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Public Expenditure and Financial Accountability (PEFA)

Lesotho

Final Report

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Public Expenditure and Financial Accountability (PEFA)

Presented by

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TABLE OF CONTENTS

Abbreviations and Acronyms

AGA	Autonomous Government Agencies
BCC	Budget Call Circular
BFP	Budget Framework Paper
CAO	Chief Accounting Officer
CBL	Central Bank of Lesotho
CMA	Common Monetary Area
COFOG	(UN) Classification of the Functions of Government
CS-DRMS	Commonwealth Secretariat Debt recording and Monitoring System
DDP	Department of Development Planning
DEP	Department of Economic Policy
DEU	Delegation of the European Union
DHMT	District Health Management Team
DSA	Debt Sustainability Analysis
EC	European Commission
EU	European Union
FC	Financial Controller
FRA	Fiduciary Risk Assessment
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GoL	Government of Lesotho
HDI	Human Development Index
IA	Internal Audit
IFAC	International Federation of Accountants
IFI	International Financial Institution
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)
MCC	Millennium Challenge Corporation
MDA	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MET	Ministry of Education and Training
MFDP	Ministry of Finance and Development Planning
MHSW	Ministry of Health and Social Welfare
MLG	Ministry of Local Government and Chieftainship Affairs
MNR	Ministry of Energy and Natural Resources
MAFS	Ministry of Agriculture and Food Security
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
NR	Not rated (the indicator is not rated due to lack of evidence/data)

OAG	Office of the Auditor General
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PETS	Public Expenditure Tracking Survey
PFMA	Public Financial Management and Accountability
PI	Performance Indicator
PIU	Project Implementation Unit
PHC	Primary Health Care
PPAD	Procurement Policy and Advice Division
PRS	Poverty Reduction Strategy
PS	Principal Secretary
PSDFA	Private Sector Development and Financial Affairs Department, MFDP
PSIRP	Public Sector Improvement and Reform Programme
PSC	Public Service Commission
SACU	Southern Africa Customs Union
SAI	Supreme Audit Institution
TA	Technical Assistance
TIN	Taxpayer Identification Number
TSD	Teacher Service Department
UNDP	United Nations Development Programme
WASA	Water and Sewerage Authority

Fiscal Year in Lesotho: 1st April to 31st March

Currency unit = Loti (plural Maloti)

Exchange rate US$1 = M8.39 (24 August 2012)

EXECUTIVE SUMMARY

Context of this assessment

1. Lesotho is a small and mountainous country entirely surrounded by its more developed neighbour South Africa. Its population is about 2 million, with national income per head about US$1,000 a year, of which about 20 per cent comes from remittances from Lesotho citizens working in South Africa. Real GDP has been growing at about 3.5 per cent a year despite the current global recession. Growth over the last decade, apart from rising public consumption and investment, has depended on manufactured goods (mainly textiles) exported outside the Southern African Customs Union (SACU), on water royalty receipts from South Africa, and more recently on the development of diamond mining. The incidence of poverty and unemployment is high (43 per cent of the population were living on less than US$1.25 a day in 2005), with much of the population still engaged in subsistence agriculture. Public expenditure, current and capital, accounts for about 50 per cent of GDP, with between a third and a half of government revenues coming from Lesotho's share of aggregate SACU receipts. Lesotho is very adversely affected by HIV/AIDS, with 40 per cent of the population between the ages of 15 and 49 HIV-positive; as a result average life expectancy fell from 59 years in 1990 to 44 in 2005. According to the UNDP Human Development Report 2012 it has recovered to 48 years.

2. The country has been receiving substantial assistance in recent years from development partners, principally the World Bank, the European Union (EU), the US Millennium Challenge Corporation (MCC), the Global Fund for AIDS, TB and Malaria, and Irish Aid. Other UN organisations and international medical charities also have significant programmes. Exact statistics are lacking, but total external assistance in the form of grants or soft loans probably accounts for 15-20 per cent of GDP in 2012-13. A partial Public Expenditure and Financial Accountability (PEFA) assessment of public financial management (PFM) was undertaken in 2006 alongside a World Bank Public Expenditure Review, and a fuller PEFA assessment was conducted in 2009 by consultants sponsored by UK DFID and Irish Aid. This assessment, which uses the latest (2011) version of the PEFA methodology originally issued in 2005 by the World Bank and other development partners, has been prepared by consultants commissioned by the EU as part of its programme of project aid. Full details of the methodology and results are set out in the main report which follows this Summary.

Integrated Assessment of PFM Performance

1 Credibility of the Budget

3. Budget credibility is still inadequate overall and has not improved materially since the last assessment. It is satisfactory as measured by the overall variance in expenditure (PI-1), but not in terms of the capacity of individual Ministries to stick to the approved budget, as measured by PI-2. The variance arises mainly because of large variances on

capital expenditure lines. The overall composition variance was relatively high, exceeding 10% in all three years 2009/10 to 2011/12. Domestic revenue collections, excluding revenue from the Southern African Customs Union, (SACU) exceeded budget in all three years. Very serious doubts remain about the accuracy and reliability of the data used for the assessment: there were large differences between the aggregate expenditure and revenue figures given for the same period in different reports.

4. The Treasury has no reliable information about the stock of arrears, as the Integrated Financial Management Information System (IFMIS) accounts/aged payables module shows negative figures for overdue payments. Moreover, some Ministries, Departments and Agencies (MDAs) have been circumventing the internal control system and engaging suppliers to provide goods and services without purchase orders registered in IFMIS. However there are no indications that this is happening now on a large scale: a recent audit conducted by the Internal Audit Department of the Ministry of Finance and Development Planning found arrears equivalent to only about one per cent of total annual budget expenditure, about half of which were registered in the system, with the remainder resulting from orders irregularly placed outside it.

2 Comprehensiveness and Transparency

5. The revised Chart of Accounts introduced with the new IFMIS at the beginning of 2009-10 should eventually make possible consistent comparisons between budgets and out-turn broken down by function, sub-function, administrative unit and economic category. However, there have been delays in the production of IFMIS reports. Documentation submitted to Parliament with the Budget is consistent and comprehensive, and now includes material on the debt stock, although there is still no information on financial assets. Fiscal information presented with the Budget is now more readily available to the public. There may be relatively small amounts of expenditure by government units, particularly in the areas of health and education, which are financed through charges not passing through the Treasury. There remain significant gaps in the budget coverage of projects financed outside the Treasury by development partners.

6. Allocations for local government capital expenditure have been made in accordance with a transparent formula, but local government expenditure is not reported by functional categories. Little progress has been made since 2009 in instituting effective overall monitoring of public enterprises (PEs) and their fiscal risk: financial reporting by PEs is often late and unreliable. Provisions in the new PFMA Act, if implemented, would improve the situation. No financial targets have been set for PEs, and there is no central machinery to review the economic case for proposed investments and assess whether the returns will be sufficient to service and repay any borrowing required. Local government is too small to pose any significant fiscal risk to the central government.

3 Policy-based budgeting

7. Lesotho's budget process remains orderly and well understood, and some progress has been made in embedding the medium-term dimension into fiscal planning.

Although the Budget Call Circular (BCC) is comprehensive and reflects ceilings approved by Cabinet, and the budget is approved consistently before year-end, Ministries, Departments and Agencies (MDAs) have too little time for their budget submissions. Most Ministries are now preparing Budget Framework Papers (BFPs) which project their current and capital expenditure over a period of three years, and take into account the on-going costs of newly-commissioned investments. However, uncertainties about future revenues from the Southern Africa Customs Union (SACU) add greatly to the difficulty of medium-term planning and may explain the large divergences between the following year's expenditure as presented in a BFP produced in the late summer and the actual amounts included in the budget for that year presented in the following January. The execution of investment projects appears to diverge significantly from plans shown in each year's budget. Medium term fiscal planning may need to accommodate different scenarios: a more rigorous prioritisation of different investment projects according to their economic returns could help to adapt to different situations. Although the global recession has resulted in an increase in Lesotho's public external debt, debt sustainability should not be a problem as long as prudent fiscal management is maintained in accordance with the undertakings given to the IMF in the context of the current Extended Credit Facility (ECF) programme.

4. Predictability and Control in Budget Execution

8. The Lesotho Revenue Authority (LRA) has collected more revenue than budgeted in each of the years considered for this assessment (the three years 2009-12). LRA carries out extensive education activity to assist taxpayers to comply with the requirements of self-assessment for corporate and personal income taxes and VAT. Each taxpayer has a unique Taxpayer Identification Number (TIN) used for all taxes and also corporate business licences. Tax clearance is required for the renewal of business and commercial vehicle licences, and LRA is seeking the agreement of commercial banks not to open business bank accounts without tax clearance being presented. Heavy penalties can be imposed for under-declaration and late payment of tax. On the other hand practitioners say that the level of sophistication among both taxpayers and tax collectors is low, and that tax assessments imposed following inspections in many cases are based on a misunderstanding of the facts. These result in a significant volume of complaints and administrative appeals which are settled in a non-transparent way. LRA is said to have changed its approach on a number of issues without notice or explanation to taxpayers. A Tax Appeals Tribunal has been constituted, but has yet to hear any cases: a small number of cases have reached the High Court, where judgments have always been given in favour of LRA. The integrated revenue management system foreseen in the 2009 assessment has not yet been installed. The level of tax arrears is significant (about 8 per cent of annual collections) and the amount has been increasing.

9. Although there is no systematic forecasting and monitoring of cash flows, spending authorities have had reasonable assurance that cash will be available to meet any commitments within available budgetary provision. The quarterly releases of funds have thus not operated as a constraint on the undertaking of commitments. Payroll controls are weak, and the situation has been made worse by the decentralisation of responsibility for controls and reconciliations to the line Ministries. The Procurement Regulations (currently under review) are generally consistent with good international practice, but responsibility for procurement rests with each Ministry, and there is no

systematic collection of information which would demonstrate their compliance. The IFMIS includes a commitment control which prevents payment without a purchase order having been introduced into the system. A reasonable set of internal financial controls (the 1973 Finance Regulations, shortly to be replaced by the new draft Treasury Regulations) is in place, but audit reports suggest that they are widely disregarded. Internal audit is improving its coverage and range of work, but needs substantial further development to match best international practice.

