2014, which will include COFOG;
- Quality of Debt Data Recording: In 2012 the team did not consider PPP in assessing this dimension, probably because there were no ongoing PPP arrangements. In 2016, however, PPP was considered, firstly because a couple of ongoing PPP arrangements, and secondly the non-existence of PPP Policy Guidelines and/or Legislation;
- Information on Commitment Ceilings: Since 2012, expenditure commitments ceilings are issued quarterly to budget entities; this has not changed;
- Effectiveness of Expenditure Commitment Controls: The 2012 Assessment ignored commitments outside IFMIS; this practice is not new. The 2016 Assessment took account of commitment controls both within IFMIS and outside IFMIS.

It is therefore fair to conclude that performance has remained unchanged since 2012 with reference to the four dimensions outlined above.

Comparative analysis of 2016 assessment using the old (2011) methodology to 2012 assessment is summarised below under the three broad fiscal and budgetary outcomes; annex 7.2 below provides detailed overview of performance changes per dimension:

Aggregate fiscal discipline: The analysis of the results points to deterioration of aggregate fiscal discipline principally due to significant budget overruns even though revenue outturns were close to targets. Unbudgeted increases in civil servants emoluments during the years 2014/2015 and 2015/2016 were the main contributing factor, coupled with expenditures relating to staff capacity building initiatives. Again, huge backlogs and delays in accounts reconciliations as a basis for monitoring budget execution contribute to fiscal indiscipline

Strategic resource allocation: Whiles expenditures out of contingency vote has been consistently maintained within set limits, which is impressive, composition variances have been extremely high, the impact of which is poor and ineffective resource allocation according to original short and medium term strategic plans; this therefore defeats policy-based budgeting intents. Comprehensiveness and transparency of fiscal information required for proper social accountability appear to be fallen short of expectations. The existence of IFMIS has had very limited positive impact on good financial management practices. Procurement management has remained stagnant since 2012; nonetheless, the establishment of independent procurement tribunal is seen as a positive step towards transparency

Efficient service delivery across the entire government machinery has been disappointing; there are no signs of improvement. This has been compounded by poor resource allocation described above. There are still no mechanisms for tracking resources received by service delivery units. Citizens have no means of verifying resources allocated to their constituencies. Internal controls for both salary and non-salary expenditures has not improved, especially so with payroll controls; payroll controls are weak leading to loss of government resources as a result of payment of *ghost* workers. The general external oversight functions of both the supreme audit institution and parliament have seen very little or no improvements

5 Government Reform Process

A general process of improving PFM has been ongoing for many years in Lesotho and interventions in the areas under consideration by the Government of Lesotho (GoL), European Union (EU), and other donors have included:

- In 2001/ 02 the GoL launched a Public Service Improvement and Reform Programme (PSIRP) designed to improve the delivery capacity, effectiveness, accountability and transparency of public services. PSIRP had a three-part strategy that included:
    - Improving Public Financial Management and Accountability;
    - Improving service delivery through decentralisation, and;
    - Improving Public Service Management.
- The second major intervention was the Capacity Building for Economic Planning Programme (CBEP) designed to strengthen the capacity of the then Ministry of Finance and Development Planning to improve government's medium term macroeconomic forecasting underpinning national development priorities.

By this time, PFM reforms were being supported by a range of Development Partners, including the EU, the World Bank (Lesotho Institute of Accountants), Department for International Development (DfID), United Nations Development Programme (UNDP) (Bureau of Statistics (BoS) and M&E Framework), and the International Monetary Fund (IMF).

Concurrently with CBEP, the African Development Bank (AfDB) was implementing a similar capacity-building programme and Irish Aid was supporting the Centre for Accounting Studies:

- This was followed by CBEPII (2008-2012) that focused on:
    - Improved transparency and accountability in GOL revenue and expenditure management;
    - Development of an overarching development plan in place for the period 2012-2016;
    - Strengthened capacity for planning and budgeting at national and sector levels, and;
    - Increased accuracy and reliability of National Accounts and statistical data produced by BoS to underpin the national development planning document/process.

Although a general process of improving PFM has been ongoing for many years the Public Expenditure and Financial Accountability Assessment (PEFA) carried out in 2012 highlighted and confirmed a significant number of reforms that are required to improve the effectiveness of the overall PFM framework.

5.1 Approach to PFM Reforms

The PFM reforms are deriving their objectives from the Government of Lesotho's overall development programme which is guided by a long-term development framework, "*Vision 2020*" and the *National Strategic Development Plan* (NSDP) for the period 2012/13 to 2016/17. The NSDP sets out the strategies and means for realising the aspirations set out in the Vision. The GoL in general and the Ministry of Finance (MoF) in particular have adopted (in February 2013) an overarching multi donor-funded PFM Reform Action Plan covering the Financial Years 2012/13 – 2017/18. The overall PFM Reform Action Plan is a wide-ranging but interrelated approach to PFM reforms. The Development Partners have endorsed this approach through committing, individually and jointly, to supporting GoL's initiatives.

A number of Development Partners (DP) finance the PFM Reform Action Plan. However, the Action Plan is GoL-owned and led at high-level through the Improvement Reform Steering Committee (IRSC), and at operational level through Component Leaders who are senior government officials, just below the level of Departments heads.

The principal stakeholders of EU-Lesotho co-operation are:

i. The European Union Delegation;
ii. The Ministry of Finance key departments and implementing units: National Authorising Office; PFM Secretariat, Budget Department, Macroeconomic Policy Management Department, Legal Department, Private Sector Development and Financial Affairs Department;
iii. The Ministry of Development Planning relevant departments, including: Department of Aid Coordination, and the Project Cycle Management Department, and;
iv. The World Bank; the African Development Bank, and the IMF.

The PFM Reform Action Plan covers the period of financial years 2012/13 to 2017/18 inclusive and has eight-technical and institutional development components

5.2 Recent and Ongoing Reform Actions

The table below gives an overview of the PFM Reform Action Plan covering the financial years 2012/13 – 2017/18:

PFM Reform Action Plan Components		ESTIMATED COST (USD*)	DEVELOPMENT PARTNER		
No.	Component Description		EC (EUR)	WB (USD)	AfDB (UA)
1	Modern PFM Regulatory Framework Implementation	0.42	X		
2	Transparency and Effectiveness of policy orientation of the budget assured	6.72	X		
3	Cash flow forecasts a major determinant of internal debt and financial investment	0.19		X	
4	Internal controls ensure strengthened operational efficiency and effectiveness	3.85		X (IFMIS)	X (IA)
5	Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards	8.48		X	
6	Public Procurement aligns with international best practice in efficiency and transparency	2.39			X
7	External Audit and oversight compliance with INTOSAI Standards (ISSAI)	1.04			X
8	Governance and Institutional Management of PFM Reforms, improved to facilitate ownership, monitoring, and evaluation of progress	3.98	X		
9	Statistics (not in PFM Action Plan) - Lesotho Sustainable Data for Development Projects	1.21	X		
	TOTAL ALLOCATION APPROX (million)	28.28	10.6	5	2.6

***Estimated costs by MoF. Detailed costing to be done by component leads in collaboration with DPs during project design. Costs cover 4 years.**
Source: AfDB

The key ongoing PFM reforms identified as priorities include: improvements in the implementation of MTFF and MTEF approaches to planning and budgeting; improvement in budget execution controls; strengthening of financial management systems; the more timely and comprehensive production of in-year and year-end financial reports; and reduced delays in the submission of the external audit reports.

The reform programme is also addressing other important weaknesses, regularly identified in the annual reports of the Auditor General. They include: significant failings in accounting; recording of revenues; over spending; unauthorised spending; non-reconciliation of many bank accounts; and, non-reconciliation of trust accounts and failure to acquit travel advances. These significant problems, also noted by this assessment are yet to be resolved in a satisfactory and consistent way.

The ongoing Support to PFM Reform Project by cooperating partners is already working as catalyst by working with, and persuading, authorities to make full use of general technical assistance presently existing to build capacity in critical management areas. Nonetheless, further and urgent sustainable reforms to strengthen public financial management are needed, both for a successful fiscal adjustment and improved delivery of government services. A well-functioning PFM system contributes to macroeconomic stability and growth, which necessitates high professional competence levels and strong leadership of the government economists working at the Ministry of Finance.

Newly introduced reforms/ good practices/ ongoing reforms:

- The introduction of quarterly published fiscal and budget bulletins, as part of several other efforts to increase Government's level of transparency in fiscal performance;
- The introduction of a citizen’s budget with the first issue already published. This is largely to increase general public awareness of national fiscal priorities and resource

allocation (as part of efforts for improving budget oversight) as well as secure active participation in the budget process;

- Programme Performance Based Budgeting (PPBB) framework has been developed;
- The development of draft National Planning and Budget Regulation. The final draft version for legal drafting is expected to be ready before end of December 2016. The Department intends to issue new regulations in the 2017/18 fiscal year.
- An integrated budget calendar that links planning and the budget process and provides ample time for the strategic phase of the budget cycle including its circulation to MDAs has also been proposed in the draft planning and budget regulations.
- Development of budget guidebook (i.e guidelines and procedures) is almost completed;
- Several improvements have been made to the 2017/18 FY economic and fiscal strategy document (Budget Strategy Paper) to ensure it has a policy effect and is more coherent and consistent.
- Business process/ system user functional requirements for developing and implementing a new budget planning, formulation and management system have been developed, and currently awaiting testing on the proposed IFMIS upgrade testing platform
- The development of a new integrated and multidimensional Chart of Accounts (CoA) that incorporates several good international practices from GFSM 2014 statistical reporting framework is currently work in progress.

5.3 Institutional Considerations

Government Leadership and Ownership

Government leadership and ownership is required for a more effective PFM reform process by setting the objectives, direction, and pace of reforms, clarifying organizational responsibilities for the reform process, and addressing, in a timely manner, any resistance to change.

In the past, the government has expressed its will to take ownership of the reform process and have done so from time to time. In the Lesotho Reform Action Plan, it states that: “Political leadership and commitment shall be crucial for the accomplishment of objectives of the plan and sustaining the momentum for reforms.” However, in recent years, governmental crises have affected the reform process, with the dissolution of Parliament and subsequent elections affecting the government's ability to exercise its leadership in economic reforms in a consistent way. Recently, another ongoing government crisis brewing that can certainly have an effect on focus and direction away from the long-term perspective needed to pursue effective reforms.

Coordination across Government

Coordination across government is likely to contribute to a more prioritized and sequenced reform agenda, as the existing capacities of different entities, and levels of government, are considered in planning and implementing reforms. During the assessment, the team observed that coordination of related processes and operations across government has been insufficient, leading to time losses, differences in interpretations, lack of compliance and in the end ineffective delivery. The reform project as such might function better as it has its dedicated key staff and advisers, but the environment might at times make it difficult to navigate and implement the reforms into the daily execution of PFM.

A Sustainable Reform Process

A sustainable reform process is likely to influence the impact of PFM reforms. One of the serious threats to sustainability is the lack of human resources. There are long-standing problems with lack of well-trained professional staff with respect to skills level as well as to number of staff. This assessment has noted that there is a high vacancy rate in key departments responsible for daily crucial PFM processes. These people should, systematically be responsible for reform implementation. It would be necessary for government to address this problem and develop an effective recruitment and retaining policy. Moreover, even though Lesotho has received long-term support for PFM reform, this assessment concludes that the reforms will need continued external support beyond the current timeline before it can be sustainable. Further, full government commitment and the manifestation of support across the entirety of the government machinery is required in order to attract the necessary external funding.

Transparency of the PFM Programme

The Reform Programme's documents, plans and progress reports are publicly accessible and the cooperating partners disclose the programme financing, as the contributions bypass the government budget. Regularly stakeholder interactions promotes transparency; this should be sustained.

6 Annexes

Annex 1: Performance Indicator Summary

No.	Indicator	2016 Score	Justification for 2016 Score
Pillar I: Budget Reliability			
PI-1	**Aggregate Expenditure Outturn**	D	Actual budget outturn compared to originally approved budget deviated more than 15% in two of the last three completed fiscal years. Actual deviations were 1.1% in FY2013/2014, 25.9% in FY2014/2015, and 31.3% in FY2015/2016
PI-2	**Expenditure Composition Outturn**	D+	
2.1	Expenditure Composition by Function	D	Expenditure composition outturn by administrative heads, in FY2013/2014, FY2014/2015, and FY2015/2016 was above 15% in each of the three years; actual outturns were 27.3%, 37.9% and 31.1% respectively.
2.2	Expenditure Composition by Economic Type	D	In all three completed fiscal years under review, expenditure composition outturn by economic classification was more than 15%. Actual composition variances were 49%, 51% and 68.4% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively.
2.3	Expenditure from Contingency	A	Actual expenditure charged to contingency vote is 0.7% on average; this is less than 3% of originally approved budget
PI-3	**Revenue Outturn**	C+	
3.1	Aggregate Revenue Outturn	B	Actual aggregate revenue was between 94% and 112% of originally approved revenue budget. Actual deviations were 91.2% in FY2013/2014, 100% in FY2014/2015, and 96.4% in FY2015/2016
3.2	Revenue Composition Variance	C	The revenue composition variance is less than 15% in two of the last three completed fiscal years; actual composition variances are 12.2%, 20.2% and 10.3% in FY2013/2014, FY2014/2015 and FY2015/2016 respectively
Pillar II: Transparency of Public Finances			
PI-4	**Budget Classification**	**C**	Budget formulation, execution and reporting are based on administrative and economic classification using GFS 2001 standards
PI-5	**Budget Documentation**	**C**	4 basic elements and 1 additional element are complete which gives a C score.
PI-6	**Central Government Operations outside the Budget**	**D**	
6.1	Expenditure outside Financial Reports	D	At least half of government expenditure from non-tax revenue and expenditure from donor-financed projects (more than 10% in total) are not captured in the financial reports
6.2	Revenue outside Financial Reports	D	Available evidence coupled with interactions with officials suggest that more than 10% of budgeted central government is outside its financial reports

No.	Indicator	2016 Score	Justification for 2016 Score
6.3	Financial reports of Extra-Budgetary Units	D	Only 31% of extra-budgetary units submit annual financial statements to the government within nine months after the end of the financial year.
PI-7	**Transfers to Sub-National Government**	**D+**	
7.1	System for Allocating Transfers	C	System for allocating transfers are guided by clear rules based on simple calculations but outcomes are nevertheless unpredictable
7.2	Timeliness of Information on Transfers	D	Although general budget information to the SNGs is available in the beginning of the budget year timing seems unreliable as specific budgets are coming late and are then lower than expected.
PI-8	**Performance Information for Service Delivery**	**D**	
8.1	Performance Plans for Service Delivery	D	The tables with performance indicators presented in an annex to the budget are not meeting the requirements outlined in the PEFA framework and in the PEFA assessment field guide.
8.2	Performance Achieved for Service Delivery	D	The tables with output for performance indicators presented in an annex to the budget are not meeting the requirements outlined in the PEFA framework and in the PEFA assessment field guide.
8.3	Resources Received by Service Delivery Units	D	There are no surveys, evaluations or follow up reports from the last 3 years that provides information on resources received by service delivery units. That said, the PPP service provider tracks resources received by its service delivery units
8.4	Performance Evaluation for Service Delivery	D	There have been no independent evaluations or performance audits of the service delivery for the two biggest service delivery ministries; Ministry of Education and Ministry of Health. However, the PPP arrangement for health service conducts independent evaluation related to its activities
PI-9	**Public Access to Fiscal Information**	**D**	Only one (basic element 2) out of the 9 fiscal information benchmarks fully meets the PEFA assessment criteria
Pillar III: Management of Assets and Liabilities			
PI-10	**Fiscal Risk Reporting**	**D**	
10.1	Monitoring of Public Corporations	D	MoF PSD does not currently receive any financial reports from Public Corporations. However majority of SoEs submit reports to their line ministries but fiscal risks are not monitored
10.2	Monitoring of Sub-National Governments	D	There is no systematic monitoring of SNG´s fiscal positions and audits has been late due to late submissions of financial statements
10.3	Contingent Liabilities and other Fiscal Risks	D*	Contingent liabilities are disclosed in a limited way that leaves uncertainty about the volume of these risks particularly contingent liabilities arising out of PPPs
PI-11	**Public Investment Management**	**B**	
11.1	Economic Analysis of Investment Proposals	C	Economic analyses of all central government capital investment projects are conducted in line with established guidelines; however the outcome of the

No.	Indicator	2016 Score	Justification for 2016 Score
			investment proposals are not published except for inter-ministerial use only
11.2	Investment Project Selection	B	Project selection is based on established (but not published) selection criteria. Prior to inclusion in the budget, Cabinet approves all project proposals that have passed the PSIC appraisal process
11.3	Investment Project Costing	B	Both investment cost and forward linked recurrent expenditures are provided for in both project proposals and MTEF budget documents for at least the first three years
11.4	Investment Project Monitoring	B	Monitoring and evaluation of all capital projects entail both physical progress of work and financial progress; nonetheless internal M&E reports are not published but those (which constitute more than 50% of total capital investments) by external evaluators are published
PI-12	**Public Asset Management**	**D+**	
12.1	Financial Asset Monitoring	D	Whereas MoF maintains a record of government equity holdings in SOEs, the information only shows the name of the company and the percentage share. Information on number of shares, cost and date of investments is not available
12.2	Non-Financial Asset Monitoring	D	The Government does not maintain a consolidated register of all fixed assets in its custody; that said, some line ministries do maintain a register of fixed assets funded by donors
12.3	Transparency of Asset Disposal	C	The legal and regulatory framework provide for fixed asset disposal procedures. The consolidated annual financial statements provide partial information on proceeds of assets disposed
PI-13	**Debt Management**	**C+**	
13.1	Recording and Reporting of Debts and Guarantees	C	Both domestic and foreign debts including guarantees are recorded and reconciled at least quarterly with information obtained from creditor statements. CS-DRMS generates monthly reports with statistical analyses. However, PPPs are neither recorded nor reported. Again, internal reconciliation challenges arising as a result of manual debt data entry onto IFMIS have not been resolved
13.2	Approval of Debts and Guarantees	C	The legal and regulatory framework grant authorisation to borrow both from domestic and external sources; the Minister of Finance is the sole person authorised to contract loans and issue guarantees on behalf of government and SOEs subject to Cabinet approval. Annual borrowing limits are approved by parliament and are within IMF thresholds. Nonetheless, political pressure overriding the Minister of Finance power to approve all loans remains a significant issue
13.3	Debt Management Strategy	D	The Ministry of Finance does not prepare a medium-term debt sustainability strategy to guide central government borrowing decisions; however there appears to be an informal debt management strategy in making borrowing decisions.

No.	Indicator	2016 Score	Justification for 2016 Score
Pillar IV: Policy-Based Planning And Budgeting			
PI-14	**Macro-Economic and Fiscal Forecasting**	**D+**	
14.1	Macro-Economic Forecasting	C	The government prepares forecasts for key macroeconomic indicators for the budget year and the following two fiscal years; however these are not submitted to the Parliament systematically except when requested by parliament economic cluster
14.2	Fiscal Forecasting	C	The government prepares fiscal forecasts for the budget year and the following two fiscal years with aggregate revenue and expenditure estimates as well as anticipated deficit; however the underlying assumptions are not part of the budget submissions to Parliament
14.3	Macro-Fiscal Sensitivity Analysis	D	This kind of analysis is under development but is not yet documented and published. There is also no qualitative assessment of the impact of sensitivity analysis currently produced by the macro department
PI-15	**Fiscal Strategy**	**D+**	
15.1	Fiscal Impact of Policy Proposals	D	The government prepares estimates of the fiscal impact for some, but not all, proposed changes in revenue and expenditure policy for the budget year.
15.2	Fiscal Strategy Adoption	C	The Fiscal Strategy is reflected in the Budget Strategy Paper and also in the call Circular and seems to be for internal use..
15.3	Reporting on Fiscal Outcomes	C	There is a quarterly Budget and fiscal bulletin published for the last year by the MoF that contains some performance on Macroeconomic Developments, Budget and Fiscal Developments and ongoing PFM reforms. The bulletin gives an overview of the quarterly budget operations; revenue collection; recurrent budget performance and capital budget performance
PI-16	**Medium-Term Perspective in Expenditure Budgeting**	**C+**	
16.1	Medium Term Expenditure Estimates	B	The Annual Budget contained in the Budget book presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification. The economic classification is according to GFS 2001, but COFOG is not applied.
16.2	Medium Term Expenditure Ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are part of the budget call circular and approved by the Cabinet before the budget circular is issued.
16.3	Alignment of Strategic Plans and Medium Term Budgets	D	Medium term strategic plans exist but are not costed or aligned to the budget process.
16.4	Consistency of Budget with Previous Year's Estimates	D	In general, the budget documents do not provide systematic explanations. In the budget speech for the last three years, the Minister of Finance has made some brief comments on the budget performance deviations of the last budgets in the context of presenting the new budget. However, these comments do not fulfil the PEFA framework requirements for consistency

No.	Indicator	2016 Score	Justification for 2016 Score
			analysis in the medium term framework.
PI-17	**Budget Preparation Process**	**B**	
17.1	Budget Calendar	C	A detailed budget calendar exists and is adhered to but the budgeting entities only get 9 days to prepare their detailed submissions
17.2	Guidance on Budget Preparation	A	The call circular includes expenditure ceilings for each ministry's recurrent and capital expenditures as well as indicative figures for the two outer years. The guidelines for budget submissions are clear and comprehensive.
17.3	Budget Submission to the Legislature	C	In two of the last three years, the budget has been submitted at least one month before the start of the fiscal years
PI-18	**Legislative Scrutiny of Budgets**	**C+**	
18.1	Scope of Budget Scrutiny	B	The Parliament's review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue
18.2	Legislature Procedures Budget Scrutiny	A	The legislature´s procedures to review and approve the budget are adhered to.
18.3	Timing of Budget Approval	C	The budget has been approved before the start of the fiscal year in two of the last three completed fiscal years, but for one year with more than one month delay
18.4	Rules for Budget Adjustment by the Executive	C	Clear rules exist but they allow for extensive administrative reallocations and expansion of the budget is accepted with ex post approval
Pillar V: Predictability and Control in Budget Execution			
PI-19	**Revenue Administration**	**B**	
19.1	Rights and Obligation for Revenue Measures	A	Lesotho Revenue Authority, collecting more than 90% of domestic revenue, provides tax information to taxpayers; the information is easily accessible on LRA website as well as physical offices. That said, a non-tax revenue unit does not exist within MoF to coordinate and monitor non-tax revenue
19.2	Revenue Risk Management	C	LRA uses structured and systematic procedures for ensuring tax compliance but there are major issues regarding detecting multiple registration as well as directors/shareholders with multiple companies who evade tax. Again, the ERM policy is yet to be adopted. Also, case selection for audit and investigation is still manual.
19.3	Revenue Audit and Investigation	C	LRA undertakes tax audits and fraud investigations in accordance with its annual enforcement and audit plans; nonetheless, aggregate completion rate of 5.6% was achieved. Completion rate for large taxes is however 79.1%
19.4	Revenue Arrears Monitoring	B	In FY2015/2016, total revenue arrears represent 18.1% of total revenue with the assumption that non-tax revenue (about 9.4% of domestic revenue) is not reported/collected. Further, by extension, tax revenue arrears represent

No.	Indicator	2016 Score	Justification for 2016 Score
			10.3% of total tax revenue and arrears more than 12 months are 41.8% of total tax arrears as at end of FY2015/2016
PI-20	**Accounting for Revenues**	**D+**	
20.1	Information on Revenue Collections	D	At present, both LRA and the Office of the Accountant General produce quarterly reports with information on tax and non-tax revenue according to type.
20.2	Transfer of Revenue Collections	B	Once a week, LRA transfers revenue collections to the Treasury Main Revenue Account at CBL. Non-tax revenue is also remitted weekly to the Treasury account
20.3	Revenue Account Reconciliation	D	At present, LRA does not do a complete reconciliation of tax assessment, collections, transfers and arrears; reconciliation is limited to collections and transfers only. Non-tax revenue is also not completely reconciled.
PI-21	**Predictability of In-Year Resource Allocation**	**C**	
21.1	Consolidation of Cash Balances	D	There is no TSA. Even though treasury managed bank balances are consolidated monthly, there are over 254 other government bank accounts (donor-financed projects and own revenue bank accounts) maintained and operated by line ministries that are not part of the monthly consolidation system
21.2	Cash Forecasting And Monitoring	D	Section 13 of the Treasury Regulations 2014 mandates all budget entities to prepare and submit annual cash flow plans to MoF for consolidation and monitoring; in practice however, this is not done.
21.3	Information on Commitment Ceilings	B	MoF issues quarterly expenditure commitment warrants to budget entities; actual cash releases are monthly.
21.4	Significance of In-Year Budget Adjustments	B	In-year budget reallocations are significant but done in a transparent manner. Once in each of the last three completed fiscal years, parliament passed ex-ante supplementary appropriations six months after the beginning of the fiscal year.
PI-22	**Expenditure Arrears**	**D+**	
22.1	Stock of Expenditure Arrears	**D**	There is no reliable data on the stock of expenditure arrears. The 2015/2016 figure of M58.578million, though reported in the 2015/2016 draft consolidated annual financial statements, is unreliable.
22.2	Expenditure Arrears Monitoring	**C**	Information on age-profiled stock of expenditure arrears is now generated annually and reported in the consolidated annual financial statements; however the expenditure report is not comprehensive as it does not include arrears outside IFMIS
PI-23	**Payroll Controls**	**D**	
23.1	Integration of Payroll And Personnel Records	D	There is no automatic integration or reconciliations between personnel records and the payroll system.
23.2	Management of Payroll Changes	D	Personnel records and the payroll are not updated at least quarterly and

No.	Indicator	2016 Score	Justification for 2016 Score
			incidents of retrospective adjustments happens so frequently that it has been highlighted as a challenge to ministries and the office of the Accountant General.
23.3	Internal Controls of Payroll	D	There are no controls to validate and ensure the integrity of the payroll data.
23.4	Payroll Audits	D	There were no payroll audits, inspections or surveys conducted during the past three years.
PI-24	**Procurement Management**	**D**	
24.1	Procurement Monitoring	D	There is no reliable record/database for monitoring procurement management
24.2	Procurement Methods	D	There is no record/database of what has been procured using which method. Details on the extent of deviations are not available centrally at PPAD.
24.3	Public Access to Procurement Information	D	Only one of the procurement elements is publicly available (that is, bidding opportunities in news papers)
24.4	Procurement Complaint Management	D	Procurement tribunal not yet fully functional
PI-25	**Internal Controls on Non-Salary Expenditure**	**C+**	
25.1	Segregation of Duties	A	Appropriate segregation of duties is prescribed throughout the expenditure process and responsibilities are clearly laid down.
25.2	Effectiveness of Expenditure Commitment Controls	C	IFMIS functionality is capable of controlling commitments; however not all expenditures are processed through IFMIS.
25.3	Compliance with Payment Controls	D	Clear internal controls exist but they are rarely adhered to
PI-26	**Internal Audit**	**D+**	
26.1	Coverage of The Internal Audit	C	Majority of line ministries and budget entities have functional internal audit units
26.2	Nature of Audits And Standards Applied	D	There is no evidence of the nature of audits conducted or that appropriate standards were applied
26.3	Implementation of Internal Audits and Reporting	C	Annual internal plans are prepared; majority of these plans are implemented. Some internal audit reports are issued to chief accounting officers
26.4	Response to Internal Audits	D	Even though periodic internal audit reports are prepared and issued to management, there is neither execution action nor responses to audit queries
Pillar VI: Accounting, Recording and Reporting			
PI-27	**Financial Data Integrity**	**D+**	
27.1	Bank Account Reconciliation	D	There is a significant backlog in bank reconciliations, 98% are 12 months or more in arrears.
27.2	Suspense Accounts	D	There are suspense balances dating back 2007/2008; no reconciliation and clearance takes place annually
27.3	Advance Accounts	D	There are advances dating back 2007/2008; no reconciliation and clearance

No.	Indicator	2016 Score	Justification for 2016 Score
			takes place annually
27.4	Financial Data Integrity Process	A	IFMIS assures financial data integrity process with audit trails; access is limited to authorised staff only. There are however incidents where ministries have backdated and processed transaction to prior financial years.
PI-28	**In-Year Budget Reports**	**D+**	
28.1	Coverage and Comparability of Reports	C	Expenditure by de-concentrated and extra-budgetary units within central government are not consolidated into IFMIS. The report is compatible with approved budget classification and allows for direct comparison
28.2	Timing of In-Year Reports	D	In-year budget reports are issued quarterly but with significant delays of more than 4 months
28.3	Accuracy of In-Year Budget Reports	C	There are significant concerns regarding data accuracy as backdated adjustments are possible and not all bank reconciliations are done timely. However, data is generally useful for budget analysis
PI-29	**Annual Financial Reports**	**D+**	
29.1	Completeness of Annual Financial Reports	B	Most of the minimum requirements of IPSAS have been complied with. AFS contains information on revenue, expenditure, financial assets and financial liabilities, although not complete
29.2	Submission of Reports for External Audit	B	The consolidated annual financial statements (2015/2016) were submitted to OAG within 5 months of the financial year (31 August 2016).
29.3	Accounting Standards	D	It is only in 2015/2016 that both ministries and consolidated financial statements were more IPSAS compliant. Accounting standards have not been consistently applied for the last three years
Pillar VII: External Audit			
PI-30	**External Audit**	**D+**	
30.1	Audit Coverage and Standards	C	OAG audits cover the consolidated financial statements and majority of line ministries, highlighting significant financial issues. International standards have been applied to a limited extent
30.2	Submission of Audit Reports to the Legislature	D	Significant delays of more than 10 months occur in submitting audit reports to parliament
30.3	Extent of Follow Up	C	The executive provides formal responses to OAG audit queries requiring remedial action
30.4	Supreme Audit Institution Independence	D	The independence of the OAG is compromised through the prevailing regulatory framework prescribing reporting through the MoF. Also, MoF approves OAG budget. OAG staffing is through the Public Service Scheme
PI-31	**Legislative Scrutiny Of Audit Reports**	**D**	
31.1	Timing of Audit Scrutiny	D	The legislature (Public Accounts Committee) has not conducted reviews of OAG audit reports for the last three completed fiscal years. PAC is still reviewing 2013/2014 audit reports

No.	Indicator	2016 Score	Justification for 2016 Score
31.2	Hearing on Audit Findings	D	Even though PAC hearings include summoning chief accounting officers and senior staff, the last review is for FY2013/2014 which is still ongoing
31.3	Recommendations on Audit by the Legislature	D	PAC is still conducting hearing related to 2013/2014 OAG audit reports; it is more than 24 months behind schedule
31.4	Transparency of the Legislative Scrutiny of Audit Reports	D	PAC hearings exclude public attendance. The PAC reports, for the last three completed fiscal years 2013/2014, 2014/2015, and 2015/2016 are not published on the website neither are they available for purchase at reasonably low cost.