5. Accounting, Recording, and Reporting

10. This was an area of particular concern in the 2009 assessment, and remains so, despite (or because of) the introduction of IFMIS. There have been serious difficulties with the performance of both the software and hardware elements of the new system, and the Government of Lesotho (GoL) has found it very difficult to train and retain the people needed in both MFDP and spending Departments to operate the new system successfully. There is widespread failure to undertake bank reconciliations and to clear suspense accounts and advances. Although IFMIS should make possible the flexible and timely generation of accurate in-year budget execution reports, problems remain in the operation of the system and its interfaces with other databases which cast doubt on the accuracy of the information produced. The most recent published annual financial statements (for 2007-08) were again heavily criticised by the Auditor General, and there is no reason to expect any improvement for 2008-09 for which the audit report has been awaiting tabling in Parliament by the Minister of Finance since March 2012. There is a three year backlog in the production of consolidated financial statements and no statements have been submitted for audit within 15 months of the end of the financial year for many years. No comprehensive information is collected on the resources received (in cash or kind) by service delivery units in any major sector. One good area is that public debt is efficiently managed and records are up-to-date, reliable and reconciled.

6. External Scrutiny and Audit

11. The Office of the Auditor General (OAG) undertakes financial, compliance and performance audits and aims to comply with international standards. But its resources are limited, and it is still treated as a government department, reporting to Parliament through the Ministry of Finance. The new audit law to strengthen the independence of OAG which was foreshadowed in the 2009 assessment has still not been put before Parliament. The delay in the preparation of the government's financial statements, and thus in the presentation to Parliament of the annual audit reports, deprives audit work of much of its force: findings and recommendations are outdated by the time they are published. OAG's practice of not publishing any results from current inspection activity until they can be mentioned in an annual audit report on the year in question enables MDAs to ignore their work in the knowledge that there is little risk of public pressure to take remedial action. OAG has begun to undertake performance audits, but the main focus seems still to be on compliance failures rather than on assessing the impact on the efficiency and effectiveness of public services. Parliamentary scrutiny of the annual budget may be seen as adequate, given the limitations of the Westminster model which enables the executive to maintain tight control over the details of budget proposals.

Some progress was made during the 2007-12 Parliament in strengthening the work of the Public Accounts Committee (PAC), which with the assistance of OAG was becoming more effective in questioning Chief Accounting Officers (CAOs, i.e. Principal Secretaries of Ministries) about findings in OAG reports. But there is no evidence of PAC reports having much impact on government practices.

7. Donor Practices

12. The World Bank, EU and the African Development Bank (AfDB) are currently providing budgetary support to Lesotho, although there have been delays in the payments, and EU assistance has been cut back because of GoL failure to fully meet the conditions for full disbursement. Most donors provide information for inclusion in annual budgets, but reporting on disbursements has been incomplete, and actual capital expenditure often differs markedly from the plans set out in the budget. Use of national procedures remains limited. The World Bank, AfDB and Irish Aid are using the services of OAG for the audit of projects, and government procurement procedures may be agreed on a case by case basis for particular projects. Other major donors – Millennium Challenge Corporation and EU – insist on their own procedures.

8. Impact of strengths and weaknesses on budgetary outcomes

Aggregate budget discipline

13. Lesotho has to contend with unpredictable fluctuations in its largest revenue stream, revenues from SACU. In the past the impact of these fluctuations has been reduced by Lesotho’s ability to draw on a cushion of accumulated budget surpluses. In present circumstances aggregate financial discipline is effectively being enforced by the need to comply with the conditions of the IMF Extended Credit Facility (ECF) which is underpinning the country’s external position. Unreliable fiscal reporting, inadequate internal financial controls and weak cash management identified in this assessment all pose risks to the maintenance of financial discipline, and may result in enforced adjustments with an adverse impact on resource allocation and service delivery. Further strengthening of medium-term fiscal planning and investment prioritisation could help to moderate the adverse impact of enforced fiscal adjustments.

Allocation of resources

14. A sufficient strategic overview of the allocation of resources is currently lacking in Lesotho. Progress has been made in medium-term fiscal planning, but it is largely based on incremental changes from the present situation. Budgeting remains focused on inputs and on the immediate fiscal year. The structure of the civil service – the government is by far the largest employer in the country – does not seem to have adapted sufficiently to the impact of information technology on administrative processes, with administrative controls (e.g. the arrangements for vehicle licensing) set up to preserve present patterns of employment rather than assist in the development of the economy and the provision of a good service to the citizen. Some over-arching decisions about resource allocation may need revisiting: for example is the much higher priority accorded to tertiary rather than secondary education described in the recent

World Bank Public Expenditure Review fully justified? Given that the government absorbs half of GDP, and that the proportions of GDP devoted to public expenditure on health and education are unusually high, should not more be expected in terms of services delivered? Inadequate transparency in reporting on and auditing the use of public resources helps to perpetuate unsatisfactory practices.

Efficient service delivery

15. A number of the PFM weaknesses identified in this assessment have a clear adverse impact on service delivery. Inadequate planning of services, insufficiently competitive procurement, inadequate provision of information about the resourcing of schools and health facilities, weak staff discipline, and the absence of any effective public questioning of the efficiency with which the government discharges its functions can all stand in the way of efficient service delivery. Recent fiscal adjustments achieved by cutting back on current expenditure on goods and services while protecting expenditure on wages and salaries are likely to have had an adverse impact on service delivery, as are delays in the execution of particular investment projects, including those financed externally. On the other hand efficient service delivery is assisted by good predictability of recurrent funding for spending ministries once it has been approved.

Progress since 2009

16. This assessment identifies a number of places where significant improvements in PFM have been made since 2009. The passing of the Public Financial Management and Accountability Act 2011 was an important step forward, but it has yet to be adequately implemented. The installation of the new Integrated Financial Management Information System (IFMIS) should eventually make it possible to overcome the problems of accurate budget execution, accounting and reporting. But the way IFMIS was introduced, without piloting or adequate consultation with users, and without sufficient trained staff in MFDP and elsewhere in the government to operate and maintain the system satisfactorily, has given rise to many problems, and required financial controls and reconciliations of bank accounts and payrolls, for which responsibility was decentralised to MDAs when IFMIS was introduced, are not being adequately carried out. The promised new legislation on Customs and Audit has not been put before Parliament. Arrangements prepared in discussion with development partners to ensure that full information is collected at both budget and out-turn stages about externally funded projects implemented outside the Treasury have not been put into effect. Consolidated procurement information is not being collected, no arrangements are being put in place to ensure that the reporting requirements imposed on MDAs by the PFMA Act 2011 are complied with, and so on. There seems to be a lack of leadership from MFDP to ensure that effect is actually given to intentions.

17. Overall, progress since 2009 is rather disappointing. Table 2 shows the ratings in the 2009 and 2012 assessments for each Indicator and the extent to which they are comparable. Comparisons between one PEFA assessment and the next always have to contend with subjective elements resulting from different consultants being used, and there may also be differences in the availability of data (this assessment had particular difficulty in obtaining information from the Lesotho Revenue Authority (LRA) about aspects of the operation of the tax system). In terms of the ratings there have been clear improvements in PIs 12 (development of medium-term fiscal planning), 17 (better

monitoring and control over public debt) and 20 (introduction of control over commitments). Some of the Indicators (2, 3, 19) have been re-specified, so that no exact comparison with 2009 ratings is possible. In others there have been some apparent improvements in the ratings which are more a reflection of fuller evidence being available in 2012 than in 2009 (8, 9(ii), 16(ii)) than of underlying PFM improvements; conversely in respect of some of the Indicators where there are apparent deteriorations in performance (11(i), 13, 14, 18(ii)) it seems unlikely that underlying performance will have deteriorated. Only in the case of PI-10 is there a clear indication that performance is worse, as a result of the Minister of Finance delaying the publication of audit reports.

Prospects for further PFM reforms

18. Since 2005 there have been on-going efforts supported by development partners to improve different aspects of PFM reform in Lesotho. Development partners have agreed a Performance Assessment Framework 2011-13 to measure progress in growth and macro-economic performance, improvements in public financial management and governance, and enhancements of human development and social protection, with the meeting of targets justifying the continued provision of budget support. Progress is reviewed quarterly. In addition there is a PFM Improvement Reform Steering Committee whose task it will be to determine the priorities for future PFM reform activities in the light of the findings of this assessment. An initial matrix was prepared to analyse what improvements could be made over the three years to 2014-15 which would justify higher ratings in a future PEFA assessment. In terms of actual achievements, PFM progress since 2009 is disappointing: it will be important that future plans command the wholehearted support of the government at every level, and that intensified efforts are made to achieve the intended benefits of initiatives which in many cases have already begun.

Table 1: Scores for the PFM Performance Indicators and Dimensions in 2012

PFM Performance Indicators		Overall Rating	Scoring Method	Dimensions			
				i	ii	iii	iv
A. PFM OUT-TURNS: I. Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	**B**	M1	B			
PI-2	Composition of expenditure out-turn compared to original approved budget	**C+**	M1	C	A		
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**	M1	B			
PI-4	Stock and monitoring of expenditure payment arrears	**NR**	M1	NR	C		
B. KEY CROSS-CUTTING ISSUES: II. Comprehensiveness and Transparency							
PI-5	Classification of the budget	**B**	M1	B			

PI-6	Comprehensiveness of information included in budget documentation	**B**	M1	B			
PI-7	Extent of unreported government operations	**D+**	M1	B	D		
PI-8	Transparency of inter-governmental fiscal relations	**B**	M2	B	A	D	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**D+**	M1	C	D		
PI-10	Public access to key fiscal information	**D**	M1	D			
C. BUDGET CYCLE							
III. POLICY-BASED BUDGETING							
PI-11	Orderliness and participation in the annual budget process	**B+**	M2	C	A	A	
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	M2	C↑	A	C↑	B
IV. PREDICTABILITY AND CONTROL							
PI-13	Transparency of taxpayer obligations and liabilities	**D+**	M2	D	C	C	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**	M2	B	B	C	
PI-15	Effectiveness in collection of tax payments	**D+**	M1	D	B	D	
PI-16	Predictability in the availability of funds for commitment of expenditures	**D+**	M1	D	A	B	
PI-17	Recording and management of cash balances, debt and guarantees	**B**	M2	A	D	B	
PI-18	Effectiveness of payroll controls	**D**	M1	D	D	D	D
PI-19	Competition, value for money and controls in procurement	**D+**	M2	B	D	D	D
PI-20	Effectiveness of internal controls for non-salary expenditure	**D+**	M1	B	C	D	
PI-21	Effectiveness of internal audit	**D+**	M1	C	B	D	
V. ACCOUNTING, RECORDING, AND REPORTING							
PI-22	Timeliness and regularity of accounts reconciliation	**D**	M2	D	D		
PI-23	Availability of information on resources	**D**	M1	D			

	received by service delivery units						
PI-24	Quality and timeliness of in-year budget reports	**D+**	M1	A	A	D	
PI-25	Quality and timeliness of annual financial statements	**D**	M1	D	D	D	
	VI. EXTERNAL SCRUTINY AND AUDIT						
PI-26	Scope, nature and follow-up of external audit	**D+**	M1	C	D	C	
PI-27	Legislative scrutiny of the annual budget law	**C+**	M1	B	A	A	C
PI-28	Legislative scrutiny of external audit reports	**D+**	M1	D	A	C	
	D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	**D+**	M1	C	D		
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**NR**	M1	NR	NR		
D-3	Proportion of aid that is managed by use of national procedures	**D**	M1	D			