Annex 2: Internal Control Components and Elements

Internal Control Components And Elements	Summary Of Observations
1. Control Environment	
1.1 The Personal and Professional Integrity and Ethical Values of Management and Staff, Including a Supportive Attitude Toward Internal Control Constantly Throughout the Organisation	The continuous and repetitive negative audit findings are of concern and regarded as indicative of a lack of supportive attitude.
1.2. Commitment to Competence	The lack of competencies, skills and experience is regarded a significant contributing factor for the ineffective functioning of internal controls
1.3. The "tone at the top" (i.e. Management's Philosophy and Operating Style)	There is a high degree of non-compliance to the PFMAA and Treasury Regulations. Both the Minister, Chief Accounting Officer and Financial Controllers have been charged with the responsibility of establishing sound and effective systems of internal control.
1.4. Organisational Structure	The organisational structure and design is appropriate for promoting a system of strong internal controls. Compliance, high vacancy levels and lack of appropriate and relevant skills remain the main challenges.
1.5. Human Resource Policies and Practices	The lack of recruiting skilled and experienced staff for the Finance sections remains a challenge. Job Descriptions are in place to guide employees on responsibilities and key performance areas.
2. Risk Assessment 2.1 Risk Identification 2.2 Risk Assessment (Significance and Likelihood) 2.3 Risk Evaluation 2.4 Risk Appetite Assessment 2.5 Responses to Risk (Transfer, Tolerance, Treatment or Termination)	**General:** There is no formal RM process in place. This is a significant weakness and shortcoming in the internal control methodology/environment. It impacts negatively on the effectiveness of both public financial management within ministries and government as a whole as well as service delivery to the public.
3. Control Activities	**General:** The regularity framework prescribes a range of activities placed under the direct responsibility of the Chief Accounting Officers. There is however a high degree of non-compliance which dilutes the effectiveness of designed internal control policies and procedures.
3.1 Authorization and Approval Procedures	The designed processes provides for procedures of authorising transactions. Significant responsibilities are vested within the office of the Accountant General specifically regarding payments and changes to the payroll which seems to be executed satisfactory.
3.2 Segregation of Duties (Authorizing, Processing, Recording, Reviewing)	Systems and structures provide for appropriate segregation, however actual non-compliance and the high vacancies levels in the relevant finance and administrative sections remain a huge challenge.

3.3 Controls over Access to Resources and Records	Document Management - Manual records that are not available for audit purposes is one of the main restrictions placed on the auditors as reported on. Access to electronic data such as the Payroll an IFMIS systems are controlled via Passwords. Documents produced in hard-copy format is filed in offices at ministries and managed through registries. The effectiveness of these controls is a concern as reported by the OAG (information not being made available) and the fact that no IT audit (general and application control reviews) was conducted over the past three years.
3.4 Verifications	Two significant weaknesses were identified i.e. ▪ Fixed Asset Registers ("FAR") that are not maintain accurately and up to date, duly reconciled to annual additions, losses and disposals ▪ Staff Verification (physical) not being done comprehensively (throughout the entire government) and frequently.
3.5 Reconciliations	Bank Reconciliations are in arrears with significant delays of more than 12 months for more than 98.5% of bank accounts. Movements in fixed asset are not reconciled to financial records due to the lack of the FAR. The deployment of professional personnel such as educators are not based on a sound basis resulting in over- and under supply at workstations such as schools.
3.6 Reviews of Operating Performance	Performance information is not accounted for and the individual Performance Management Framework is not in place.
3.7 Reviews of Operations, Processes and Activities	External and internal audit findings indicate significant shortcomings that are not being addressed irrespective on continuous reporting of these concerns.
3.8 Supervision (Assigning, Reviewing and Approving, Guidance and Training)	The repetitive negative findings reported on by both the internal and external auditors indicate a weak system of supervision. Management has failed to introduce and/or apply systems and processes to quality assure performance and promote compliance.
4. Information and Communication	**General:** The main challenge to management is the reliability (accuracy) of information retrieved from the two main information systems, Payroll Administration and IFMIS, for decision-making. Information integrity is severely compromised by the following factors: ▪ Payroll – more than 50% of the payroll is not supported by an approved establishment ▪ Payroll – delays in processing changes as requested through the Casualty Returns, inadequate audit trail of changes processed ▪ Payroll – salary over-payments are not recorded as

	receivables in IFMIS (Suspense Accounts) ▪ IFMIS – Significant backlog in compiling Bank Reconciliations ▪ IFMIS – unrestricted access to process transactions backdated to previous financial years ▪ IFMIS – not all procurement (eg. Capital Expenditure) recognised as Commitments ▪ Other Primary Records – the adoption of the IPSAS Cash Basis of Accounting Framework requires supplementary records to be maintained at ministries which were found to be absent for example Fixed Asset Registers, Loss Registers and Debtors Registers (Suspense Accounts and Advances).
5. Monitoring	**General:** As stated above, one main root cause for the identified weaknesses in the internal control environment is the lack accepting responsibility for ongoing monitoring in the ministries. In addition, the Internal Audit unit's capacity to monitor, identify and timely report on the effectiveness and efficiency of the internal control system is limited. Reliance on independent annual reviews, assessments such as performed by the OAG, PAC does not substitute management's monitoring responsibilities. The significant delay in tabling the OAG findings and subsequent issuing of the PAC resolutions and recommendations have a severe detrimental impact on the effectiveness and efficiency of the monitoring and evaluation of audit findings. Ministries have not compiled formal written plans to address audit findings which can be monitored and the impact or success (rate of achievement) measured, evaluated for redress or change of strategies.
5.1 Ongoing Monitoring	As stated above under general, ongoing monitoring remains a significant challenge.
5.2 Evaluations	Review and evaluation is mainly conducted independently by the OAG and Internal Auditors. Capacity constraints however limit audit coverage, standards of the audits and reports. The repetitive nature of negative audit findings are mainly as result of – • The significance difference in time-frames between the financial year audited and actual issuing of the audit findings and the report on that year • Lack of having an formal strategy and plan for example a "Audit Intervention Plan" ("AIP") to address the identified weaknesses and shortcomings.
5.3 Management Responses	As discussed above, the responses and undertakings given to both internal and external audit observations are not

	formalised by way of a plan or working document. This prevent management monitoring and conducting own assessments of progress, risks and weaknesses to be addressed.

Annex 3: Sources of Information

3A:

Table 1.2A - Analysis for PI-1: Fiscal Year 2013/2014

Data for year =	2013/14					
Administrative or Functional Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Agriculture And Food Security	335,276,928.00	308,379,292.00	332,004,535.7	-23,625,243.7	23,625,243.7	7.1%
Health	1,743,543,787.00	1,665,371,837.00	1,726,526,334.4	-61,154,497.4	61,154,497.4	3.5%
Education And Training	1,966,439,499.00	1,996,209,726.00	1,947,246,524.7	48,963,201.3	48,963,201.3	2.5%
Finance	859,175,044.00	974,170,578.00	850,789,266.3	123,381,311.7	123,381,311.7	14.5%
Trade And Industry	231,433,047.00	101,001,867.00	229,174,198.7	-128,172,331.7	128,172,331.7	55.9%
Development Planning	815,153,812.00	760,868,624.00	807,197,693.3	-46,329,069.3	46,329,069.3	5.7%
Justice, Human Rights And Correctional Services	158,173,385.00	171,786,446.00	156,629,570.6	15,156,875.4	15,156,875.4	9.7%
Home Affairs	243,447,425.00	155,636,069.00	241,071,313.2	-85,435,244.2	85,435,244.2	35.4%
Prime Minister	96,976,953.00	110,665,096.00	96,030,432.1	14,634,663.9	14,634,663.9	15.2%
Communication, Science And Technology	142,252,956.00	163,434,494.00	140,864,529.2	22,569,964.8	22,569,964.8	16.0%
Law And Constitutional Affairs	48,698,204.00	53,155,934.00	48,222,896.5	4,933,037.5	4,933,037.5	10.2%
Foreign Affairs And International Relations	290,670,948.00	280,116,307.00	287,833,922.0	-7,717,615.0	7,717,615.0	2.7%
Public Works And Transport	1,132,583,427.00	905,858,850.00	1,121,529,110.5	-215,670,260.5	215,670,260.5	19.2%
Forestry And Land Reclamation	156,359,118.00	190,578,972.00	154,833,011.3	35,745,960.7	35,745,960.7	23.1%
Energy, Meteorology And Water Affairs	1,572,599,041.00	447,643,701.00	1,557,250,054.7	-1,109,606,353.7	1,109,606,353.7	71.3%
Labour And Employment	53,439,989.00	54,259,650.00	52,918,400.4	1,341,249.6	1,341,249.6	2.5%
Tourism, Environment And Culture	94,692,256.00	75,139,974.00	93,768,034.3	-18,628,060.3	18,628,060.3	19.9%
Auditor General Office	23,288,149.00	26,891,032.00	23,060,850.5	3,830,181.5	3,830,181.5	16.6%
His Majesty's Office	61,929,624.00	23,463,257.00	61,325,174.3	-37,861,917.3	37,861,917.3	61.7%
Public Services Commission	6,601,545.00	6,893,649.00	6,537,112.2	356,536.8	356,536.8	5.5%
21 (= Sum Of Rest)	2,811,512,144.00	4,247,358,645.00	2,784,071,035.2	1,463,287,609.8	1,463,287,609.8	52.6%
Allocated Expenditure	12,844,247,281.00	12,718,884,000.00	12,718,884,000.0	0.0	3,468,401,186.2	
Contingency	100,000,000.00	83,159,000.00				
Total Expenditure	12,944,247,281.00	12,802,043,000.00				
Overall (Pi-1) Variance						1.1%
Composition (Pi-2) Variance		-				27.3%
Contingency Share Of Budget						0.6%

Table 1.2B: Analysis for PI-1 Fiscal Year 2014/2015

Data For Year =	2014/15					
Administrative Or Functional Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Agriculture And Food Security	332,075,898.00	291,391,000.00	419,212,296.3	-127,821,296.3	127,821,296.3	30%
Health	1,719,433,207.00	1,566,764,000.00	2,170,610,837.6	-603,846,837.6	603,846,837.6	28%
Education And Training	2,049,558,256.00	1,941,061,000.00	2,587,360,384.1	-646,299,384.1	646,299,384.1	25%
Finance	902,231,656.00	930,332,000.00	1,138,976,380.5	-208,644,380.5	208,644,380.5	18%
Trade And Industry	156,589,163.00	134,575,000.00	197,678,009.8	-63,103,009.8	63,103,009.8	32%
Development Planning	811,679,252.00	787,179,000.00	1,024,663,112.2	-237,484,112.2	237,484,112.2	23%
Justice, Human Rights And Correctional Services	208,371,685.00	182,963,000.00	263,048,216.0	-80,085,216.0	80,085,216.0	30%
Home Affairs	221,004,218.00	195,565,000.00	278,995,513.6	-83,430,513.6	83,430,513.6	30%
Prime Minister	107,440,651.00	106,809,000.00	135,632,975.2	-28,823,975.2	28,823,975.2	21%
Communication, Science And Technology	356,599,597.00	280,263,000.00	450,170,990.5	-169,907,990.5	169,907,990.5	38%
Law And Constitutional Affairs	61,335,665.00	61,905,000.00	77,430,084.9	-15,525,084.9	15,525,084.9	20%
Foreign Affairs And International Relations	329,995,431.00	302,303,000.00	416,585,916.8	-114,282,916.8	114,282,916.8	27%
Public Works And Transport	828,291,326.00	1,149,473,000.00	1,045,634,178.5	103,838,821.5	103,838,821.5	10%
Forestry And Land Reclamation	212,824,922.00	207,365,000.00	268,669,978.2	-61,304,978.2	61,304,978.2	23%
Energy, Meteorology And Water Affairs	581,795,587.00	494,530,000.00	734,458,193.1	-239,928,193.1	239,928,193.1	33%
Labour And Employment	59,437,773.00	53,524,000.00	75,034,187.8	-21,510,187.8	21,510,187.8	29%
Tourism, Environment And Culture	146,436,145.00	117,904,000.00	184,860,849.5	-66,956,849.5	66,956,849.5	36%
Auditor General Office	27,378,859.00	26,101,000.00	34,563,045.4	-8,462,045.4	8,462,045.4	24%
His Majesty's Office	30,741,246.00	8,148,000.00	38,807,719.6	-30,659,719.6	30,659,719.6	79%
Public Services Commission	7,417,330.00	6,965,000.00	9,363,630.3	-2,398,630.3	2,398,630.3	26%
21 (= Sum Of Rest)	**2,606,365,828.00**	**5,996,910,231.00**	3,290,273,730.9	2,706,636,500.1	2,706,636,500.1	82%
Allocated Expenditure	11,757,003,695.00	14,842,030,231.00	14,842,030,231.0	0.0	5,620,950,643.1	
Contingency	100,000,000.00	88,315,769.00				
Total Expenditure	11,857,003,695.00	14,930,346,000.00				
Overall (PI-1) Variance						25.9%
Composition (PI-2) Variance		-				37.9%
Contingency Share Of Budget						0.7%

Table 1.2C: Analysis for PI-1 Fiscal Year 2015/2016

Data For Year =	2015/16					
Administrative Or Functional Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Agriculture And Food Security	318,492,774.00	279,412,000.00	419,170,803.7	-139,758,803.7	139,758,803.7	33.3%
Health	1,812,085,199.00	1,709,912,000.00	2,384,899,348.7	-674,987,348.7	674,987,348.7	28.3%
Education And Training	2,180,565,154.00	2,149,490,000.00	2,869,858,668.1	-720,368,668.1	720,368,668.1	25.1%
Finance	880,690,898.00	1,190,546,000.00	1,159,084,103.9	31,461,896.1	31,461,896.1	2.7%
Trade And Industry	89,756,814.00	83,046,000.00	118,129,637.3	-35,083,637.3	35,083,637.3	29.7%
Development Planning	861,647,425.00	858,685,000.00	1,134,020,841.8	-275,335,841.8	275,335,841.8	24.3%
Justice, Human Rights And Correctional Services	240,705,819.00	261,645,000.00	316,794,790.5	-55,149,790.5	55,149,790.5	17.4%
Home Affairs	271,723,517.00	285,544,000.00	357,617,422.8	-72,073,422.8	72,073,422.8	20.2%
Prime Minister	118,267,867.00	260,194,000.00	155,653,254.7	104,540,745.3	104,540,745.3	67.2%
Communication, Science And Technology	324,557,604.00	432,795,000.00	427,152,773.4	5,642,226.6	5,642,226.6	1.3%
Law And Constitutional Affairs	75,520,880.00	77,928,000.00	99,393,614.4	-21,465,614.4	21,465,614.4	21.6%
Foreign Affairs And International Relations	354,565,421.00	326,936,000.00	466,646,293.5	-139,710,293.5	139,710,293.5	29.9%
Public Works And Transport	764,785,479.00	913,343,000.00	1,006,540,085.3	-93,197,085.3	93,197,085.3	9.3%
Forestry And Land Reclamation	204,495,702.00	203,342,000.00	269,138,375.4	-65,796,375.4	65,796,375.4	24.4%
Energy, Meteorology And Water Affairs	147,782,613.00	169,902,000.00	194,497,840.2	-24,595,840.2	24,595,840.2	12.6%
Labour And Employment	50,248,246.00	49,089,000.00	66,132,105.3	-17,043,105.3	17043105.28	25.8%
Tourism, Environment And Culture	156,280,345.00	136,910,000.00	205,681,771.0	-68,771,771.0	68771771.04	33.4%
Auditor General Office	26,144,858.00	26,977,000.00	34,409,449.9	-7,432,449.9	7432449.871	21.6%
His Majesty's Office	77,954,834.00	7,885,000.00	102,596,960.1	-94,711,960.1	94711960.09	92.3%
Public Services Commission	7,570,537.00	6,901,000.00	9,963,642.3	-3,062,642.3	3,062,642.3	30.7%
21 (= Sum Of Rest)	3,303,999,886.00	6,715,319,592.00	4,348,419,809.8	2,366,899,782.2	2,366,899,782.2	54.4%
Allocated Expenditure	12,267,841,872.00	16,145,801,592.0	16,145,801,592.0	0.0	5,017,089,300.5	
Contingency	100,000,000.00	96,291,408.00				
Total Expenditure	12,367,841,872.00	16,242,093,000.00				
Overall (PI-1) Variance						31.3%
Composition (PI-2) Variance		-				31.1%
Contingency Share Of Budget						0.8%

Table 2A: Analysis for PI-2.2 Composition variance by economic classification (M'000)

Data For Year =	2013/2014					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Compensation Of Employees	3,815,201.00	4,637,132.00	3,777,963.6	859,168.4	859,168.4	22.7%
Use Of Goods And Services	1,613,273.00	2,903,054.00	1,597,527.0	1,305,527.0	1,305,527.0	81.7%
Consumption Of Fixed Capital	1,107,550.00	2,043,019.00	1,096,740.0	946,279.0	946,279.0	86.3%
Interest	231,450.00	95,807.00	229,191.0	-133,384.0	133,384.0	58.2%
Subsidies	236,366.00	232,203.00	234,059.0	-1,856.0	1,856.0	0.8%
Grants	770,307.00	770,134.00	762,788.6	7,345.4	7,345.4	1.0%
Social Benefits	794,514.00	768,921.00	786,759.3	-17,838.3	17,838.3	2.3%
Other Expenses	4,275,586.28	1,268,614.00	4,233,855.4	-2,965,241.4	2,965,241.4	70.0%
Total Expenditure	**12,844,247.28**	**12,718,884.00**	**12,718,884.0**	**0.0**	**6,236,639.5**	
Overall Variance						**99.0%**
Composition Variance			**-**			**49.0%**

Table 2B: Analysis for PI-2.2 Composition variance by economic classification (M'000)

Data For Year =	2014/2015					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Compensation Of Employees	5,335,373.00	5,026,669.00	6,622,710.0	-1,596,041.0	1,596,041.0	24.1%
Use Of Goods And Services	3,788,545.00	2,911,514.00	4,702,658.0	-1,791,144.0	1,791,144.0	38.1%
Consumption Of Fixed Capital	3,595,690.00	2,082,140.00	4,463,270.3	-2,381,130.3	2,381,130.3	53.3%
Interest	-	178,696.00	0.0	178,696.0	178,696.0	100.0%
Subsidies	257,347.00	201,363.00	319,440.6	-118,077.6	118,077.6	37.0%
Grants	835,783.00	812,574.00	1,037,443.6	-224,869.6	224,869.6	21.7%
Social Benefits	846,240.00	768,584.00	1,050,423.7	-281,839.7	281,839.7	26.8%
Other Expenses	7,708.00	1,006,880.00	9,567.8	997,312.2	997,312.2	10423.6%
Adjustment (Diff Between Functional & Economic Classification) Less Contingency	(2,709,682.31)	1,853,610.23	-3,363,483.7	5,217,093.9	5,217,093.9	-155.1%
Total Expenditure	**11,957,003.69**	**14,842,030.23**	**14,842,030.2**	**-5,217,093.9**	**7,569,110.3**	
Overall Variance						**124.1%**
Composition Variance						**51.0%**

Table 2C: Analysis for PI-2.2 Composition variance by economic classification (M'000)

Data For Year =	2015/2016					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Compensation Of Employees	5,585,495.00	5,606,712.00	7,233,192.0	-1,626,480.0	1,626,480.0	22.5%
Use Of Goods And Services	2,942,893.00	3,432,409.00	3,811,033.8	-378,624.8	378,624.8	9.9%
Consumption Of Fixed Capital	4,674,725.00	2,755,322.00	6,053,748.8	-3,298,426.8	3,298,426.8	54.5%
Interest	295,364.00	322,780.00	382,495.1	-59,715.1	59,715.1	15.6%
Subsidies	261,179.00	272,482.00	338,225.7	-65,743.7	65,743.7	19.4%
Grants	599,647.00	740,747.00	776,540.3	-35,793.3	35,793.3	4.6%
Social Benefits	865,741.00	1,060,927.00	1,121,130.9	-60,203.9	60,203.9	5.4%
Other Expenses	1,402,912.00	2,050,714.00	1,816,765.0	233,949.0	233,949.0	12.9%
Adjustment (Diff Between Functional & Economic Classification) Less Contingency	(4,160,114.13)	(96,291.41)	-5,387,329.9	5,291,038.5	5,291,038.5	-98.2%
Total Expenditure	12,467,841.87	16,145,801.59	16,145,801.6	0.0	11,049,975.0	
Overall Variance						129.5%
Composition Variance						68.4%

Table 3.2A: Analysis of revenue outturn - PI-3 (M Million)

Data For Year =	2013/2014					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Tax Revenues						
Taxes On Income, Profit And Capital Gains	1,233.80	1,116.90	1,124.7	-7.8	7.8	0.7%
Taxes On Payroll And Workforce	1,914.00	1,563.30	1,744.8	-181.5	181.5	10.4%
Taxes On Property	191.20	127.70	174.3	-46.6	46.6	26.7%
Taxes On Goods And Services	2,160.90	1,886.60	1,969.9	-83.3	83.3	4.2%
Taxes On Exports	293.00	451.10	267.1	184.0	184.0	68.9%
Other Taxes	7.20	2.00	6.6	-4.6	4.6	69.5%
Social Contributions						
Social Security Contributions	-	-	0.0	0.0	0.0	0.0
Other Social Contributions	-	-	0.0	0.0	0.0	0.0
Grants						
Grants From Foreign Governments	1,631.10	1,047.40	1,486.9	-439.5	439.5	29.6%
Grants From International Organizations	-	-	0.0	0.0	0.0	0.0
Grants From Other Government Units	-	-	0.0	0.0	0.0	0.0
Other Revenue						
Property Income	194.30	164.20	177.1	-12.9	12.9	7.3%
Sales Of Goods And Services	839.60	855.60	765.4	90.2	90.2	11.8%
Fines, Penalties And Forfeits	0.30	1.60	0.3	1.3	1.3	485.1%
Transfers Not Elsewhere Classified	41.80	3.40	38.1	-34.7	34.7	91.1%
SACU	6,054.60	6,054.60	5,519.3	535.3	535.3	9.7%
Sum Of Rest	-	-	0.0	0.0	0.0	0.0
Total Revenue	14,561.80	13,274.40	13,274.4	0.0	1,621.7	
Overall Variance						91.2%
Composition Variance						12.2%

Table 3.2B: Analysis of revenue outturn - PI-3 (M Million)

Data For Year =	2014/2015					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Tax Revenues						
Taxes On Income, Profit And Capital Gains	1,328.00	1,306.83	1,328.7	-21.8	21.8	1.6%
Taxes On Payroll And Workforce	2,201.30	2,201.30	2,202.4	-1.1	1.1	0.0%
Taxes On Property	166.00	-	166.1	-166.1	166.1	100.0%
Taxes On Goods And Services	2,431.40	2,118.60	2,432.6	-314.0	314.0	12.9%
Taxes On Exports	227.70	-	227.8	-227.8	227.8	100.0%
Other Taxes	7.10	-	7.1	-7.1	7.1	100.0%
Social Contributions						
Social Security Contributions	-	-	0.0	0.0	0.0	0.0
Other Social Contributions	-	-	0.0	0.0	0.0	0.0
Grants						
Grants From Foreign Governments	1,043.90	325.78	1,044.4	-718.6	718.6	68.8%
Grants From International Organizations			0.0	0.0	0.0	0.0
Grants From Other Government Units			0.0	0.0	0.0	0.0
Other Revenue						
Property Income	357.4	223.65	357.6	-133.9	133.9	37.5%
Sales Of Goods And Services	905.3	1,022.00	905.7	116.3	116.3	12.8%
Fines, Penalties And Forfeits	1.4	-	1.4	-1.4	1.4	100.0%
Transfers Not Elsewhere Classified	50.4	1,529.52	50.4	1,479.1	1,479.1	2933.3%
SACU	7,034.10	7,034.07	7,037.6	-3.5	3.5	0.0%
Sum Of Rest	-	-	0.0	0.0	0.0	#DIV/0!
Total Revenue	15,754.00	15,761.75	15,761.7	0.0	3,190.7	
Overall Variance						100.0%
Composition Variance		-				20.2%

Table 3.2C: Analysis of Revenue Outturn - PI-3 (M Million)

Data For Year =	2015/2016					
Economic Head	**Budget**	**Actual**	**Adjusted Budget**	**Deviation**	**Absolute Deviation**	**Percent**
Tax Revenues						
Taxes On Income, Profit And Capital Gains	1,548.00	1,947.31	1,491.7	455.6	455.6	30.5%
Taxes On Payroll And Workforce	1,767.30	1,767.30	1,703.0	64.3	64.3	3.8%
Taxes On Property	162.20	-	156.3	-156.3	156.3	100.0%
Taxes On Goods And Services	2,758.20	2,187.42	2,657.9	-470.4	470.4	17.7%
Taxes On Exports	276.10	250.10	266.1	-16.0	16.0	6.0%
Other Taxes	5.40	1.15	5.2	-4.1	4.1	77.9%
Social Contributions						
Social Security Contributions	-	-	0.0	0.0	0.0	0.0
Other Social Contributions	-	-	0.0	0.0	0.0	0.0
Grants						
Grants From Foreign Governments	955.80	908.89	921.0	-12.1	12.1	1.3%
Grants From International Organizations	-	-	0.0	0.0	0.0	0.0
Grants From Other Government Units	-	-	0.0	0.0	0.0	0.0
Other Revenue						
Property Income	489.20	427.61	471.4	-43.8	43.8	9.3%
Sales Of Goods And Services	941.20	860.17	907.0	-46.8	46.8	5.2%
Fines, Penalties And Forfeits	1.70	5.85	1.6	4.2	4.2	256.9%
Transfers Not Elsewhere Classified	18.10	9.62	17.4	-7.8	7.8	44.8%
SACU	6,398.20	6,398.62	6,165.4	233.2	233.2	3.8%
Sum Of Rest	-	-	0.0	0.0	0.0	0.0
Total Revenue	15,321.40	14,764.04	14,764.0	0.0	1,514.6	
Overall Variance						96.4%
Composition Variance						10.3%

3B: List of Stakeholders Interviewed

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H. Matsoso	MoF	Deputy Accountant General		
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L. Thatho	MoF	PRO		
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3C: Documents consulted

General documentation

Legal and Regulatory Framework

- The 1993 Constitution
- LRA Act 2001
- Audit Act 1973
- PFM & Accountability Act 2011
- Treasury Regulation 2014
- Public Service Act, Act No 1 of 2005 as amended
- Public Services Regulations 2008
- Procurement Regulations 2006
- Loans and Guarantees Act - Act 15 of 1967
- Local Loans Act - Act 13 of 2001
- Customs & Excise Act - Act 10 of 1982 as amended
- Income Tax Act 1993 as amended
- Revenues Appeals Tribunal Act 2005
- VAT Act 2001 as amended

Budget Documents

- National Budget 2013/2014 to 2016/2017
- Appropriations Acts 2013/2014; 2014/2015; 2015/2016; 2016/2017
- Budget Call Circular 2016/2017
- Budget Strategy Paper 2016/2017
- Budget Speeches 2013/2014 to 2016/2017
- Citizen's budget 2016/2017
- Budget & Fiscal bulletin quarter 1, 2, & 3 FY2015/2016
- Budget Calendar