Table 2: Performance Indicators Scores for the PFM System in 2009 and 2012

	A. PFM OUT-TURNS: I. Credibility of the budget	2009	2012	Comparable Scores	Improvement since 2009
PI-1	Aggregate expenditure out-turn compared to original approved budget	A	B	Yes	No, but no underlying deterioration The deviation in the first of the 3 years is greater than any in the period 2006-08, but the average deviation is lower in 2009-12 and the trend has been improving.
PI-2	Composition of expenditure out-turn compared to original approved budget	C	C+	No	Indicator changed
PI-3	Aggregate revenue out-turn compared to original approved budget	A	B	No	Indicator changed, but underlying performance unchanged
PI-4	Stock and monitoring of expenditure payment arrears	NR	NR	Yes	Yes
	B. KEY CROSS-CUTTING ISSUES: **II. Comprehensiveness and Transparency**				
PI-5	Classification of the budget	B	B	Yes	Possibly, but does not affect rating
PI-6	Comprehensiveness of information included in budget documentation	B	B	Yes	No
PI-7	Extent of unreported government operations	NR	D+	No	Better evidence that reporting of externally funded projects is unsatisfactory, but probably no underlying deterioration
PI-8	Transparency of Inter-Governmental Fiscal Relations	NR	B	No	Inadequate evidence in 2009

PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	D+	Yes	No
PI-10	Public Access to key fiscal information	C	D	Yes	No. Significant deterioration
	C. BUDGET CYCLE				
III. Policy-Based Budgeting					
PI-11	Orderliness and participation in the annual budget process	A	B+	Dimensions (ii) and (iii) are comparable. Dimension (i) is not.	No
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	B	Yes	Yes
IV. Predictability & Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	B	D+	No	Differences in the availability of evidence
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B	No	Differences in the availability of evidence
PI-15	Effectiveness in collection of tax payments	NR	D+	No	Previously insufficient evidence on (i)
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	D+	Yes	M1 method bases overall score on lowest dimension. But improvement in dimension 2 on ability to commit expenditures
PI-17	Recording and management of cash balances, debt and guarantees	C	B	Yes	Yes, improvement in (i) recording of public debt (but 2009 rating appears to have been too low) and in (iii).
PI-18	Effectiveness of payroll controls	D+	D	No	Differences in the availability of evidence
PI-19	Competition, value for money and controls in	D	D+	No	Indicator changed

	procurement				
PI-20	Effectiveness of internal controls for non-salary expenditures	D	D+	Yes	Improvement in dimension (i), commitment controls
PI-21	Effectiveness of internal audit	D	D+	Yes	Improvements in (i) and (ii)
V. Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	D	D	Yes	No
PI-23	Availability of information on resources received by service delivery units	D	D	Yes	No
PI-24	Quality and timeliness of in-year budget reports	D+	D+	Yes	Yes, on (i) and (ii)
PI-25	Quality and timeliness of annual financial statements	D ↑	D	Yes	No
VI. External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	D+	D+	Yes	No
PI-27	Legislative scrutiny of the annual budget law	C+	C+	No	Differences in evidence or its interpretation, so higher ratings on (i), (ii) and (iii)
PI-28	Legislative scrutiny of external audit reports	D+	D+	Yes	Some improvement on (ii)
	D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	NR	D+	No	General budget support only just started in 2009
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	NR	No	In 2012, the indicator could not be rated due to insufficient evidence
D-3	Proportion of aid that is managed by use of national procedures	D	D	Yes	No improvement

1. Introduction

1.1 Objective

1. The overall objective of this report is to provide all stakeholders with an updated assessment of Public Financial Management (PFM) in Lesotho, using the most recent version of the Public Expenditure and Financial Accountability (PEFA) methodology developed by the World Bank and other development partners issued in 2011. A previous assessment using largely the same methodology was carried out in 2009, with the support of the UK DFID and Irish Aid. This assessment was commissioned by the European Union (EU) Delegation to Lesotho as part of its on-going project assistance to the Government of Lesotho (GoL). Each successive assessment is intended to provide a baseline measurement of PFM performance against which the direction and extent of future progress can be measured. The assessment was carried out by a team of three international consultants appointed by the EU – John Wiggins (team leader), Elena Morachiello (deputy team leader) and David Shand (senior expert) – with assistance from Laura Leonard, a member of the staff of the Irish Department of Foreign Affairs and Trade with experience of Irish assistance to Lesotho.

1.2 Process of preparing the PFM-PR

2. In addition to securing the production of a PEFA report which would up-date earlier findings, it has been the objective of GoL to lay the groundwork for the development of an in-house capacity in carrying out comparable analyses, so that it would be able in future to make a realistic self-assessment of the extent of progress. A "Counterpart Team" was accordingly nominated to prepare material for the "Core Team" of international consultants appointed by the EU. The Core Team provided the Counterparts with a detailed schedule of the evidence they considered necessary to rate each Indicator. In addition to this a workshop organized by the government was held – well in advance of the beginning of the Core Team missions – to brief members of the Counterpart Team on how the assessment should be conducted. The Lesotho Revenue Authority (LRA) provided some written evidence in accordance with the schedule transmitted by the Core Team, but took little further part in the work. Other members of the Counterpart Team assisted the Core Team in assembling the required evidence once the mission began on 2 July 2012. Each member of the Core Team spent at least 20 working days on the spot in Lesotho during the period 2 July to 17 August.

3. Following initial discussions with the Principal Secretary, the Accountant-General and the Budget Controller at the Ministry of Finance, and with senior members of the staff of the Office of the Auditor-General, a workshop was held on 5 July to present the approach to the assessment which the Core team would follow. This was attended by most members of the Counterpart Team, together with officials from the Ministries from which information would be sought. The list of those attending is at Annex 6. Thereafter the Core Team had discussions with representatives of the Ministry of Finance and Development Planning (MFDP) responsible for budget, Treasury, Internal Audit, debt management, procurement and external finance. Meetings were also held with officials of the Ministries of Education and Training, Health and Social Welfare, Public Works and Transport, Energy and Natural Resources, Local Government,

Communications, Agriculture, and Public Services. As well as meetings with officials from Ministries discussions were held with representatives of some public enterprises and state organisations operating outside the budget: Lesotho Electric Company, Lesotho National Development Corporation, Lesotho Highlands Development Authority, Road Fund and Petroleum Fund. The perspective of the Office of the Auditor-General was sought on all the different aspects of PFM covered. Some information about the operation of the tax system was obtained from independent tax advisers and individual taxpayers. Among development partners there were meetings with World Bank, EU Delegation and the US Millennium Challenge Corporation. Information was sought from the main donors in order to be able to assess the "Donor" Indicators. The Core Team are greatly indebted to Mr Habofanoe Makopela, Chief Economist in MFDP Planning Unit and convenor of the Counterpart Team, who co-ordinated the arrangements for all their meetings, with the assistance of Mr Tsolo Maoeng.

4. Towards the end of the Core Team's mission on the ground a further workshop was held on 10 August at which their provisional conclusions on the rating of each Performance Indicator were presented and explained in the course of a lively discussion. A full list of participants in this workshop and other people met by members of the Core Team is at Annex 7. In preparing this draft report Core Team members have sought so far as possible to agree all facts and judgments with the officials most closely concerned. But final responsibility for the contents of the report rests with the Core Team. An almost complete text of Section 3 (ratings of the different Performance Indicators) was given to Mr Makopela on 17 August before the departure of the team leader at the end of his mission. Thereafter a complete draft text was formally communicated by ACE to the Lesotho Government (GoL) and the European Union Delegation (EUD) on 27 August. Following the completion of this initial draft, the Lesotho Government was invited to put forward any comments and corrections they wished to propose; a small number of comments were received, and amendments were made to the text as appropriate.

5. The draft report was also submitted for comments to the PEFA Secretariat (to check the correct application of the methodology) and to the principal development partners. Comments were received from EUD, the African Development Bank, the IMF and Mr Geoff West, Technical Adviser to GoL, and account was taken of these in further revisions to the text. Annexes 10, 11 and 12 set out the comments of the PEFA Secretariat, the African Development Bank and Mr Geoff West, Technical Advisor to the GoL, and the responses of the authors of this report. Finally the draft as amended was submitted to the Quality Assurance reviewers, Ms Elizabeth Sumar and Mr Giovanni Caprio appointed by EUD in accordance with the Terms of Reference for the assessment. Annex 13 sets out their comments and the authors' responses.

Scope of the assessment

6. This assessment covers central government revenue and expenditure. However, intergovernmental relations and the government's oversight of fiscal risks arising from public enterprises and local government units are covered by Performance Indicators 8 and 9. There are at present 21 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 governments were only established in 2005, and the bulk of their recurrent expenditure continues to be paid directly by central government (health and education services are still fully the responsibility of central government). Local government accounts for only about 3 per cent of total general government expenditure. Public utilities (primarily concerned with water and electricity) form an important part of the economy, and the government also has shareholdings in a number of commercial enterprises. More detailed information about public enterprises and the Government's shareholdings in enterprises of different kinds is provided in the discussion of PI-9 in Chapter 3 below. Most central government expenditure is subject to annual appropriations by the Parliament, but some expenditure is "statutory", i.e. it is paid directly out of the government's Consolidated Fund without requiring to be appropriated afresh every year. Debt interest and the salaries of holders of certain statutory offices are examples of statutory expenditure.

2 Country background Information

2.1 Description of country economic situation

Country context

7. The Kingdom of Lesotho is a small, mountainous and landlocked country surrounded by its much larger and more developed neighbour South Africa. It has limited natural resources and a narrow production and export base; export revenue comes mainly from textiles exported outside the South African Customs Union (SACU), royalties on water delivered to South Africa, and recently the rapid expansion of diamond mining. Some half of the roughly 2 million population are still engaged in subsistence agriculture despite deteriorating productivity in this sector resulting from drought and soil erosion. The Budget Background paper for 2012-13 puts the share of agriculture in GDP at 6.3 per cent, as against 11.4 per cent before the turn of the millennium. Meanwhile the share of diamond mining has increased from 0.5 per cent of GDP in 2000 to 7 per cent in 2010-11, and is projected to rise to 20 per cent by 2016-17 (see IMF Staff Report for the 2012 Article IV Consultation, (Country Report 12/101), Box 1). Most food and almost all consumption goods have to be imported through South Africa, with imports amounting to more than 90 per cent of GDP.