Auditor-General Annual Reports

- AG audit report on GoL consolidated financial statements FY2012/2013
- AG audit report on GoL consolidated financial statements FY2013/2014
- Status of SOEs, district councils, parastatals audited by AG

Accountant General Reports/Treasury Documents

- Consolidated annual financial statements 2013/2014 to 2015/2016
- Treasury instructions on opening of bank accounts
- Chart of Accounts
- IPSAS implementation guide
- Guide to IPSAS Cash

Parliament

- Standing orders of the National Assembly
- Parliament Powers and Privileges Act 1994
- Report of Parliament Public Accounts Committee 2008/2009

Other official documents

- Lesotho Partnership Policy - November 2013

- IMF FAD Report: Strengthening Medium-Term Budget Planning, Cash Management and Fiscal Reporting - September 2016
- LRA tax leaflet: Declare, Pay and Proceed to Border
- LRA tax leaflet: Tax Guide on Taxation of Employment Income
- LRA tax leaflet: Easy Guide to Filing Your Income Tax Return
- LRA tax leaflet: Taxation of Employment Income Tax – PAYE
- LRA Strategic Plan 2014-2019
- LRA Annual Progress Report 2015/2016, dated June 2016
- LRA Quarterly Report - Q1 2016/2017 & Q2 2016/2017
- Annual Debt Bulletin 2015/2016
- Lesotho National Indicative Programme under the 11th EDF for the period 2014-2020
- PFM Programme Estimate
- GFS 2014 Manual
- IFMIS Application Manual
- World Bank Credit Facility - support to PFM for USD5.5million, January 2014
- IMF Article IV Report, February 2016
- IMF Debt Sustainability Analysis for Government of Lesotho, June 201
- 2008 and 2012 PEFA Reports
- National Vision 2020 Document
- Lesotho PFM Reform Action Plan 2012-2017/2018
- World Bank Country Survey 2014
- Strategy paper on Government Bank Reconciliation, February 2016 - Arun Kumar
- African Governance Report IV, 2016
- Draft Development Cooperation Report, October 2016
- Audit Report - Effectiveness of IFMIS, January 2016
- Ministry of Education Strategic Plan 2016-2026
- LRA Charter
- Court of Appeal Judgment - between LRA and Zainab Moosa
- LRA annual enforcement plan
- LRA Public Ruling on VAT on hire purchase
- PFM Annual Report, 2016
- Transparency International Report on Lesotho - 2015

Documentation Used Per Indicator/ Dimension

Indicator	Dimension	Data used
I. Budget Reliability		
1. Aggregate Expenditure Outturn	1.1 Aggregate Expenditure Outturn	Appropriations Acts/Approved original expenditure budget and actual expenditure based on administrative classification for FY2013/2014; FY2014/2015; and FY2015/2016
2. Expenditure Composition Outturn	2.1 Expenditure Composition Outturn by Function	Appropriations Acts/Approved original expenditure budget and actual expenditure based on administrative classification for FY2013/2014; FY2014/2015; and FY2015/2016
	2.2 Expenditure Composition Outturn by Economic Type	Appropriations Acts/Approved original expenditure budget and actual expenditure based on economic classification for FY2013/2014; FY2014/2015; and FY2015/2016
	2.3 Expenditure from Contingency Reserves	Contingency budget and actual expenditure from contingency vote for FY2013/2014; FY2014/2015; and FY2015/2016
3. Revenue Outturn	3.1 Aggregate Revenue Outturn	Approved original revenue budget and actual revenue outturns based on revenue types for FY2013/2014; FY2014/2015; and FY2015/2016
	3.2 Revenue Composition Outturn	Approved original revenue budget and actual revenue outturns based on revenue types for FY2013/2014; FY2014/2015; and FY2015/2016
II. Transparency Of Public Finances		
4. Budget Classification	4.1 Budget Classification	CoA, Budget books; interviews with officials
5. Budget Documentation	5.1 Budget Documentation	Budget books; Call circulars, Budget Speech; Interviews with officials; Budget Strategy paper
6. Central Government Operations Outside Financial Reports	6.1 Expenditure Outside Financial Reports	Interviews with officials; financial data on expenditure from extra-budgetary units and donors
	6.2 Revenue Outside Financial Reports	Interviews with officials; financial data on revenue from extra-budgetary units and donors
	6.3 Financial Reports of Extra Budgetary Units	List of extra-budgetary units submitting financial reports to government
7. Transfers To Subnational Governments	7.1 System for Allocating Transfers	Interviews with officials; Documentation delivered from MLG; Budget book
	7.2 Timeliness of Information on Transfers	Interviews with officials; Budget circulars; MLG Strategic plan
8. Performance Information For	8.1 Performance Plans for Service Delivery	The Budget Book; Interviews with officials

Service Delivery	8.2 Performance Achieved For Service Delivery	The Budget Book; Interviews with officials
	8.3 Resources Received By Service Delivery Units	The Budget Book; Interviews with officials
	8.4 Performance Evaluation For Service Delivery	Interviews with officials
9. Public Access To Fiscal Information	9.1 Public Access To Fiscal Information	Government website; Ministry of Finance website
III. Management Of Assets And Liabilities		
10. Fiscal Risk Reporting	10.1 Monitoring of Public Corporations	Interviews with officials; Audit information from OAG; Informal documentation from MoF PDS
	10.2 Monitoring of Subnational Governments	Interviews with officials; Audit information from OAG; Informal documentation from MoF PDS
	10.3 Contingent Liabilities and Other Fiscal Risks	Interviews with officials; Documentation from Accountant General; Consolidated financial statements
11. Public Investment Management	11.1 Economic Analysis of Investment Proposals	Samples on investment proposals from Ministry of Education, Health, Public Works
	11.2 Investment Project Selection	Guidelines for investment project selection; copies of minutes of meetings
	11.3 Investment Project Costing	Samples on investment proposals from Ministry of Education, Health, Public Works
	11.4 Investment Project Monitoring	Samples of periodic monitoring and evaluation; copies of project completion reports
12. Public Asset Management	12.1 Financial Asset Monitoring	List of government equities in public and private business entities
	12.2 Nonfinancial Asset Monitoring	Interviews with stakeholders; samples of fixed asset register from Ministry of Public Service, Ministry of Finance
	12.3 Transparency of Asset Disposal	Public Financial Management Law 2011; Procurement Regulations 2006
13. Debt Management	13.1 Recording and Reporting of Debt and Guarantees	Debt report from MoF debt department; 2015/2016 draft financial statement from Accountant General's Department
	13.2 Approval of Debt and Guarantees	Public Financial Management Law 2011; Loans and Guarantees Act 1967; Local Loans Act 2001
	13.3 Debt Management Strategy	Debt management strategy 2013; IMF Article IV report 2015 on Lesotho
IV. Policy-Based Fiscal Strategy And Budgeting		
14. Macroeconomic and Fiscal Forecasting	14.1 Macroeconomic Forecasts	Interviews with officials in MoF MPMD and CBL; MTEF; Budget book Working documents; Budget Speech; Debt

		bulletin
	14.2 Fiscal Forecasts	Interviews with officials in MoF MPMD; MTEEF; Budget book; Budget call Circular; Budget Strategy Paper; Working documents; Budget Speech; Debt bulletin
	14.3 Macro Fiscal Sensitivity Analysis	Interviews with officials; working documents
15. Fiscal Strategy	15.1 Fiscal Impact of Policy Proposals	Budget Strategy Paper; Budget Call circular; NSDP
	15.2 Fiscal Strategy Adoption	Budget Strategy Paper; Budget Call circular
	15.3 Reporting on Fiscal Outcomes	Budget and Fiscal Bulletin
16. Medium Term Perspective In Expenditure Budgeting	16.1 Medium-Term Expenditure Estimates	Budget book; MTEF; Interviews with officials
	16.2 Medium-Term Expenditure Ceilings	Budget Call Circular; MTEF; Interviews with officials
	16.3 Alignment of Strategic Plans and Medium-Term Budgets	National Vision 2020; NSDP; MoF strategic plan; MoDP strategic plan; MTEF
	16.4 Consistency of Budgets with Previous Year's Estimates	Budget books; Call circulars, Budget Speech; Interviews with officials;
17. Budget Preparation Process	17.1 Budget Calendar	PFMA Act; Budget Call circulars, Budget Calendar; Budget Speech; interviews with officials
	17.2 Guidance on Budget Preparation	PFMA Act; Budget Call circulars, Budget Calendar; interviews with officials; Budget Strategy paper
	17.3 Budget Submission to the Legislature	PFMA Act; Budget Speech; Interviews with officials at MoF and Parliament
18. Legislative Scrutiny Of Budgets	18.1 Scope of Budget Scrutiny	PFMA Act; Standing orders of the Parliament; Budget documentation; Minutes from Portfolio committee; Interviews with officials
	18.2 Legislative Procedures for Budget Scrutiny	Standing orders of Parliament; Interviews with officials at Parliament
	18.3 Timing of Budget Approval	Interviews with officials at Parliament; documentation from Parliament
	18.4 Rules for Budget Adjustment by the Executive	Constitution; PFMA Act; Interviews with officials
V. Predictability And Control In Budget Execution		
19. Revenue Administration	19.1 Rights And Obligations For Revenue Measures	LRA Act 2001; Customs & Excise Act - Act 10 of 1982 as amended; Income Tax Act 1993 as amended; VAT Act 2001 as amended; Revenues Appeals Tribunal Act 2005; LRA tax leaflets (declare, pay and proceed to border; tax guide on employment income; easy guide to filing income tax return; taxation on PAYE)

	19.2 Revenue Risk Management	LRA risk management strategy; draft copy of LRA enterprise risk management
	19.3 Revenue Audit And Investigation	LRA tax audit and investigation plan for 2014/2015 and 2015/2016; LRA progress reports for 2014/2015 and 2015/2016
	19.4 Revenue Arrears Monitoring	Data on stock of revenue arrears for 2013/2014; 2014/2015; and 2015/2016; plus actual tax outturns for the same period
20. Accounting For Revenue	20.1 Information On Revenue Collections	2015/2016 and 2016/2017 quarterly tax revenue reports from LRA to MoF
	20.2 Transfer Of Revenue Collections	LRA bank statements; triangulation/confirmation from Central Bank of Lesotho
	20.3 Revenue Accounts Reconciliation	LRA revenue reconciliation statements for 2015/2016
21. Predictability Of In-Year Resource Allocation	21.1 Consolidation Of Cash Balances	Interviews with officials from Accountant General's Department; no data on consolidation of government cash/bank balances
	21.2 Cash Forecasting And Monitoring	Copy of consolidated annual cash flow statement from MoF; sample copies of cash flow statements from Ministry of Education and Public Works
	21.3 Information On Commitment Ceilings	Copy of expenditure commitment warrant from MoF; Ministry of Education
	21.4 Significance Of In-Year Budget Adjustments	Copy of statement of budget reallocation from MoF; sample copies of MDA budget virement requests
22. Expenditure Arrears	22.1 Stock Of Expenditure Arrears	Consolidated annual financial statements FY2014/2015 and FY2015/2016; annual expenditure report from Accountant General's Department
	22.2 Expenditure Arrears Monitoring	Consolidated annual financial statements FY2014/2015 and FY2015/2016
23. Payroll Controls	23.1 Integration Of Payroll And Personnel Records	Establishment list; personnel records at Ministry of Public Service and MoF
	23.2 Management Of Payroll Changes	Copies of payroll casualty returns
	23.3 Internal Control Of Payroll	Copies of personnel casualty returns; monthly payroll report FY2015/2016
	23.4 Payroll Audit	Payroll audit report for FY2011/2012;
24. Procurement Management	24.1 Procurement Monitoring	Database of procurement information at Public Procurement Department - MoF

	24.2 Procurement Methods	Database of procurement information at Public Procurement Department - MoF
	24.3 Public Access To Procurement Information	Government website; Ministry of Finance website
	24.4 Procurement Complaints Management	PFM Act, procurement regulation; Ministry of Finance website
25. Internal Controls On Nonsalary Expenditure	25.1 Segregation of Duties	Copies of payment vouchers; Treasury regulations, PFM Act
	25.2 Effectiveness of Expenditure Commitment Controls	IFMIS functionality manual; walk-through test of IFMIS functions; interviews with stakeholders; sample copies of expenditure arrears from Ministry of Public Works and Ministry of Health
	25.3 Compliance with Payment Controls	Financial statements for FY2013/2014 to FY2015/2016; Auditor-General's annual audit report FY2013/2014 and FY2014/2015
26. Internal Audit	26.1 Coverage of Internal Audit	PFM Act, Treasury regulations; interviews with MoF, Ministry of Public Works, Education, Health, Public Service; copies of internal audit reports; annual audit plans FY2014/2015
	26.2 Nature of Audits and Standards Applied	Annual audit plans FY2014/2015; internal audit reports
	26.3 Implementation of Internal Audits and Reporting	Auditor-General audit reports; internal audit reports
	26.4 Response to Internal Audits	Auditor-General audit reports; internal audit reports
VI. Accounting and reporting		
27. Financial Data Integrity	27.1 Bank Account Reconciliation	Bank statements and reconciliation statements; Auditor-General's audit reports
	27.2 Suspense Accounts	Consolidated annual financial statements; Auditor-General's reports
	27.3 Advance Accounts	Consolidated annual financial statements; Auditor-General's reports
	27.4 Financial Data Integrity Processes	IFMIS functionality manual; walk-through test of IFMIS functions; interviews with stakeholders;
28. In-Year Budget Reports	28.1 Coverage and Comparability of Reports	Quarterly in-year budget execution reports FY2015/2016; IFMIS monthly reports
	28.2 Timing of In-Year Budget Reports	Quarterly in-year budget execution reports FY2015/2016; IFMIS monthly reports
	28.3 Accuracy of In-Year Budget Reports	Quarterly in-year budget execution reports FY2015/2016; IFMIS monthly reports; Auditor-General's audit reports
29. Annual Financial Reports	29.1 Completeness of Annual Financial Reports	Consolidated annual financial statements FY2013/2014 to

		FY2015/2016
	29.2 Submission of Reports for External Audit	Transmittal letter from Accountant General; confirmation from Auditor-General
	29.3 Accounting Standards	Consolidated annual financial statements FY2013/2014 to FY2015/2016
VII. External Scrutiny And Audit		
30. External Audit	30.1 Audit Coverage and Standards	Audit Act 1973; Audit manual; Auditor-General's audit reports; interviews
	30.2 Submission of Audit Reports to the Legislature	Transmittal letter from Auditor-General to Parliament; confirmation from parliament
	30.3 External Audit Follow-Up	Auditor-General audit reports;
	30.4 Supreme Audit Institution Independence	1993 Constitution; Audit Act 1973; interview with Auditor-General
31. Legislative Scrutiny Of Audit Reports	31.1 Timing of Audit Report Scrutiny	Hanzard/minutes from parliament; minutes from PAC; confirmation from CSOs; interviews with MoF, Public Works, Education, Health, Public Service
	31.2 Hearings on Audit Findings	Interaction with members of PAC; confirmation from CSOs; interviews with government officials from MDAs
	31.3 Recommendations on Audit by the Legislature	Report of PAC for FY2008/2009; interviews with PAC members; confirmation from CSOs
	31.4 Transparency of Legislative Scrutiny of Audit Reports	Hanzard/minutes from parliament; minutes from PAC; confirmation from CSOs; interviews with MoF, Public Works, Education, Health, Public Service

Annex 4: Exit workshop (Invitation, Programme, and Attendance)

Ministry of Finance
P.O. Box 935
Maseru 100
30 November, 2016

FIN/ADMIN/37

Resident Representative
International Monetary Fund
Maseru, 100

Dear Sir/Madam,

RE: Lesotho 2016 Public Expenditure and Financial Accountability (PEFA) Assessment

The Ministry of Finance is in the process of conducting the PEFA country self-assessment, with the assistance of consultants commissioned under the European Union support. PEFA is the tool used to provide reliable information on the performance of the country's Public Financial Management (PFM) system, processes and institutions over time. Again, PEFA contributes to the government Public Finance Management reform process and increases the ability to identify challenges that occur during the reform process. The last PEFA exercise was conducted in 2012.

You are therefore invited, plus one senior officer to a workshop to be held at Avani Maseru, on Thursday 8th December, 2016. The purpose of the workshop is to share and validate the preliminary PEFA report before it is finalised and sent to PEFA Secretariat for publication.

Please, confirm your participation by Monday 5 December, 2016, to the following contacts email: (habofanoem@yahoo.com/ mmaleleka@gmail.com, or cell number: (59030095/ 58468175).

Yours Faithfully

____

Tom Mpeta
P.S. Ministry of Finance

Programme for the PEFA Workshop 8th December, 2016

Organisers: PEFA Management and Oversight Team
Presenters: PEFA assessment team, Göran Steen and Charles Hegbor
Time: 09.00 – 16.00
Venue: Avani Maseru

08.30	Arrival and registration of participants
09.00 – 09.15	Opening of the workshop, P.S. Ministry of Finance: Mr. Tom
09.15 – 09.30	Presentation of the programme, purpose and objectives, the Chair
09.30 – 10.30	Presentation of preliminary results of the PEFA assessment, PEFA team
10.30 – 11.00	Tea/ coffee
11.00 -12.30	Presentation continues
12.30 – 14.00	Lunch
14.00 – 15.30	Discussions with input from participants and the PEFA team. Session chaired by Project Coordinator Moepi Sematlane
15.30 - 16.00	Summing up, Conclusions. The way forward to finalise the assessment
16.00	Closing of the workshop by Principal Secretary Tom Mpeta

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Goran Steen	PEFA Expert (Team Leader)		

Annex 5: Summary Assessment based on Old (2011) Methodology

Table A7.1: Ratings by Indicator – Old Methodology, PEFA 2011 Framework

Performance Indicators		Scoring Method	2012					2016				
			Dimension Ratings				Overall Score	Dimension Ratings				Overall Score
			(i)	(ii)	(iii)	(iv)		(i)	(ii)	(iii)	(iv)	
A – Credibility of the Budget												
PI-1	Aggregate expenditure outturn compared to original approved budget	**M1**	B				B	D				D
PI-2	Composition of expenditure outturn compared to original	**M1**	C	A			C+	D	A			D+
PI-3	Aggregate revenue outturn compared to original approved	**M1**	B				B	B				B
PI-4	Stock and monitoring of expenditure payment arrears	**M1**	NR	C			NR	D	C			D+
B – Comprehensiveness and Transparency												
PI-5	Classification of the budget	**M1**	B				B	C				C
PI-6	Comprehensiveness of information included in budget documentation	**M1**	B				B	B				B
PI-7	Extent of unreported government	**M1**	B	D			D+	C	D			D+
PI-8	Transparency of inter-governmental fiscal relations	**M2**	B	A	D		B	C	D	D		D+
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**M1**	C	D			D+	D	D			D
PI-10	Public access to key fiscal information	**M1**	D				D	D				D
C – Policy Based Budgeting												
PI-11	Orderliness and participation in the annual budget process	**M2**	C	A	A		B+	C	A	B		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and	**M2**	C	A	C	B	B	C	A	D	C	C+
D – Predictability and Control in Budget Execution												
PI-13	Transparency of taxpayer obligations and liabilities	**M2**	D	C	C		D+	C	A	C		B
PI-14	Effectiveness of measures for taxpayer registration and tax	**M2**	B	B	C		B	C	B	C		C+
PI-15	Effectiveness in collection of tax	**M1**	D	B	D		D+	D	B	D		D+
PI-16	Predictability in the availability of funds for commitment of expenditures	**M1**	D	A	B		D+	D	B	B		D+
PI-17	Recording and management of cash balances, debt and	**M2**	A	D	B		B	B	D	B		C+
PI-18	Effectiveness of payroll controls	**M1**	D	D	D	D	D	D	D	D	D	D
PI-19	Competition, value for money and controls in procurement	**M2**	B	D	D	D	D+	B	D	D	D▲	D+
PI-20	Effectiveness of internal controls for non- salary Expenditure	**M1**	B	C	D		D+	**C**	**C**	**D**		D+
PI-21	Effectiveness of internal audit	**M1**	C	B	D		D+	C	B	D		D+
E – Accounting, Recording and Reporting												
PI-22	Timeliness and regularity of accounts reconciliation	**M2**	D	D			D	D	D			D

PI-23	Availability of information on resources received by service	**M1**		D				D		D				D
PI-24	Quality and timeliness of in-year budget reports	**M1**		A	A	D		D+		A	D	C		D+
PI-25	Quality and timeliness of annual financial statements	**M1**		D	D	D		D		B	A	D		D+
F – External Scrutiny and Audit														
PI-26	Scope, nature and follow-up of external	**M1**		C	D	C		D+		C▲	D	C		D+
PI-27	Legislative scrutiny of the annual budget	**M1**		B	A	A	C	C+		B	A	B	C	C+
PI-28	Legislative scrutiny of external audit	**M1**		D	A	C		D+		D	D	D		D

Table A7.2: Change in Performance since 2012 Assessment (based on 2011 PEFA Methodology)

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
PI-1	**Aggregate Expenditure Out-Turn Compared to Original Approved Budget**	M1	B	D	Y	Actual aggregate expenditure deviated from approved expenditure budget by 37.1% and 44.1% in 2014/2015 and 2015/2016 respectively. However, in 2013/2014 the deviation was very marginal at 0.7%	Performance has deteriorated since 2012; aggregate expenditure outturn compared to originally approved budget was more than 15% in 2014/2015 and 2015/2016
PI-2	**Composition of Expenditure Out-Turn Compared to Original Approved Budget**	M1	C+	D+	Y		Performance has slipped due to slippage in dimension (i) which relates to expenditure composition variance according to administrative classification.
(i)	Extent of the variance in expenditure composition during the last three years, **excluding** contingency items		C	D	Y	Variance in expenditure composition in all three years was above 15%. In 2013/2014, it was 31.2%. In 2014/2015 and 2015/2016, expenditure composition variances were 46.6% and 44.3% respectively.	Performance has dropped. Expenditure composition variance (excluding contingency) in all three years exceeded 15% as against 2012 where the variances were between 10% and 15%
(ii)	The average amount of expenditure actually charged to the contingency vote over the last three years		A	A	Y	Actual expenditure charged to contingency vote is 0.7% on average; this is less than 3% of originally approved budget	No change
PI-3	**Aggregate Revenue Out-Turn Compared to Original Approved Budget**	M1	B	B	Y	Actual domestic revenue was 94.6%, 104.9%, and 96.4% in FY2013/2014, FY2014/2015, and FY2015/2016 respectively	No change since 2012 assessment
PI-4	**Stock And Monitoring of Expenditure**	M1	NR	D+	Y		Performance has improved in terms of dimension (i) which relates to reporting

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	Payment Arrears						on expenditure arrears; this is done albeit very limited by the Accountant General
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock		NR	D	Y	Stock of expenditure arrears is more than 10% of total government expenditure in FY2015/2016	Performance improved due to information on stock of expenditure arrears being reported even though not comprehensive
(ii)	Availability of data for monitoring the stock of expenditure payment arrears		C	C	Y	Data on expenditure arrears has been generated at year-end 2015/2016; this was included in the FY2015/2016 consolidated annual financial statements	No change
PI-5	**Classification of the Budget**	M1	B	C	Y	Budget formulation, execution and reporting are based on administrative and economic classification using GFS 2001 standards	In real terms, performance has not changed; 2012 assessment was overrated since COFOG has not been applied since the last assessment.
PI-6	**Comprehensiveness of Information included in Budget Documentation**	M1	B	B	Y	The 2016/2017 budget meets 6 of the 9 information benchmarks	No change in performance
PI-7	**Extent of Unreported Government Operations**	M1	D+	D+	Y		No change in overall performance even though there is slippage in dimension (i) which deals with extra-budgetary expenditure excluding donor funds outside the national budget which stood at about 9.4% compared to 2012 which was below 5%
(i)	The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports		B	C	Y	Available evidence indicates that 9.4% of extra-budgetary expenditure is not reported in the budget and annual financial statements	Performance dropped; in 2012 it was estimated that extra-budgetary expenditure excluded from national budget was between 1% and 5% as against 2016 which was estimated at 9.4% or more

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(ii)	Income/expenditure information on donor-funded projects which is included in fiscal reports		D	D	Y	Information on donor funded projects and programmes that are included in the budgets and financial statements is significantly incomplete	No change
PI-8	**Transparency of Inter-Governmental Fiscal Relations**	M2	B	D+	Y		Performance has deteriorated or information provided to previous assessment being incorrect
(i)	Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)		B	C	Y	Central government fiscal transfers (for up to 40%) to district councils is governed by simple and transparent rules	Performance dropped or 2012 was overrated and/or incorrect information provided
(ii)	Timeliness of reliable information to SN governments on their allocations from central government for the coming year		A	D	Y	District councils are notified of their reliable allocations only after they have completed their annual budget estimates	Performance dropped or 2012 was overrated and/or incorrect information provided
(iii)	Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories		D	D	Y	District councils financial information is not consolidated into central government financial reports	No change
PI-9	**Oversight of Aggregate Fiscal Risk from other Public Sector Entities**	M1	D+	D	Y		The performance has deteriorated or dimension one was overrated in previous assessment
(i)	Extent of central government monitoring		C	D	Y	The monitoring of AGAs and PEs fiscal risk is very limited; most AGAs and PEs	Performance dropped or 2012 was overrated

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	of AGAs and PEs					do not submit financial reports to central government	
(ii)	Extent of central government monitoring of SN governments" fiscal position		D	D	Y	Though district councils submit annual financial reports to central government, this is significantly delayed; also no systematic monitoring of district councils takes place	No change
PI-10	**Public Access to Key Fiscal Information**	M1	D	D	Y	None of the six information requirements is made available to the public in a timely manner; that said, external audit reports are published with significant delays of more than 12 months; in-year budget execution reports are also made available to the public but with more than 4 months delay	No change in overall score even though there is marginal change in performance due to the introduction of citizens budget in FY2016/2017 budget year; however this is insufficient to warrant a change in overall score and performance
PI-11	**Orderliness and Participation in the Annual Budget Process**	M2	B+	B	Y		The performance has deteriorated .The budget has been approved before the start of the fiscal year in two of the last three completed fiscal years, but for one year with more than three months delay depending on non-functioning Parliament in waiting for elections
(i)	Existence of and adherence to a fixed budget calendar		C	C	Y	A detailed annual budget calendar exists; the calendar allows MDAs only 9 days to complete their budget submissions to MoF	No change
(ii)	Clarity/comprehensiveness of and political involvement in the guidance on the		A	A	Y	The call circular includes expenditure ceilings for each ministry's recurrent and capital expenditures as well as indicative figures for	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	preparation of budget submissions (budget circular or equivalent)					the two outer years. The guidelines for budget submissions are clear and comprehensive	
(iii)	Timely budget approval by the legislature or similarly mandated body (within the last three years)		A	B	Y	The budget has been approved before the start of the fiscal year in two of the last three completed fiscal years, but for one year with more than one month delay	Performance dropped due to late passage of national budget by parliament; note that parliament was dissolved
PI-12	**Multi-Year Perspective in Fiscal Planning, Expenditure Policy and Budgeting**	M2	B	C+	Y		The performance has deteriorated or dimensions 2-4 was overrated in previous assessment
(i)	Preparation of multi - year fiscal forecasts and functional allocations		C	C	Y	An MTEF exists; however linkages to annual budget process is meaningless	No change
(ii)	Scope and frequency of debt sustainability analysis		A	A	Y	A debt sustainability analysis for both domestic and external debt has been undertaken annually as part of IMF Article mission	No change
(iii)	Existence of sector strategies with multi-year costing of recurrent & investment expenditure		C	D	Y	Sector strategies exist but none has complete costing of both investment and forward linked recurrent expenditure	Performance dropped or 2012 was overrated
(iv)	Linkages between investment budgets and forward expenditure estimates		B	C	Y	The linkages between sector strategies and most investment projects are weak; a limited number of these investment projects have recurrent cost estimates included in MTEF	Performance dropped or 2012 was overrated
PI-13	**Transparency of Taxpayer Obligations and Liabilities**	M2	D+	B	Y		There has been significant improvement in both scores and performance. Dimension (i) improved from D to C due

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
							to more clarity in tax laws; dimension (ii) improved due to easy accessibility of taxpayer information coupled with taxpayer education provided by LRA
(i)	Clarity and comprehensiveness of tax liabilities		D	C	Y	The Customs, VAT and Income Tax laws are clear and comprehensive; that said, there are discretionary powers reposed on the Commissioner General of taxes to grant some tax reliefs	Performance improved due to more clarity in tax laws
(ii)	Taxpayer access to information on tax liabilities and administrative procedures		C	A	Y	LRA has provided easy taxpayer access to tax laws and their obligations to tax liabilities; tax laws, regulations and guidelines can easily be downloaded on LRA website. Copies can also be obtained at no cost to taxpayer; there are also tax leaflets in all LRA client service points. Taxpayer education is also comprehensive; this is done in both English and the local language	Performance improved due easy access to taxpayer information plus improved taxpayer education
(iii)	Existence and functioning of a tax appeals mechanism		C	C	Y	A functional administrative tax appeals mechanism is in place but lacks transparency	No change
PI-14	**Effectiveness of Measures for Taxpayer Registration and Tax Assessment**	M2	B	C+	Y		In real terms, there is no change in performance; dimension (i) was overrated in 2012 since there is no linkage between LRA taxpayer database and other government and/or financial sector regulations database. Dimension (i) in 2012 should have been C instead of B