8. Lesotho is a member of SACU from which it derives up to half of its government revenues, and its currency (the Loti, plural Maloti) is pegged at par with the South African Rand. Inflation in Lesotho is primarily determined by global commodity prices and developments in South Africa. Its economy has continued to grow despite the global recession; real growth in 2010-11 was 5.7 per cent, for 2011-12 is estimated at 4.2 per cent despite the damaging floods in early 2011, and for 2012-13 at 5.2 per cent. But real incomes have been stagnating as GDP growth is offset by falling remittances from Basotho working in South Africa; Box 5 of the IMF Staff Report shows that income per head has been almost static since the early 1980s at around US$1000, with the proportion coming from remittances falling from more than 60 per cent in 1982 to about 20 per cent in 2010. Poverty remains high, with 43 per cent of the population living on less than US$1.25 a day in 2005 (IMF report op.cit. Table 9). Lesotho is adversely affected by the high incidence of HIV/AIDS, with 40 per cent of the population between 15 and 49 infected.

9. Lesotho is currently subject to an IMF Extended Credit Facility (ECF) programme, which it entered into in order to respond to the fiscal crisis resulting from the collapse of SACU revenues from Maloti (M) 4918 million (m) in 2009-10 to M2628m in 2010-11. As a consequence of this, recurrent and domestically-financed capital expenditure were cut back, with part of the burden of deficit financing being absorbed by running down the external reserves held by the Central Bank. In 2012-13 recurrent expenditure is subject to continuing restraint, with the intention of using funds accruing from a recovery in SACU receipts to rebuild fiscal and external reserves.

Overall government reform programme

10. The Government of Lesotho's (GoL) overall government reform programme is guided by its "Vision 2020" which would see Lesotho firmly established by then as a

mature democracy and a prosperous middle income country. A National Strategic Development Plan was adopted in March 2012 to set out how the aspirations in Vision 2020 might be realised. The Plan emphasises the need to maintain the current fiscal consolidation, to improve the communications, water and electricity infrastructure, to reduce administrative obstacles to private sector growth, to improve manpower training and to address the health and social problems created by the HIV/AIDS epidemic. Improvements in PFM are an essential element in the process, in order to keep pressures for higher expenditure under control and to achieve better value from the very high level of public expenditure as a proportion of GDP.

11. Two major steps have been taken since 2009 to provide a basis for improving PFM: the introduction in 2009 of the new Integrated Financial Management Information System (IFMIS) to serve as the basis for more effective monitoring and control over government revenue and expenditure, and the enactment of the 2011 Public Financial Management and Accountability Act (PFMA Act) to clarify responsibilities and to provide the foundation for better financial control and reporting, and also for better and more pro-active monitoring and control over public enterprises. Much remains to be done, however, before these initiatives come to full fruition: IFMIS was introduced without any piloting in parallel with the maintenance of the former system, and has encountered numerous difficulties in the performance of both the hard- and software elements in the system, and in the training and retention of staff throughout the government needed to operate the system successfully, not all of which had been completely resolved by mid-2012. The decentralisation to each Ministry/Office of responsibilities for payroll controls and accounts reconciliations has greatly complicated payroll administration and the maintenance throughout the government of consistent databases, since MFDP no longer has the data needed to check that controls and reconciliations are being performed as required. Practical steps are still awaited to give effect to the requirements of the PFMA Act for the timely production of financial statements (including financial statements built by each Ministry) and for much-improved monitoring and supervision of State-owned enterprises.

2.2 Description of budgetary outcomes

Fiscal performance

12. The main objective of Lesotho’s fiscal strategy is to ensure that the country maintains a sustainable fiscal stance, so as to contain the risks resulting from its vulnerability to external shocks and to fluctuations in revenue accruing from SACU. In the years up to 2007-08 Lesotho had overall budget surpluses, and thus built up reserves while reducing debt as a proportion of GDP from 86 per cent of GDP in 2002 to 45 per cent in 2007. The IMF report puts this ratio at 38 per cent for 2009-10, 35 per cent for 2010-11 and just under 40 per cent for 2011-12. Projections see the ratio increasing to 45 per cent in 2013-14 before it begins to fall back again. Table 3 below summarises Lesotho’s fiscal performance for the period 2008-09, when the overall fiscal balance moved into deficit, to 2011-12.

Table 3: Fiscal Performance 2008-09 to 2011-12
(Figures are percentages of GDP)

	2008-09	**2009-10**	**2010-11**	**2011-12**
	Est.	**Actual**	**Rev. Proj.**	**Proj.**
Tax revenue (inc. SACU)	… …	54.5	37.6	36.8
Non-tax revenue	…….	5.2	7.6	6.3
Grants	4.7	3.0	7.4	8.5
Total revenue and Grants	64.4	62.8	52.5	51.6
Total expenditure	67.3	66.7	57.5	62.1
Net fiscal balance	-2.9	-3.9	-5.0	-10.5

Source: IMF Country Report 11/88, Table 1 and Country Report 12/101 Table on page 6.

Allocation of resources

13. Tables 4 and 5 show respectively the economic breakdown of expenditure and the allocation to the largest Ministries (current and capital together) for each of the three years 2009-12. They show that expenditure on pay and related elements was broadly stable over the period, taking up about a third of the total, with transfers and other grants remaining stable at around 25 per cent of the total. But current expenditure on goods and services has been squeezed during the period of fiscal consolidation, falling from over 25 per cent of the total to less than 18 per cent. Meanwhile capital expenditure, although falling short of earlier plans (particularly for externally financed projects), increased from 16 per cent to 23 per cent of the total, offsetting the fall in the share of goods and services.

14. As to the allocation of expenditure to different Ministries, the figures show Education and Training taking a relatively stable amount in money terms, and increasing as a proportion of the total in 2010-11 when other programmes were cut back. Health shows a similar picture. Public Works and Transport took a rising share of the total, particularly in 2011-12 when there was an urgent need to repair infrastructure damage caused by the floods in early 2011. The recent (August 2012) World Bank Public Expenditure Review provides an analysis of spending in different areas, focusing in particular on the high levels of expenditure on education and health. It questions the priority currently given to expenditure on tertiary education, where a relatively small proportion of the age group absorbs more than a third of total expenditure, while enrolment in secondary education is lower than in neighbouring countries. It notes that serious problems remain concerning access to healthcare, with maternal and infant mortality deteriorating, and 40 per cent of those infected with AIDS not receiving treatment.

Table 4: Summary Economic Breakdown of Expenditure

Economic Category	2009-10 (Mm)	% of total	2010-11 (Mm)	% of total	2011-12 (Mm)	% of total
Wages and salaries	3144	31.7	3199	34.1	3601	32.0
Goods and services	2549	25.7	1918	20.4	1994	17.7
Transfers, etc	2482	25.0	2246	29.9	2898	25.7
Interest	118	1.2	96	1.0	151	1.3
Capital expenditure	1616	16.3	1923	20.5	2618	23.2
Total	9909	100.0	9382	100.0	11263	100.0

Source: IMF Article IV Report 2012, Table 2. Data include externally financed project expenditure.

Table 5: Current and Capital Expenditure by Largest Ministries

Ministry	2009-10 (Mm)	2010-11 (Mm)	2011-12 (Mm)
Education and Training	1625	1731	1747
Finance and Development Planning	1318	986	1122
Pensions, etc	1010	839	787
Health and Social Welfare	943	989	1144
Local Government	627	573	829
Home Affairs	437	372	415
Public Works and Transport	428	585	1062
Defence	416	356	361
Foreign Affairs	316	127	288
Justice	229	191	224
Natural Resources	224	266	399
Forestry and Land Reclamation	190	122	147
Agriculture and Food Security	187	143	173
Total excluding externally financed projects and interest	9028	8195	9827

Source: MFDP Budget Dept.

2.3 Description of the legal and institutional framework for PFM

The legal framework for PFM

The current legal framework for PFM is summarised below.

	Legal Framework for PFM in Lesotho
Financial Management	Articles 110-116 of the Constitution of Lesotho 1993 provide the authority for the management of public funds. The Public Financial Management and Accountability Act 2011 provides for the control

	and management of public funds, including accounting and reporting. Detailed implementing provisions are set out in the Financial Regulations 1973; these are due to be replaced by the new draft Treasury Regulations which are already de facto in force.
Banking	Under the Central Bank of Lesotho Act 2000 the Central Bank is the government's banker.
Revenue Administration	Income tax is levied in accordance with the Income Tax Act 1993 as subsequently amended. It applies to persons and companies, and also covers capital gains. Value Added Tax (VAT) is levied on goods and services supplied in Lesotho, replacing in July 2003 the previous General Sales Tax. The Customs and Excise Act 1982 covers all taxes relating to imports and exports of goods, and also excise duties on alcohol and tobacco. New customs legislation is understood to have been pending for several years. Income tax and VAT are collected by the Lesotho Revenue Authority (LRA) which was set up as an independent office in 2003. The Ministry of Public Works and Transport is responsible for the collection of charges related to the use of motor vehicles.
Debt Management	Public debt is regulated by provisions of PFMA Act 2011. Limits on total debt are set by an Act of 1975 whereby debt should not exceed three times aggregate annual revenue. It is intended to replace this limit which is not currently constraining.
Procurement	Procurement is regulated by the Public Procurement Regulations 2007 issued under the Finance Order 1988. This decentralises responsibility for procurement to line Ministries, subject to some supervision by the Procurement Policy and Advice Division of MFDP. PFMA Act 2011 makes provision for a Procurement Appeals Tribunal whose establishment is awaited.
Audit Public Accounts Committee	Article 117 of the Constitution provides for the appointment of an Auditor-General who is to be independent in the exercise of his/her functions. The Audit Act 1973 specifies the powers and duties of the Auditor-General, whose remit extends to all public enterprises and other public bodies of all kinds. A new audit bill which would strengthen the powers and independence of the Auditor-General has been pending for several years. The powers and composition of the Public Accounts Committee (PAC) of the National Assembly (NA) are regulated by the NA Standing Orders of 28 May 2008.

The institutional framework for PFM

Legislative

15. 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 constitute the majority of members of the PAC, but the Chairman by convention is from the Opposition.

Executive

16. 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 8 Ministers: at present there are 21. Following the 2012 General Election 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

17. 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

18. In addition to the current 21 Ministries there are 10 Offices 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.

19. The Ministry of Finance and Development Planning (MFDP) has recently been responsible for all aspects of fiscal policy, including medium-term fiscal planning and the planning of investment. The new government recently installed has signalled its intention to have separate Ministries of Finance and Development Planning, but the detailed responsibilities of each, and the allocation of staff, have yet to be settled. For the time being (August 2012) the Budget Department of the Ministry of Finance remains responsible for budget planning, including the preparation of Budget Framework Papers which 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 is part of the Private Sector Development and Financial Affairs Department, which 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 is an officer of MFDP, reporting to the Accountant-General.