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(i)	Controls in the taxpayer registration system		B	C	Y	Taxpayers are registered on LRA database and issued with TIN. The LRA taxpayer database in not linked to any financial sector registration or licensing system; nonetheless, LRA conducts frequent checks as part of taxpayer database update	No change; this dimension was overrated in 2012 as there was and still no direct linkage between LRA database and any financial service database
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations		B	B	Y	All tax laws have clauses on penalties that are very deterrent; however, implementation is weak and in most cases have political considerations	No change
(iii)	Planning and monitoring of tax audit and fraud investigation programs		C	C	Y	LRA prepares annual tax audit and fraud investigation plans; although the plans are partially executed annually, selection of cases for audit and fraud investigation is not based on a systematic risk-based criteria	No change
PI-15	**Effectiveness in Collection of Tax Payments**	M1	D+	D+	Y		No change since 2012 assessment
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years)		D	D	Y	Tax arrears collection ratio is 20.8% of total tax arrears for FY2015/2016. Also, total tax arrears represent 10.3% of total revenue collected for the same period (FY2015/2016)	No change
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration		B	B	Y	Tax revenues collected by LRA are transferred weekly to MoF State Revenue Account	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury		D	D	Y	There is no complete reconciliation of tax assessed, collections, transfers and arrears; the only reconciliation that occurs is between collections and transfers	No change
PI-16	**Predictability in the Availability of Funds for Commitment of Expenditures**	M1	D+	D+	Y		There is no change in overall performance; that notwithstanding, dimension (i) in 2012 was overrated since MoF issues quarterly expenditure commitment warrants and not bi-annually as suggested in 2012
(i)	Extent to which cash flows are forecast and monitored		D	D	Y	Section 13 of the Treasury Regulations 2014 mandates all budget entities to prepare and submit annual cash flow plans to MoF for consolidation and monitoring; in practice however, this is not done.	No change
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment		A	B	Y	MoF issues quarterly expenditure commitment warrants to budget entities; actual cash releases are monthly.	No change; 2012 was overrated as expenditure commitment warrants are issued quarterly - this has not changed
(iii)	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs		B	B	Y	In-year budget reallocations are significant but done in a transparent manner. Once in each of the last three completed fiscal years, parliament passed ex-ante supplementary appropriations six months after the beginning of the fiscal year.	No change
PI-17	**Recording and Management of Cash Balances, Debt and**	M2	B	C+	Y		In real terms, there is no change in performance; 2012 was overrated since

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	Guarantees						PPPs were not considered in the assessment. Dimension (i) in 2012 should have been B instead of A; this would have resulted in an overall score of C+ in 2012
(i)	Quality of debt data recording and reporting		A	B	Y	Both domestic and foreign debts including guarantees are recorded and reconciled at least quarterly with information obtained from creditor statements. CS-DRMS generates monthly reports with statistical analyses. However, PPPs are neither recorded nor reported. Again, internal reconciliation challenges arising as a result of manual debt data entry onto IFMIS have not been resolved	No change; PPPs were not considered in 2012 assessment
(ii)	Extent of consolidation of the government's cash balances		D	D	Y	There is no TSA. Even though treasury managed bank balances are consolidated monthly, there are over 254 other government bank accounts (donor-financed projects and own revenue bank accounts) maintained and operated by line ministries that are not part of the monthly consolidation system	No change
(iii)	Systems for contracting loans and issuance of guarantees		B	B	Y	The Minister of Finance is the sole responsible government official approving all central government loans and guarantees; these borrowings are made against approved legislative limits and IMF thresholds	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
PI-18	**Effectiveness of Payroll Controls**	M1	D	**D**	Y		No change since 2012 assessment
(i)	Degree of integration and reconciliation between personnel records and payroll data		D	D	Y	There is no direct linkage between establishment data, personnel data and payroll data; this seriously undermines the integrity of payroll data	No change
(ii)	Timeliness of changes to personnel records and the payroll		D	D	Y	More than three months delays are encountered for payroll changes, requiring significant retroactive adjustments	No change
(iii)	Internal controls of changes to personnel records and the payroll		D	D	Y	There are no controls to validate and ensure the integrity of the payroll data.	No change
(iv)	Existence of payroll audits to identify control weaknesses and/or ghost workers		D	D	Y	There were no payroll audits, inspections or surveys conducted during the past three years.	No change
PI-19	**Transparency, Competition and Complaints Mechanisms in Procurement**	M2	D+	**D+**	Y		Marginal improvement in terms of establishment of procurement tribunal, but not enough to warrant a change in overall score. The procurement tribunal is not functional
(i)	Transparency, comprehensiveness and competition in the legal and regulatory		B	B	Y	The procurement legal framework meets the first four of the key requirements	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	framework						
(ii)	Use of competitive procurement methods		D	D	Y	There is no reliable data on the use of competitive procurement method	No change
(iii)	Public access to complete, reliable and timely procurement information		D	D	Y	Whiles there is a system to make available reliable procurement information to the public, the government does not systematically make available key procurement information to the public. Only bidding opportunities are made public	No change
(iv)	Existence of an independent administrative procurement complaints system		D	D▲	Y	There is no functional procurement complaints review body; it has just been established.	Marginal improvement but insufficient to warrant a change in score and performance
PI-20	**Effectiveness of Internal Controls for Non-Salary Expenditure**	M1	D+	**D+**	Y		No change in overall score and performance since 2012 assessment
(i)	Effectiveness of expenditure commitment controls		B	C	Y	There were no payroll audits, inspections or surveys conducted during the past three years.	No change; 2012 was overrated. Expenditure commitment outside IFMIS was not taken into account
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/		C	C	Y	PFM law and treasury regulations contain simple and basic financial management rules which are comprehended by accounting staff;	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	procedures					however some of these rules are too excessive and bureaucratic leading to some deficiencies	
(iii)	Degree of compliance with rules for processing and recording transactions		D	D	Y	Comprehensive and clear rules exist but compliance is a major concern	No change
PI-21	**Effectiveness of Internal Audit**	M1	D+	D+	Y		No change since 2012 assessment
(i)	Coverage and quality of the internal audit function		C	C	Y	Most central government entities have functional internal audit units. 80% of internal audit staff time is devoted to pre-audit and the remaining to some systems audit. IIA standards are not met	No change
(ii)	Frequency and distribution of reports		B	B	Y	At least quarterly internal audit reports are issued with copies to management of audited entity, the Auditor-General and Ministry of Finance	No change
(iii)	Extent of management response to internal audit findings		D	D	Y	Even though internal audit recommendations are issued, the executive rarely provides responses; very limited action is taken	No change
PI-22	**Timeliness and Regularity of Accounts Reconciliation**	M2	D	**D**	Y		No change since 2012 assessment
(i)	Regularity of bank reconciliations		D	**D**	Y	There is significant backlog of bank reconciliations; 98% of these bank accounts are more than 12 months in arrears in terms of reconciliation	No change

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances		D	**D**	Y	Reconciliations of suspense and advance accounts are very infrequent; these are not done annually	No change
PI-23	**Availability of Information on Resources Received by Service Delivery Units**	M1	D	**D**	Y	No PETS conducted within the last three completed fiscal years. Even though IFMIS is capable of tracking information on resources received by service delivery units, this is not done	No change since 2012 assessment
PI-24	**Quality and Timeliness of In-Year Budget Reports**	M1	D+	**D+**	Y		No change in overall score and performance since 2012 assessment; that said, it appears 2012 was overrated as assessors relied solely on the ability of IFMIS to generate financial reports in real-time and ignoring the actual preparation and publishing of in-year quarterly reports. At present, it takes more than 4 months to compile and release quarterly in-year budget reports
(i)	Scope of reports in terms of coverage and compatibility with budget estimates		A	**A**	Y	Financial reports are prepared with information on expenditure at both commitment and payment stages; these reports allow easy and direct budget estimates comparison with actual outturns.	No change
(ii)	Timeliness of the issue of reports		A	**D**	Y	In-year budget execution reports are prepared and issued with delays of at least 4 months after the preceding month	No real change; it appears 2012 was overrated - delays in preparing and issuing in-year budget reports are more than 4 months and this has remained unchanged since 2012

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(iii)	Quality of information		D	**C**	Y	Even though there is some data accuracy concerns, this does not fundamentally compromise the usefulness of financial information	Performance improved due to improvement in data entry onto IFMIS
PI-25	**Quality and Timeliness of Annual Financial Statements**	M1	D	**D+**	Y		Performance improved due to timely submission (dimension (ii)) of consolidated annual financial statements to OAG for external audit
(i)	Completeness of the financial statements		D	**B**	Y	Consolidated annual financial statements is prepared each year; the statements contain information on revenue, expenditure, financial assets and liabilities but with some exceptions such as revenue arrears	Performance improved; annual financial statements contains most financial information including revenue, expenditure, financial assets and liabilities
(ii)	Timeliness of submission of the financial statements		D	**A**	Y	Consolidated annual financial statements for FY2015/2016 has been prepared and submitted to the Office of the Auditor-General within 5 months after year-end	Performance improved; annual financial statements submitted within 5 months to Office of Auditor General for external audit
(iii)	Accounting standards used		D	**D**	Y	Accounting standards have not been consistently applied over the last three completed fiscal years; for the first time in 2015/2016, IPSAS accounting standards were applied and disclosed	No change
PI-26	**Scope, Nature and Follow-Up of External Audit**	M1	D+	**D+**	Y		No change since 2012 assessment
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)		C	**C▲**	Y	Audit coverage is 60% of total government revenue and expenditure; audit involves financial and performance	Marginal improvement but insufficient to warrant a change in score and performance; Auditor-General

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
						audit which meet some level of international standards. A new audit law has been enacted to enhance Auditor-General independence but this is yet to be fully implemented	independence enhanced through enactment of new Audit Act but yet to be fully operational; also audit standards has improved marginally
(ii)	Timeliness of submission of audit reports to legislature		D	**D**	Y	There are significant delays in submitting audit reports to parliament; the audit report for 2014/2015 has not been submitted to parliament at the time of drafting this report - this is more than 12 months time lag	No change
(iii)	Evidence of follow up on audit recommendations		C	**C**	Y	The executive provides delayed formal response to all audit findings; however, there is little evidence of follow-up and executive action	No change
PI-27	**Legislative Scrutiny of the Annual Budget Law**	M1	C+	**C+**	Y		No change in overall performance and score since 2012 assessment
(i)	Scope of the legislature's scrutiny		B	**B**	Y	The Parliament's review covers fiscal policies and aggregates for the coming year as well as details of expenditure and revenue	No change
(ii)	Extent to which the legislature's procedures are well-established and respected		A	**A**	Y	The legislative procedures for scrutinising the annual budget are well established and adhered to; these procedures include portfolio (sector) committee and financial committee sittings with specialised negotiations for specialised budget entities such as that of Office of the Auditor General	No change
(iii)	Adequacy of time for the		A	**B**	Y	Parliament has only one month to review	Performance has dropped; legislature

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
	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)					the annual budget estimates for all stages combined of the budget review process	has one month to review annual budget. Political situation was a contributing factor
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature		C	**C**	Y	Clear rules exist but they allow for extensive administrative reallocations and expansion of the budget is accepted with ex post approval	No change
PI-28	**Legislative Scrutiny of External Audit Reports**	M1	D+	**D**	Y		Performance has deteriorated; parliament has not scrutinised OAG reports related to the last three completed fiscal years 2013/2014, 2014/2015, and 2015/2016
(i)	Timeliness of examination of audit reports by the legislature (for reports received within the last three years)		D	**D**	Y	In the last three completed fiscal years 2013/2014 to 2015/2016, the legislature did not scrutinise any audit reports relating to these periods; parliament PAC is still reviewing 2013/2014 audit report	Performance has dropped; parliament did not review any audit reports relating to the three years (FY2013/2014, FY2014/2015, and FY2015/2016) under assessment
(ii)	Extent of hearings on key findings undertaken by the legislature		A	**D**	Y	Though in-depth hearings are conducted, parliament has not completed reviewing any audit reports in the last three completed fiscal years	Performance has dropped; parliament did not review any audit reports relating to the three years (FY2013/2014, FY2014/2015, and FY2015/2016) under assessment

No.	PFM Performance Indicator	Scoring Method	2012	2016	Comparable (Y/N)	Justification for 2016 score	Performance Change
(iii)	Issuance of recommended actions by the legislature and implementation by the executive		C	**D**	Y	The last PAC recommendations issued was for FY2008/2009; none have been issued during the last three completed fiscal years	Performance has dropped; parliament did not review any audit reports relating to the three years (FY2013/2014, FY2014/2015, and FY2015/2016) under assessment. No recommendations have been issued
D-1	**Predictability of Direct Budget Support**	M1	D+	NA	N	Not assessed	Not assessed, indicator discontinued
D-2	**Financial info Provided by Donors on Project/ Programme Aid**	M1	NR	NA	N	Not assessed	Not assessed. indicator discontinued
D-3	**Proportion of Aid that is Managed by use of National Procedures**	M1	D	NA	N	Not assessed	Not assessed, indicator discontinued

Table A7.2A: Analysis of Revenue Outturn - PI-3 (M Million)
- Old (2011) methodology

Data for year =	2013/2014					
Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
		Tax revenues				
Taxes on income, profit and capital gains	1,233.80	1,116.90	1,166.7	-49.8	49.8	4.3%
Taxes on payroll and workforce	1,914.00	1,563.30	1,809.8	-246.5	246.5	13.6%
Taxes on property	191.20	127.70	180.8	-53.1	53.1	29.4%
Taxes on goods and services	2,160.90	1,886.60	2,043.3	-156.7	156.7	7.7%
Taxes on exports	293.00	451.10	277.1	174.0	174.0	62.8%
Other taxes	7.20	2.00	6.8	-4.8	4.8	70.6%
		Social contributions				
Social security contributions	-	-	0.0	0.0	0.0	#DIV/0!
Other social contributions	-	-	0.0	0.0	0.0	#DIV/0!
		Grants				
Grants from foreign governments			0.0	0.0	0.0	#DIV/0!
Grants from international organizations	-	-	0.0	0.0	0.0	#DIV/0!
Grants from other government units	-	-	0.0	0.0	0.0	#DIV/0!
		Other revenue				
Property income	194.30	164.20	183.7	-19.5	19.5	10.6%
Sales of goods and services	839.60	855.60	793.9	61.7	61.7	7.8%
Fines, penalties and forfeits			0.3	1.3	1.3	464.0%

	0.30	1.60				
Transfers not elsewhere classified	41.80	3.40	39.5	-36.1	36.1	91.4%
SACU	6,054.60	6,054.60	5,725.1	329.5	329.5	5.8%
Sum of rest	-	-	0.0	0.0	0.0	#DIV/0!
Total revenue	12,930.70	12,227.00	12,227.0	0.0	1,133.1	
overall variance						94.6%

Table A7.2B: Analysis of Revenue Outturn - PI-3 (M Million) - Old (2011) methodology

Data for year = 2014/2015

Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
		Tax revenues				
Taxes on income, profit and capital gains	1,328.00	1,306.83	1,393.5	-86.7	86.7	6.2%
Taxes on payroll and workforce	2,201.30	2,201.30	2,309.9	-108.6	108.6	4.7%
Taxes on property	166.00	-	174.2	-174.2	174.2	100.0%
Taxes on goods and services	2,431.40	2,118.60	2,551.4	-432.8	432.8	17.0%
Taxes on exports	227.70	-	238.9	-238.9	238.9	100.0%
Other taxes	7.10	-	7.5	-7.5	7.5	100.0%
		Social contributions				
Social security contributions	-	-	0.0	0.0	0.0	#DIV/0!
Other social contributions	-	-	0.0	0.0	0.0	#DIV/0!
		Grants				
Grants from foreign governments			0.0	0.0	0.0	#DIV/0!

Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Grants from international organizations			0.0	0.0	0.0	#DIV/0!
Grants from other government units			0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	357.4	223.65	375.0	-151.4	151.4	40.4%
Sales of goods and services	905.3	1,022.00	950.0	72.0	72.0	7.6%
Fines, penalties and forfeits	1.4	-	1.5	-1.5	1.5	100.0%
Transfers not elsewhere classified	50.4	1,529.52	52.9	1,476.6	1,476.6	2792.0%
SACU	7,034.10	7,034.07	7,381.2	-347.1	347.1	4.7%
Sum of rest	-	-	0.0	0.0	0.0	#DIV/0!
Total revenue	14,710.10	15,435.97	15,436.0	0.0	3,097.3	
overall variance						104.9%

Table A7.2C: Analysis of Revenue Outturn - PI-3 (M Million) - Old (2011) methodology

Data for year = 2015/2016

Economic head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	1,548.00	1,947.31	1,493.0	454.3	454.3	30.4%
Taxes on payroll and workforce	1,767.30	1,767.30	1,704.5	62.8	62.8	3.7%
Taxes on property	162.20	-	156.4	-156.4	156.4	100.0%
Taxes on goods and services	2,758.20	2,187.42	2,660.2	-472.8	472.8	17.8%
Taxes on exports	276.10	250.10	266.3	-16.2	16.2	6.1%

Other taxes	5.40	1.15	5.2	-4.1	4.1	77.9%
Social contributions						
Social security contributions	-	-	0.0	0.0	0.0	#DIV/0!
Other social contributions	-	-	0.0	0.0	0.0	#DIV/0!
Grants						
Grants from foreign governments			0.0	0.0	0.0	#DIV/0!
Grants from international organizations	-	-	0.0	0.0	0.0	#DIV/0!
Grants from other government units	-	-	0.0	0.0	0.0	#DIV/0!
Other revenue						
Property income	489.20	427.61	471.8	-44.2	44.2	9.4%
Sales of goods and services	941.20	860.17	907.8	-47.6	47.6	5.2%
Fines, penalties and forfeits	1.70	5.85	1.6	4.2	4.2	256.6%
Transfers not elsewhere classified	18.10	9.62	17.5	-7.8	7.8	44.9%
SACU	6,398.20	6,398.62	6,170.9	227.8	227.8	3.7%
Sum of rest	-	-	0.0	0.0	0.0	#DIV/0!
Total revenue	14,365.60	13,855.15	13,855.1	0.0	1,498.2	
overall variance						96.4%

Table A7.2D - Results Matrix (2011 methodology)

Year	Total revenue deviation
2013/2014	94.6%
2014/2015	104.9%
2015/2016	96.4%

Table A7.2E: Analysis for PI-1 (Old Methodology) Fiscal Year 2013/2014

Data for year = 2013/14						
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Agriculture and Food Security	333,156,928.00	158,276,180.00	336,132,805.6	-177,856,625.6	177,856,625.6	52.9%
Health	1,494,843,787.00	1,522,145,819.00	1,508,196,269.8	13,949,549.2	13,949,549.2	0.9%
Education and Training	1,853,139,499.00	1,926,546,587.00	1,869,692,408.0	56,854,179.0	56,854,179.0	3.0%
Finance	379,975,044.00	284,963,441.00	383,369,117.9	-98,405,676.9	98,405,676.9	25.7%
Trade and Industry	143,033,047.00	77,435,263.00	144,310,669.7	-66,875,406.7	66,875,406.7	46.3%
Development Planning	808,553,812.00	744,858,367.00	815,776,105.7	-70,917,738.7	70,917,738.7	8.7%
Justice, Human Rights and Correctional Services	158,173,385.00	171,786,446.00	159,586,246.6	12,200,199.4	12,200,199.4	7.6%
Home Affairs	243,447,425.00	155,636,069.00	245,621,985.0	-89,985,916.0	89,985,916.0	36.6%
Prime Minister	96,976,953.00	110,665,096.00	97,843,186.0	12,821,910.0	12,821,910.0	13.1%
Communication, Science and Technology	142,252,956.00	163,434,494.00	143,523,610.6	19,910,883.4	19,910,883.4	13.9%
Law and Constitutional Affairs	48,698,204.00	53,155,934.00	49,133,193.9	4,022,740.1	4,022,740.1	8.2%
Foreign Affairs and International Relations	290,670,948.00	280,116,307.00	293,267,325.5	-13,151,018.5	13,151,018.5	4.5%
Public Works and Transport	781,383,427.00	147,464,517.00	788,363,025.0	-640,898,508.0	640,898,508.0	81.3%
Forestry and Land Reclamation	152,959,118.00	51,578,249.00	154,325,403.9	-102,747,154.9	102,747,154.9	66.6%
Energy, Meteorology and Water Affairs	448,999,041.00	147,998,606.00	453,009,662.0	-305,011,056.0	305,011,056.0	67.3%
Labour and Employment	53,439,989.00	54,259,650.00	53,917,334.2	342,315.8	342,315.8	0.6%
Tourism, Environment and Culture	94,692,256.00	75,139,974.00	95,538,081.3	-20,398,107.3	20,398,107.3	21.4%
Auditor General Office	23,288,149.00	26,891,032.00	23,496,167.1	3,394,864.9	3,394,864.9	14.4%
His Majesty's Office	61,929,624.00	23,463,257.00	62,482,801.7	-39,019,544.7	39,019,544.7	62.4%
Public Services Commission	6,601,545.00	6,893,649.00	6,660,512.4	233,136.6	233,136.6	3.5%
21 (= sum of rest)	2,721,512,144.00	4,247,358,645.00	2,745,821,670.0	1,501,536,975.0	1,501,536,975.0	54.7%
allocated expenditure	10,337,727,281.00	10,430,067,582.00	10,430,067,582.0	0.0	3,250,533,506.6	
Contingency	100,000,000.00	83,159,000.00				
total expenditure	10,437,727,281.00	10,513,226,582.00				
overall (PI-1) variance						0.7%
composition (PI-2) variance						31.2%
contingency share of budget						0.8%

Table A7.2F: Analysis for PI-1 (Old Methodology) Fiscal Year 2014/2015

Data for year = 2014/15

administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Agriculture and Food Security	288,875,898.00	250,703,500.00	397,639,207.6	-146,935,707.6	146,935,707.6	37%
Health	1,607,433,207.00	1,526,076,500.00	2,212,640,345.1	-686,563,845.1	686,563,845.1	31%
Education and Training	1,835,058,256.00	1,900,373,500.00	2,525,967,433.7	-625,593,933.7	625,593,933.7	25%
Finance	445,931,656.00	690,332,000.00	613,827,292.4	76,504,707.6	76,504,707.6	12%
Trade and Industry	50,289,163.00	93,887,500.00	69,223,299.9	24,664,200.1	24,664,200.1	36%
Development Planning	810,479,252.00	746,491,500.00	1,115,628,994.1	-369,137,494.1	369,137,494.1	33%
Justice, Human Rights and Correctional Services	208,371,685.00	182,963,000.00	286,824,730.9	-103,861,730.9	103,861,730.9	36%
Home Affairs	221,004,218.00	195,565,000.00	304,213,479.6	-108,648,479.6	108,648,479.6	36%
Prime Minister	107,440,651.00	106,809,000.00	147,892,626.6	-41,083,626.6	41,083,626.6	28%
Communication, Science and Technology	356,599,597.00	280,263,000.00	490,861,238.8	-210,598,238.8	210,598,238.8	43%
Law and Constitutional Affairs	61,335,665.00	61,905,000.00	84,428,868.6	-22,523,868.6	22,523,868.6	27%
Foreign Affairs and International Relations	329,995,431.00	302,303,000.00	454,240,463.1	-151,937,463.1	151,937,463.1	33%
Public Works and Transport	461,291,326.00	1,108,785,500.00	634,969,959.7	473,815,540.3	473,815,540.3	75%
Forestry and Land Reclamation	212,824,922.00	207,365,000.00	292,954,635.3	-85,589,635.3	85,589,635.3	29%
Energy, Meteorology and Water Affairs	556,695,587.00	453,842,500.00	766,294,431.6	-312,451,931.6	312,451,931.6	41%
Labour and Employment	59,437,773.00	53,524,000.00	81,816,410.2	-28,292,410.2	28,292,410.2	35%
Tourism, Environment and Culture	132,536,145.00	77,216,500.00	182,436,707.4	-105,220,207.4	105,220,207.4	58%
Auditor General Office	27,378,859.00	26,101,000.00	37,687,144.8	-11,586,144.8	11,586,144.8	31%
His Majesty's Office	30,741,246.00	8,148,000.00	42,315,488.4	-34,167,488.4	34,167,488.4	81%
Public Services Commission	7,417,330.00	6,965,000.00	10,209,994.1	-3,244,994.1	3,244,994.1	32%
21 (= sum of rest)	**1,688,665,828.00**	**4,796,910,231.00**	2,324,457,479.2	2,472,452,751.8	2,472,452,751.8	106%
allocated expenditure	9,499,803,695.00	13,076,530,231.00	13,076,530,231.0	0.0	6,094,874,399.4	
contingency	100,000,000.00	88,315,769.00				
total expenditure	9,599,803,695.00	13,164,846,000.00				
overall (PI-1) variance						37.1%
composition (PI-2) variance						46.6%
contingency share of budget						0.9%

Table A7.2G: Analysis for PI-1 (Old Methodology) Fiscal Year 2015/2016

Data for year =	2015/16					
administrative or functional head	**budget**	**actual**	adjusted budget	deviation	absolute deviation	percent
Agriculture and Food Security	247,192,774.00	211,039,200.00	357,363,053.1	-146,323,853.1	146,323,853.1	40.9%
Health	1,628,285,199.00	1,641,539,200.00	2,353,988,592.2	-712,449,392.2	712,449,392.2	30.3%
Education and Training	2,122,565,154.00	2,081,117,200.00	3,068,562,044.2	-987,444,844.2	987,444,844.2	32.2%
Finance	352,090,898.00	622,766,000.00	509,012,768.7	113,753,231.3	113,753,231.3	22.3%
Trade and Industry	41,256,814.00	14,673,200.00	59,644,385.1	-44,971,185.1	44,971,185.1	75.4%
Development Planning	857,447,425.00	790,312,200.00	1,239,599,462.1	-449,287,262.1	449,287,262.1	36.2%
Justice, Human Rights and Correctional Services	240,705,819.00	261,645,000.00	347,984,955.2	-86,339,955.2	86,339,955.2	24.8%
Home Affairs	271,723,517.00	285,544,000.00	392,826,797.0	-107,282,797.0	107,282,797.0	27.3%
Prime Minister	118,267,867.00	260,194,000.00	170,978,161.5	89,215,838.5	89,215,838.5	52.2%
Communication, Science and Technology	303,157,604.00	364,422,200.00	438,270,606.3	-73,848,406.3	73,848,406.3	16.8%
Law and Constitutional Affairs	75,520,880.00	77,928,000.00	109,179,454.6	-31,251,454.6	31,251,454.6	28.6%
Foreign Affairs and International Relations	354,565,421.00	326,936,000.00	512,590,151.1	-185,654,151.1	185,654,151.1	36.2%
Public Works and Transport	544,785,479.00	844,970,200.00	787,588,564.7	57,381,635.3	57,381,635.3	7.3%
Forestry and Land Reclamation	204,495,702.00	203,342,000.00	295,636,507.6	-92,294,507.6	92,294,507.6	31.2%
Energy, Meteorology and Water Affairs	99,882,613.00	101,529,200.00	144,398,863.1	-42,869,663.1	42,869,663.1	29.7%
Labour and Employment	50,248,246.00	49,089,000.00	72,643,169.6	-23,554,169.6	23554169.6	32.4%
Tourism, Environment and Culture	140,180,345.00	68,537,200.00	202,656,717.1	-134,119,517.1	134119517.1	66.2%
Auditor General Office	26,144,858.00	26,977,000.00	37,797,246.8	-10,820,246.8	10820246.77	28.6%
His Majesty's Office	77,954,834.00	7,885,000.00	112,698,187.1	-104,813,187.1	104813187.1	93.0%
Public Services Commission	7,570,537.00	6,901,000.00	10,944,616.9	-4,043,616.9	4,043,616.9	36.9%
21 (= sum of rest)	2,338,199,886.00	6,357,319,592.00	3,380,302,087.9	2,977,017,504.1	2,977,017,504.1	88.1%
allocated expenditure	10,102,241,872.00	14,604,666,392.0	14,604,666,392.0	0.0	6,474,736,418.4	
contingency	100,000,000.00	96,291,408.00				
total expenditure	10,202,241,872.00	14,700,957,800.00				
overall (PI-1) variance						44.1%
composition (PI-2) variance						44.3%
contingency share of budget						0.9%

Table A7.2H - Results Matrix (Old Methodology)

year	for PI-1 total exp. deviation	for PI-2 (i) composition variance by function
2013/14	0.7%	31.2%
2014/15	37.1%	46.6%
2015/16	44.1%	44.3%

Annex 6: PEFA Check Accreditation

PEFA assessment report of the Kingdom of Lesotho

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA Secretariat and hence receives the ‘**PEFA CHECK’**.

PEFA Secretariat
April 5, 2017