IFMIS

20. The installation of the new Integrated Financial Management Information System (IFMIS) in April 2009 represents the most significant change in the operation of financial administration in recent years. This system which has controls over both

commitments and payments, and is intended to facilitate links between different databases, should make it possible to monitor closely and flexibly the execution of each year's budget. But there was no piloting or parallel running of the new system and the previous GOLFIS which might have made it possible to avoid the difficulties subsequently encountered when the configuration of the new system resulted in inconsistency and instability of data, and facilitated operations which should have been impossible like diverting provision for an activity in one Ministry and applying it to something altogether different in another. As well as problems in obtaining the performance – in terms of both hardware and software – specified in the procurement contractual arrangements, there have been continuing difficulties, not yet resolved (August 2012) in training and retaining sufficient staff in both MFDP and spending Ministries to operate it successfully.

3 Assessment of the PFM systems, processes and institutions

3.1 Credibility of the budget

21. In order to assess if the CG budget is sufficiently realistic and implemented as planned, this section examines four indicators: (i) deviations in aggregate expenditure, (ii) deviations in the composition of expenditure, (iii) deviations in total income and (iv) balance of outstanding expenditure payments.

22. For PI-1 and PI-2, the comparison is carried out using primary expenditure, which excludes debt service charges and externally financed project expenditure on the grounds that these are mostly beyond the control of the government. PI-3 analyzes data on domestic revenues (tax and non-tax); external grants are excluded. Because GoL has no control over receipts from the Southern Africa Customs Union (SACU), the analysis is carried out both with and without this element of revenue.

23. For the approved budget figures for PI-1 and PI-2, the source is the approved budget estimates for 2010/11 and 2011/12. For 2009/10, approved budget figures have been taken from the IFMIS system as no report for approved budget estimates (also referred to as the "Budget Book") was issued that year.[1] For all three FYs, figures for actual expenditure are from IFMIS as no annual year-end report on budget execution is issued in Lesotho in advance of the issue of audited financial statements. For all three years, data for PI-1 and PI-2 are unaudited. As in 2009 figures from audited financial statements or even unaudited financial statements could not be used given the delays in their production (see PI-25(ii) and PI-26(ii)).[2] For this reason, as in the 2009 assessment, the reliability of the data used to evaluate PI-1 and PI-2 is uncertain.

PI-1 Aggregate Expenditure Out-Turn compared to Original Approved Budget

24. This indicator assesses the difference between the actual and the originally budgeted primary expenditure at an overall level for the budgetary CG, for the last three FYs (2009/2010 to 2011/2012).

Dimension (i): The difference between actual primary expenditure and the originally budgeted primary expenditure

25. For the period under review, differences between the total budgeted primary expenditure initially approved and actual primary expenditure were: 8.3% in 2009/2010, 5.9% in 2010/2011 and 0.5% in 2011/2012. Thus actual expenditure deviated from budget by more than 5%, but less than 10% in two of the three years considered. For 2009/10 and 2010/11, actual expenditure was below the approved budget, whereas for 2011/12 it was slightly above. Table 6 shows the PI-1 results for each year and Table 6

[1] That said, the Appropriation Bill following budget approval by Parliament was issued.
[2] The latest accounts to be issued are those for 2009/2010, yet these were sent back by the OAG to the Acct. Gen: department and are in the process of being re-issued (see PI-25). Thus, Treasury figures from IFMIS reports have been used for 2009/2010 as well.

shows how the amounts of primary expenditure (in Maloti) were derived from total expenditure.

Table 6: PI-1 and PI-2 Results Matrix

	for PI-1	for PI-2 (i)	for PI-2 (ii)
Year	total exp. Deviation	composition variance	contingency share
2009/2010	8.3%	10.8%	1.1%
2010/2011	5.9%	11.9%	
2011/2012	0.5%	14.2%	

Source: Own calculations, Budget Department, MoFDP; IFMIS and Approved Budget Estimates.

Table 7: Budgeted and Actual Expenditure Levels 2009/2010 to 2011/2012
(In thousand Maloti)

	2009/2010		2010/2011		2011/2012	
	Approved Budget	Actual Exp.	Approved Budget	Actual Exp.	Approved Budget	Actual Exp.
Total Expenditure	**11,830,325.9**	**9,623,595.0**	**10,946,181.8**	**8,545,856.7**	**13,286,752.7**	**10,187,819.7**
Principal Repayments	385,074.9	388,274.0	203,922.6	157,336.4	225,247.3	156,748.3
Interest	154,830.6	175,902.4	153,884.5	62,528.9	196,044.2	53,083.1
Donor Grants Total	1,074,650.0	29,000.0	1,373,555.7	67,949.7	2,314,500.0	136,393.6
Donor Loans Total	367,000.0	2,000.0	509,148.0	63,344.4	769,622.1	15,005.1
Total Primary Expenditure	**9,848,770.4**	**9,028,418.6**	**8,705,671.0**	**8,194,697.4**	**9,781,339.2**	**9,826,589.6**
Deviation as % of original budget		**8.3**		**5.9**		**0.5**

Source: Budget Department, MoFDP; IFMIS and Approved Budget Estimates.

Performance change and other factors since 2009 PEFA assessment

26. There has been no substantial change in performance or other factors. The average deviation for the three years was 5.7% in 2009 and 5.0% in 2012, but because the deviation exceeded 5% in two of the three years in 2012 but in only one year in 2009, the rating in 2012 is B. The same concerns regarding the reliability of data also apply to both set of results.

Table 8: PI-1 results, 2009 and 2012 assessments compared

Year	Total exp. deviation (PI-1)	Year	Total exp. deviation (PI-1)
2006/2007	4.3%	2009/2010	8.3%

2007/2008	4.4%	2010/2011	5.9%
2008/2009	9.5%	2011/2012	0.5%

Source: 2009 PEFA Report and Table 7 above.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-1	**A**	**B**	Scoring method M1 (weakest link)	
(i)	A	B	Actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% but less than 10% in two of the last three years.	**No major change.** Although the score has deteriorated since the 2009 assessment, the average variance for FYs 2009/2010-2011/2012 is lower than for FYs 2005/2006-2007/2008.

PI-2 Composition of Expenditure Out-Turn compared to Original Approved Budget

Dimension (i): Extent of the variance in expenditure composition during the last three years, excluding contingency items

27. The first dimension of indicator PI-2 compares primary expenditure, budgeted and actual, at a sub-aggregate level across the 20 main administrative headings/MDAs. The detailed calculations per administrative head are included in Annex 1. The extent to which the budget is a credible statement of policy priorities is in fact determined not by the variation in overall primary expenditures (measured by PI-1), but rather by the degree to which the composition of expenditure varies from the original budget. In conformity with the revised methodology for PI-2, issued in January 2011, expenditures approved and executed under the contingency vote have been excluded from the calculations. Expenditures budgeted and executed under the contingency vote are, since January 2011, considered by PI-2 dimension (ii).

28. As can be seen from Table 7, the extent of the variance in primary expenditure composition exceeded 10% in each of the past three years. Two Ministries representing a large share of CG expenditure for which the expenditure out-turn deviated substantially from the adjusted budget are MFDP and the Ministry of Public Works and Transport (MPWT). Out-turn for MFDP was 20% higher than the adjusted budget for 2009/2010 and 2010/2011. Out-turn for MPWT was 23% lower than the adjusted budget in 2009/2010 and 79% higher in 2011/2012 (see Annex 1). The variance arises primarily in the capital expenditure area: there have been no supplementary estimates to provide net increases in recurrent expenditure, and no virements between subheads, so that the Contingency Fund has been the only available source of additional funding. But MFDP have taken the initiative to arrange reallocation of provision for capital, where some MDAs have been unable to spend the amounts allocated while new requirements have arisen in other places.

Performance change and other factors since 2009 PEFA assessment

29. A direct comparison of the 2012 score with the score of the previous assessment is not possible, because the methodology to calculate the variance in expenditure composition has changed since then. Moreover, in the 2009 assessment, GoL-funded capital expenditure could not be assigned to individual ministries. The ministerial expenditure used for the calculation of PI-2 in 2009 was only recurrent expenditure. By contrast, this assessment takes both recurrent and capital expenditures into account for the calculation of PI-2 and both could be assigned to the individual MDAs listed in Annex 1. Dimension score: C.

Dimension (ii): The average amount of expenditure actually charged to the contingency vote over the last three years

30. In Lesotho, contingency expenditure is provided for "unforeseen and unpredictable expenditure" under the PFMA Act of 2011, as well as the Constitution. [3] The size of actual expenditure charged to the contingency vote in the last three years is small, and has by consequence had little bearing on budget credibility. It has averaged 1.1% of the original budget, with a consequent low impact on budget credibility. As detailed in Annex 1, it has ranged from 0.7% to 1.6% over the past three FYs. Dimension score: A.

Performance change and other factors since 2009 PEFA assessment

31. This dimension did not exist before January 2011 and thus a comparison with the results of the previous assessment is not possible.

32. As explained in the overall introduction to the section 3.1 on budget credibility, the results for both dimensions of this indicator, as for PI-1, are to be treated as provisional given issues with data reliability and the need to derive figures from unaudited financial statements.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-2	**C**	**C+**	Scoring method M1 (weakest link)	
(i)	C	C	Variance in expenditure composition exceeded 10 % in each of the last three years, but was always below 15%.	2009 and 2012 scores are not comparable[4]. This dimension has been modified by the revision of the PEFA Framework in 2011. Moreover, the 2009 Assessment only considered recurrent expenditure, as capital expenditure by MDA

[3] The PFMA Act defines that "pursuant to section 114 of the Constitution, a Contingencies Fund is established and the amount appropriated for the Contingencies Fund shall be determined by Parliament through an annual budget process. If the Minister is satisfied that there has arisen an urgent and unforeseen need for expenditure for which no other provision exists (…) the Minister may make advances from the Contingencies Fund to meet the need".

[4] The report only highlights when the scores between the 2009 and 2012 assessment are non-comparable; if nothing in this respect us mentioned, it follows the dimension scores are comparable. Similarly, if no "other factors" are listed, it means there are none.

				could not be assigned.
(ii)	-	A	The average of actual expenditure charged to the contingency vote, at 1.1%, was on average less than 3% of the original budget for the past three years.	2009 and 2012 scores are not comparable**,** as this dimension has been introduced in 2011.

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

33. Table 9 below shows the comparison between budgets and out-turn for the three years 2009-10 to 2011-12. Information is taken from the tables provided with the Minister of Finance's Budget speeches for the four years 2009-10 (budget), 2010-11 (budget), 2011-12 (budget and 2009-10 out-turn), and 2012-13 (2010-11 out-turn). The 2011-12 out-turn figures have been provided by DEP; the detailed breakdown of the figures does not exactly match that given with the Budget speeches. As in the cases of PIs 1 and 2, the figures are taken from management accounts, and are unaudited. Lesotho's revenues depend heavily on revenue collected by South Africa under the SACU arrangements which provide for the other four countries in the Union (Botswana, Namibia, Lesotho and Swaziland) to receive the share of total customs revenue corresponding to their share in intra-SACU trade, and the share of total excise revenue which broadly reflects their share in total SACU GDP (subject to a small adjustment inversely proportional to their GDP). The distribution formula is explained in IMF Working Paper 11/266, page 4. In Lesotho's case SACU revenue never fell below a third of total revenue during the period of the assessment, and in 2009-10 accounted for almost 60 %. In the 2012-13 Budget, SACU receipts are expected to amount again to more than 50 % of total revenue.

34. Revenues from SACU are subject to substantial fluctuations in line with fluctuations in the global economy and are essentially outside Lesotho's control. The bulk of Lesotho's other revenue is collected by the Lesotho Revenue Authority (LRA) which operates as an independent statutory body financed through the allocation each year of 2.5 % of the revenue collected by the Authority in the previous financial year. LRA has generally managed to collect somewhat more than the originally budgeted amount overall; a shortfall on income taxes in 2010-11 was more than offset by higher VAT receipts, while in 2011-12 higher income tax receipts substantially outweighed a small shortfall on VAT. There is no significant taxation of property, apart from small amounts of stamp duty collected in respect of property transfers: the provision requiring small amounts of ground rent to be paid each year in respect of industrial and commercial property and secondary residences has not been enforced. Taxation of motor vehicles is relatively light, with receipts from licences and fuel duty amounting on average to about US$100 for each of the 120,000 vehicles on Lesotho's roads. Property income substantially exceeded budget in 2010-11 as a result of large receipts from the Central Bank of Lesotho, while in 2011-12 there were some large additional dividend receipts from other sources. Revenue from sales of goods and services comprises mainly water royalty payments and revenue from electricity generation from the facilities managed by the Lesotho Highlands Development Authority. The figures in Table 9 should include some M100m a year accruing to the Road Fund from part of the oil levy (i.e. the duty

on petroleum products) and from annual charges for vehicle operating permits and road tolls levied at the nine main border crossings. This revenue is spent on road maintenance carried out by the Roads Directorate of the Ministry of Public Works and Transport (MPWT), the Ministry of Local Government (MLG) and Maseru City Council.

Table 9: Comparison of revenue data (Maloti millions)

	2009/10			2010/11			2011/12		
	Budget	Out-turn	Variance	Budget	Out-turn	Variance	Budget	Out-turn	Variance
Taxes on income and profits	1458.3	1772.4		2072.9	1957.1		2212.5	2520.1	
Taxes on property	included in other lines	95.7		89.9	105.5		106.1	60.3	
Taxes on goods and services	1138.1	1289.0		1182.4	1414.3		1600.7	1575.5	
Taxes on int’l trade	94.9	90.3		96.2	18.2		30.8	151.4	
Other taxes	8.0	4.2		7.4	4.0		2.4	-	
Property income	375.9	128.6		143.5	652.1		196.3	363.8	
Sales of goods and services	436.9	502.2		580.5	530.6		670.2	738.9	
Other revenue	43.6	61.0		39.6	49.6		52.1	31.6	
Total Domestic Revenue	3555.7	3943.4	10.9%	4212.4	4731.4	12.3%	4871.1	5441.6	11.7%
SACU	5308.1	4918.0		2161.9	2627.9		2752.6	2752.6	
Total revenue	8863.8	8861.4	-0.2%	6374.3	7359.3	15.4%	7623.7	8194.2	7.5%

Source: Tables attached to Budget speeches, except for 2011-12 out-turn from Macro-Economic Unit, MFDP. (Each Budget speech provides budget figures for the year ahead and out-turns for the year before last. The 2011-12 out-turn figures will not be available in this format until the presentation of the 2013-14 Budget.)

35. Given that SACU receipts are not under the control of the Lesotho authorities it seems preferable to rate this indicator on the basis of domestic revenue only. The PEFA scoring methodology has changed since the 2009 assessment: previously an A rating was given provided out-turn fell below 97 % of budget in only one of the three years considered, and never fell below 94 % of budget. Now revenue collection in excess of budget may attract a lower score, but larger overshoots are allowed than shortfalls. Under the previous methodology Lesotho would have received an A rating in respect of the 2009-12 data, whether or not the SACU receipts were taken into consideration, since actual revenue never fell below 97 % of budget. Under the new convention the rating is B, since total actual revenue exceeded budget by more than 12 % in only one of the

three years. Again, this applies whether or not SACU receipts are taken into consideration.

Table 10: Revenue Deviations: 2005-08 and 2009-12

Year	Revenue Deviation %	Year	Revenue Deviation %
2005/06 ex-SACU	-3.6	2009/10 ex-SACU	10.9
2005/06 inc. SACU	5.6	2009/10 inc. SACU	-0.2
2006/07 ex-SACU	7.8	2010/11 ex-SACU	12.3
2006/07 inc. SACU	19.3	2010/11 inc. SACU	15.4
2007/08 ex-SACU	13.4	2011/12 ex-SACU	11.7
2007/08 inc. SACU	9.5	2011/12 inc. SACU	7.5

Source: 2009 PEFA Report and Table 9 above.

Performance change and other factors since 2009 PEFA assessment

36. There is no significant change between the periods considered for the 2009 and 2012 assessments. Both sets of figures would have justified an A rating under the former convention, and both would be rated B under the new convention. These conclusions apply whether or not SACU receipts are taken into consideration, since the deviation was always less than 6% under the former convention, and the deviation exceeded 12 % in only one year under the new.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-3	**A**	**B**	Scoring method M1 (weakest link)	
(i)	A	B	In the three FYs examined, actual revenue never fell below 97 % of budget, and exceeded budget by more than 12 % in only one of the three years.	2009 and 2012 scores are not comparable. This indicator has been modified by the revision of the PEFA Framework in 2011. That said, there is no change in performance, as both the 2009 and 2012 sets of figures would have justified the same rating under the

				new (i.e. B) or the old (i.e. A) calculation method for PI-3.

PI-4 Stock and Monitoring of Expenditure Payment Arrears

Dimension (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

37. Domestic arrears in Lesotho are defined as "expenditure obligations that have been incurred by GoL, for which payment to the suppliers, employees, contractors or loan creditors is overdue for more than 45 days".[5] The Treasury department tries to monitor arrears through the aged payables module in IFMIS. This however shows overdue payments as a negative stock with many of the figures unchanged since March 2010. The Treasury is thus unable to monitor or ascertain the level of arrears.

38. There is a further issue also recognized by the Treasury. MDAs have on occasion not entered purchase orders for some contracts, but agreed directly with suppliers for goods or services to be provided without the commitment being registered in IFMIS. As a result, there are some arrears that will still not be captured even if a solution is found to the current problem in the aged payables module that is preventing the generation of reliable data. As discussed further under dimension (ii), a recent audit of the stock of arrears found that at end 2011/2012 those registered within IFMIS were M53m or 0.52% of total expenditure (see Appendix 1, Table 5). As the audit also confirmed the existence of arrears outside IFMIS but did not provide data on this amount as at the end of 2011/2012, the 0.52% figure underestimates the actual level of arrears at that date. The internal audit report found arrears outside the system at end-November 2011, some dating back to April 2009, to amount to M55.7m or 0.55% of total expenditure outturn for 2011/2012 (see Annex 2, Table 1). In addition to these amounts, the review team was told that government payments to the Lesotho Electricity Company for electricity consumed are generally outstanding for 90 days, which would add a further M16m to the total of arrears. Nevertheless it appears that the overall stock of arrears in GoL at the end of March 2012 was not high, and lower than 2% of total expenditure. Since data for the stock of arrears at the end of the two preceding FYs are not available, it cannot be determined whether the level of arrears is falling or increasing. Dimension score: Not Rated.

Performance change and other factors since 2009 PEFA assessment

39. The two assessments are comparable. There has been some improvement in performance, in that there is now a standard definition of an expenditure payment arrear in Lesotho, unlike in 2009. Secondly in 2009 no data on the stock of arrears was available. Today, thanks to the audit recently undertaken, verified data on the stock of arrears in IFMIS at the end of March 2012 is available. That said, the stock as a percent of total expenditure cannot be precisely identified as there are some arrears pertaining to goods and services delivered without a purchase order registered in IFMIS. The amount

[5] Internal Audit Report on the "Verification of domestic arrears", April 2012, page 11.

outstanding at the end of November 2011 was put at M55.7m or 0.55% of total expenditure in 2011-12.

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

40. The aged payables module in IFMIS should provide figures on the stock of arrears classified by Ministry/administrative heading and age profile, but the data are currently not reliable and not representative of the existing stock. At the time of this assessment the Internal Audit department had recently issued the results of its verification of the stock of arrears. The report, finalized in April 2012, examined transactions during the three years 2009-12, and includes verified data on the stock of arrears in IFMIS at the 31st March 2012. The data are presented in Annex 2. They are detailed by MDA and include an age profile by FY. The audit report does not however include data on the stock of arrears at the end of the two preceding fiscal years. In any case, given the unreliability of data in the aged payables module it can be concluded that the Treasury is not able to monitor the stock of arrears on an annual basis. The internal audit department also found, inter alia by interviewing suppliers, that MDAs have on occasion circumvented internal control rules and procurement regulations, with suppliers providing goods and services to them without purchase orders, resulting in an accumulation of arrears not registered in the aged or accounts payable modules, or in IFMIS as a whole. As above mentioned, these arrears represented 0.55% of total expenditure outturn for 2011/2012. The detailed internal audit findings on the stock of arrears outside IFMIS as of November 2011 are also presented in Annex 2. Dimension score: C.

Performance change and other factors since 2009 PEFA assessment

41. The two assessments are comparable. There has been some improvement in performance. In 2009 no data on the stock of arrears was available. Since 2009, data on the stock of arrears has been generated by one comprehensive ad hoc exercise within the last two years, as internal audit has undertaken a verification of the stock of arrears during the last FY.

On-going Reforms

42. The need to improve the availability and reliability of data on the stock of arrears and to reduce the accumulation of arrears is being tackled by GoL in the context of the Extended Credit Facility (ECF) arrangement with the IMF. The IMF had insisted on an audit of arrears being undertaken as one of the benchmarks to be met under the programme by GoL. As a response to the internal audit’s findings, in June 2012 the Treasury has developed an action plan. This includes measures to address the issue of suppliers providing services to government without purchase orders or official contracts. In the action plan, the Treasury also undertakes to remind line ministries to perform end of period procedures and to regularly run related reports in IFMIS (age and accounts payable).

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-4	**NR**	**NR**	Scoring method M1 (weakest link)	
(i)	NR	NR	Although available data would suggest the stock of arrears is low and less than 2% of total expenditure, the level cannot be precisely identified. There are no data on the stock of arrears at the end of preceding FYs, so it is not known whether the level is falling or increasing.	There has been some improvement in that data on the stock of arrears in IFMIS at end FY 2011/2012 are available, and data on the arrears arising from the unpaid (after 45 days) delivery of goods and services not registered in the accounting system are available at end - November 2011. A definition of arrears has also now been established; as it had not been up to 2009.
(ii)	D	C	Data on the stock of arrears has been generated by one comprehensive ad hoc exercise within the last two years.	There has been some improvement in performance since 2009, in that the internal audit department has recently undertaken a comprehensive audit of the stock of domestic arrears, whereas no information was available in 2009.

3.2 Comprehensiveness and Transparency

PI -5 Classification of the Budget

43. Since the introduction of IFMIS in 2009, with its 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 and COFOG standards. The capital budget, some of which is actually recurrent expenditure, has been presented with breakdowns by administrative unit, sub-function and project. Out-turns with the same breakdowns are in principle provided in the detailed budget books produced each year, but there is as yet (August 2012) no 2012-13 book available which would provide actual out-turns for 2010-11 (and no book was prepared for 2009-10). The same problems concerning the unreliability of data identified in relation to PIs 1-3 apply also to any comparisons between budget and out-turn. Rating: B.

Performance change and other factors since 2009 PEFA assessment

44. No main improvement in performance. Although the new Chart of Accounts which underlies the IFMIS system should eventually make possible the more flexible production of reliable and detailed data, and therefore represents an element of progress, problems in the capture of accurate data mean that the benefits of the new system are not yet being fully achieved.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change
PI-5	**B↑**	**B**	Scoring method M1 (weakest link)	
(i)	B	B	Budgets and out-turns are presented with economic, administrative and sub-functional breakdowns consistent with GFS 2001 and COFOG for revenue and recurrent expenditure. Capital expenditure is presented with breakdowns by administrative unit, sub-function and project. But the data are unreliable, and there are delays in the production of out-turn information.	No main improvement in performance.

PI-6 Comprehensiveness of information included in budget documentation

45. This Indicator assesses whether nine items of information are made available by the Government to the Legislature in support of its annual budget proposals. Table 11 below summarises the 2012 situation and compares it with 2009.

Table 11: Availability of data in budget documentation

Elements of budget documentation	Available 2009	Available 2012	Commentary on arrangements for provision of information
1.Macro-economic assumptions, including estimates of aggregate growth, inflation and exchange rate	Yes	No	Credit was given in 2009 for provision of this information through oral briefing of relevant Parliamentary Committee. But it was not included in 2012 Budget speech or in detailed background paper, and no evidence was available from National Assembly on this point.
2. Fiscal deficit , defined according to GFS standard	Yes	Yes	Information was provided in money terms and as percentage of GDP in table at Annex 1 to 2012 Budget speech.
3. Deficit financing, describing anticipated composition	Yes	Yes	Summary information on anticipated domestic and external financing was provided in Annex 1 to Budget speech. Detailed information about composition of public debt was provided in Tables 16-19 in Background to the Budget paper.

4. Debt stock, including details at least for beginning of current financial year (i.e.2011-12 for most recent budget)	No	Yes	Detailed information about actual debt stock at 1 April 2011, together with projections up to 2014-15, is given in Tables 16-19 of Budget Background paper. This represents an apparent improvement since 2009.
5. Financial assets, including details at least for beginning of current financial year	No	No	No information is provided about the government's cash holdings, advances or financial investments. Consolidated information is not collected in respect of amounts in different government bank accounts (PI-17(ii)), there is no up-to-date reconciliation of advances (PI-22(ii)), and no information is given about the government's shareholdings in financial and non-financial enterprises.
6. Prior year's budget out-turn, presented in same format as budget proposal	Yes	No	Previous assessment apparently gave credit for information provided in detailed budget book. But no such book has been produced for the 2012-13 budget, and so no information is available about the detailed 2010-11 out-turn.
7.Current year's budget (revised budget or estimated out-turn) in same format as budget proposal	Yes	Yes	Information was provided with 2012-13 budget proposals.
8. Summarised budget data for both revenue and expenditure according to main heads of classification used, inc. data for current and previous years	Yes for expenditure, No for revenue	Yes	Summary economic breakdowns of both revenue and expenditure are given in Annex 1 to Budget speech. But summary breakdown by Ministry is given only for current and forthcoming years.
9. Explanation of budget implications of new policy initiatives, with estimates of impact of revenue policy changes and/or major changes to expenditure programmes	Yes	No	Information is provided about recurrent and capital allocations to each Ministry, but not about the revenue impact of raising the income tax threshold, or the expenditure impact of raising civil service salaries.
Performance rating	**6 of 9 elements considered satisfied, so rating B**	**5 of 9 elements satisfied, so rating is B.**	

Performance change and other factors since 2009 PEFA assessment

46. Five of 9 elements satisfied in 2012 compared to 6 in 2009. No other factors.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change
PI-6	**B**	**B**	Scoring method M1 (weakest link)	
(i)	B	B	5 of 9 elements satisfied.	In 2009, 6 rather than 5 of 9 elements were considered satisfied, so there has been a slight deterioration in performance, despite the constant score. Notwithstanding, provision of information about debt stock and composition represents an advance since 2009. But there have been delays in 2012 in producing much of the detailed information about actual out-turns.

PI-7 Extent of unreported government operations

47. This Indicator assesses the extent to which government operations take place which are not included in budget proposals or expenditure out-turn statements.

Dimension (i) Extent of unreported extra-budgetary operations (other than donor-funded expenditure)

48. About M100m a year accrues to the Road Fund from part of the proceeds of the levy on oil products, from the yield of the annual duty imposed on motor vehicles and from the road tolls collected at the nine main frontier crossing points and a further M6m to the Petroleum Fund from the proceeds of the oil levy. The Road Fund income is used to finance road maintenance operations carried out by the Roads Directorate of the Ministry of Works and Transport, the Ministry of Local Government and Maseru City Council. Although the Petroleum Fund has some wider objectives in terms of developing the energy sector of the economy, in practice its limited financial resources are mainly used to manage the price of oil products, reducing the impact on the consumer when world market prices rise, and recouping when prices fall. The financial balance between the Fund and the oil suppliers (the "Slate Balance") arising from these operations is settled at irregular intervals, and the Fund accordingly seeks to hold reserves against the payments it may have to make. It appears that the whole of the oil levy proceeds is included in the revenue side of the budget, but the Road Fund pays for road maintenance operations without the money passing through the Treasury. The expenditure then forms part of the capital budget, with the Road Fund identified as the source of finance. The Lesotho Revenue Authority receives each year a subvention of 2.5 % of the amount collected the previous year, but its costs are not accounted for as

part of budget expenditure, nor does it present a budget for its costs, which are equivalent to about 1 % of total budget expenditure, at the beginning of each year.

49. In addition the Ministries of Health and Education collect significant revenues through charges to patients and fees for secondary education (primary education is free). In recent years the Ministries have actually collected only about a quarter of the amounts included on the revenue side of the budget. No recent audit information is available but these shortfalls suggest that some expenditure on both health and education services is taking place outside the Treasury system without being accounted for as part of budgetary expenditure. Moreover the amounts budgeted for education fees appear relatively small considering the likely costs of providing secondary education. Lesotho does not have any generally applicable social security provision operating outside the budget; no contributions are collected to finance retirement, sickness or unemployment benefits, and the small old age pension paid to people over 70 years old is a direct charge on the budget.

50. The 2009 assessment considered that there was insufficient information to rate this dimension. On the basis of the limited information available in 2012 it appears that unreported extra-budgetary expenditure is likely to be in the range 1-5 % of total budgetary expenditure, which would indicate a dimension rating: B.

Dimension (ii) Extent of income/expenditure information on donor-funded projects included in fiscal reports

51. Capital expenditure is presented in the budget with each project separately identified and with any expected contribution from a donor clearly indicated in each case. Thus there should be complete information about all projects, with the sources (GoL and/or donor) indicated in each case. In practice it is recognised that not all expenditure is captured in budget execution reports, either because the donors concerned do not report outflows from bank accounts they control, or because the line Ministries concerned do not enter information about expenditure not passing through the Treasury into IFMIS. There is as yet no government unit with the responsibility to ensure that full information about all projects benefiting from external finance, whether grant or loan, is captured in IFMIS; at present it is left to each line Ministry involved in sponsoring one or more projects to enter the information into IFMIS as the project progresses. Within MFDP three different units are responsible for collecting information about grant-financed projects, loan-financed projects and receipts of direct budgetary support respectively. No recent audited figures are available but the OAG report on 2007-08 found that expenditure on projects recorded in the accounts was understated by M65m, and that a further M85m was spent on projects not recorded in the accounts. Altogether expenditure was understated by about M140m out of total expenditure of M1071m (and budget provision of M1981m). Because the information about externally-funded project expenditure has been seriously deficient, rating is: D.

Performance change and other factors since 2009 PEFA assessment

52. The 2009 assessment considered that complete income/expenditure information was being recorded for all loan-financed projects (although it recognised that information on grant-financed projects was incomplete), and therefore rated this dimension C. Given the evidence subsequently produced by OAG about the position in 2007-08, this assessment cannot be seen as correct.

On-going Reforms

53. Extensive discussions between MFDP, line Ministries and most development partners have resulted in the preparation of a joint paper on the donors' partnership with GoL which would provide for a single unit (the Aid Coordination Department of MFDP) to collect complete and consistent information about expenditure on all projects. Information would be provided by both donors and line Ministries. However this paper and the associated arrangements for improving the collection of information is still awaiting Ministerial approval, so comprehensive information on project execution is not yet being collected.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-7	**NR**	**D+**	Scoring method M1 (weakest link)	
(i)	NR	B	The available evidence suggests that unreported extra-budgetary expenditure is in the range 1-5 % of total budget expenditure.	The two assessments are not comparable, because in 2012 fuller information has been collected.
(ii)	C	D	Arrangements for the collection of full information have not been implemented. Most recent available evidence indicates serious deficiencies in information.	The two assessments are not comparable because sufficient information about the extent of omissions in 2007/08 was not available at the time of the 2009 assessment. In retrospect, the 2009 rating of PI-7 (ii) is incorrect and performance has not deteriorated.

PI -8 Transparency of Inter-Governmental Fiscal Relations

54. Sub-national (SN) government in Lesotho is small at less than 3% of GDP and the program for decentralization of services to SNG is limited and recent. SNG consists of the Maseru Municipality and 11 Urban Councils (which undertake municipal activities such as streets and footpaths, solid waste disposal and some regularity functions such as food safety etc.) and 10 district councils which are the umbrella organization for 128 community councils whose primary responsibility is maintenance of local roads. All are separate legal entities with their own administrative, planning, accounting and procurement staff. They may enter into contracts. They are subject to the provisions of the 2011 PFMA Act.

55. However SN governments have limited financial autonomy, with the exception of Maseru Municipality and the 11 urban councils which retain their own revenues from user charges**.** Other councils pay their revenues into the consolidated fund and their expenditures are thus financed entirely by central government through capital and recurrent transfers from the budget. The costs of local health and education services are borne by the sectoral Ministries. There are no local taxes on property and no revenue-sharing formula to allocate to local government shares of national tax receipts on sales of goods and services or on personal or company incomes.

56. Transfers to SNG are part of the appropriations of the Ministry of Local Government and Chieftainship Affairs (MLG). Recurrent transfers are made quarterly to district councils' own bank accounts, and through them to community councils, and to Maseru and Urban Councils. These transfers amounted to M182.161m in the 2011/12 Estimates and M160.710m in the 2012/13 Estimates plus M44m of grants in aid. In 2011/12 and 2012/13 M50m was allocated to the Development Fund, plus other project specific capital allocations mainly for urban and rural roads making total allocations for the years of M546m and M501m respectively. The Estimates for both years also include small grants from Germany (GTZ and KFW) and from UNDP. The 2012/13 Estimates also include M95m of expenditure to be financed from the Road Fund for urban roads upgrading, which is projected to increase significantly beyond 2012/13. The capital allocation transfers are made based on progress of each project. Allocations to SNG are thus about 2/3rd capital and 1/3rd recurrent.

57. Under the Local Government Act 1997 (Sections 52 and 54) Councils having income from taxes or charges (Maseru and Urban Councils) are permitted to borrow within certain limits without the approval of the Minister of Local Government and may give security for repayment. The total amount of debt is not allowed to be more than five times the council's own source annual revenues. Under the PFMA Act 2011 the approval of the Minister of Finance is required for any local authority borrowing. However at this stage no local government unit has undertaken any borrowing. Community councils are not permitted to borrow.

Dimension (i): Transparency and objectivity in the horizontal allocation among SN governments

58. Recurrent expenditure allocations to district councils and through them to urban and community councils, and to Maseru City and Urban Councils , are based on actual staff and other costs. A formula system has been used in the allocation of the Capital Fund between district councils with the most recent formula being 50 % based on population and 50 % on geographical area. This formula is now being reviewed by MFDP and may change or be abolished for the 2013/14 budget. Budget Allocations of these capital funds by district councils are made on the basis of a bottom up budgeting process. Elected community councils determine their priorities which are forwarded to the district councils where they are examined by the district planning unit before each district council determines its priorities to be submitted to MLG. Recurrent funding is provided in the MLG estimates to each council mainly for salaries and is based on funding a standard staff establishment. Funding of operating expenditures such as electricity etc. is based on established expenditure norms. Since more than half the allocations (covering both capital and recurrent expenditure) are determined by a transparent and rules-based system, the rating is B.

Performance change and other factors since 2009 PEFA assessment

59. This dimension was not rated in 2009 because of the absence of information about actual out-turns. However, since the dimension is concerned with budget allocations, it appears that it could have been given the same rating as is now proposed for 2012.

Dimension (ii): Timeliness of reliable information to SN governments on their allocation

60. Local governments prepare their budgets as part of the budget preparation of MLG. Following receipt of the MFDP circular in August each year about the preparation of Budget Framework Papers (see PI-12 below) MLG sends its own circular to Maseru, urban and district councils requesting them to submit details of their proposed budget expenditure allocations. In preparing their budgets councils have reasonable certainty about likely recurrent funding based on expenditure norms and capital funding based on the allocation formula. The proposed budget allocations to SNG form part of the budget submission and budget estimates of MLG. Councils are also free to pursue donor funding for capital projects outside the allocation from the Capital Fund. Councils know the amount of their approved funding when the estimates for MLG are finalized. MLG states that they are advised of their allocation as soon as the budget is passed, before the commencement of the financial year. In practice they know the details as soon as the Budget is put before the National Assembly, which does not alter the government's proposals. This is normally done about two months before the beginning of the following financial year. Maseru and urban councils are thus able to adjust their budgets in good time, while for district councils and community councils the issue does not arise given that all funds are from the central government budget. Dimension rating: A.

Performance change and other factors since 2009 PEFA assessment

61. This dimension was not rated in 2009, since the councils had only recently been created, and little experience had been gained of budgeting.

Dimension (iii): Extent of consolidation of fiscal data for general government according to sectoral categories

62. *Budget Documents:* as mentioned above, transfers to local government are included in the estimates of MLG. However these transfers do not show the details of final expenditures nor do they cover any expenditure undertaken by councils from any own-source revenues. There is no break-down of information according to sector categories.

63. *Annual Aggregate Financial Statements:* although local government units are required to prepare annual financial statements the 2009/10 annual report of the OAG notes that none of the 10 district councils complied with this requirement, nor did the Maseru Municipality. In the absence of such statements it is not possible to report comprehensively on the financial operations of SN governments or to consolidate them into any annual financial reporting by government. Local government is outside IFMIS and no information is collected about the economic or sector breakdown expenditure.

64. *GFS reporting:* At the end of the year based on the financial reports received from local government units MLG provides a consolidated statement of the financial operations of local government units to MOF which appears to be used by the Statistics

Bureau in preparing GFS data. However it is based on an input classification and does not break down information on a sector or functional basis. Since there is no functional breakdown of LG expenditure, rating is D.

Performance change since 2009 PEFA assessment

65. In the 2009 PEFA assessment this dimension was also rated as D. The situation is unchanged.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-8	**NR**	**B**	Scoring Method M2 (average of dimension scores)	
(i)	NR	B	More than 50 % of funds for local government are distributed through a transparent formula.	No significant change in underlying situation.
(ii)	NR	A	Councils know their allocations in good time before beginning of each financial year.	No underlying change. Dimension not rated in 2009 because of limited experience of budgeting in newly created councils.
(iii)	D	D	No reporting by councils of sectoral distribution of their expenditure.	No change.

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

Dimension (i): Extent of central government monitoring of AGAs and PEs

66. Monitoring may be by MFDP or sector ministries or both and the intended focus is on fiscal risk. MFDP does not have any central unit charged with monitoring PEs and AGAs. It appears that Budget Department has separate units focusing on capital funding of and recurrent transfers to PEs whereas budget revenues from PEs are managed by PSD. However MFDP also has representatives on the boards of all PEs. In addition the relevant sector ministries, mainly Ministry of Natural Resources, Ministry of Trade and Industry and Ministry of Communications, Science and Technology have a role in over-viewing PEs and AGAs coming within their portfolio and may also be represented on the board of individual PEs and AGAs. However there appears to be no regular financial or other reporting to the sector ministries, nor to MFDP.

67. Boards of directors of PEs appear to comprise a mix of government officials (from MFDP and the relevant sector ministry) and external directors, the latter often representing particular organizations. However actual board composition is difficult to determine given lack of information in some annual reports and lack of a consolidated directory of PE and AGA board members. AGAs also have their own boards which also

appear to be a mixture of government officials and external members. This representation of officials on the boards is seen as providing some degree of government oversight. However the extent to which having government officials as directors contributes to providing active oversight in terms of the government's "ownership" role is unclear. There is always the risk that directors may be "captured" by the organization or that they may have insufficient time to participate actively in the management of the organization. It is also unclear what reporting arrangements exist for government directors. Nor is it clear what information directors who are government officials report to their ministry and to whom.

68. It appears also that there is no central data base of PEs and AGAs which would be needed for MFDP to exercise any central monitoring role. However Private Sector Division (PSD) of MFDP has recently developed an inventory to identify all relevant organizations as a basis for improved oversight. The list identifies some 58 public enterprises, companies in which the Government has a minority shareholding and a range of autonomous institutions, commissions and boards of varying financial significance.

69. The major public enterprises are:

- under the Ministry of Natural Resources - the Water and Sewerage Commission (WASCO), Lesotho Electricity Company (the transmission system operator). In addition there is the Metolong Authority, not strictly a PE, which is carrying out major water engineering projects.

- Under Ministry of Trade and Industry – Lesotho National Development Corporation (LNDC) whose role is to stimulate private investment activities and which is the holding company for some Government investments in commercial enterprises. These investments comprise 100 % ownership of Basotho Fruit and Vegetable Canners, 51 % of Lesotho Brewing Company and 73 % of Loti Brick Pty Ltd. Minority interests are also held in OK (retail) Bazaar (50 %), Lesotho Food Industries (40 %), Sun International Hotels (20 %) and Cash Build (wholesalers) 20 %.

- under Ministry of Communications, Science and Technology - Lesotho Post Bank . (The Postal Service and Broadcasting, which in many other countries are run as PEs operate as part of this ministry although they scheduled to become separate corporations).

The Lesotho Highlands Development Authority (LHDA) is a bi-partite authority operated jointly by Lesotho and South Africa. For Lesotho it operates under its own legislation, is not subject to the PFMA Act, is audited by private auditors and is overseen by the (bi-partite) Water Development Commission. It is a water project construction and operating authority and operates various dams and the electricity generation plant. However revenues from sale of water to South Africa and revenue from electricity sales are paid direct into the Consolidated Fund.

70. The Central Bank of Lesotho (CBL) can also be regarded as a PE in that it contributes some of its profits to the budget. However its website contains neither an annual report nor any recent (audited) annual financial statements, nor could MFDP provide any information on its contributions to the budget.

71. It can be noted that in addition the government has a direct minority shareholding in a number of other companies – Lesotho Telecoms, Lesotho Flour Mills, Kao Mines, 20 % of Standard Lesotho Bank, 30 % of the Lets'eng Diamond Pty Ltd, 25 % of Lighhobong Mining Company and 5 % of AON Lesotho.

72. The financial flows between the budget and PEs by way of dividends, subventions, loans or equity increases are not apparent from the budget documents or the aggregate financial statements. It appears that (apart from CBL) no PE is sufficiently profitable to make regular dividend payments to the budget. This may reflect that they carry out significant non-commercial activities which are not funded from the budget. Dividend income appears to come mainly from the minority shareholdings in companies mentioned above. At budget time PSD requests information from PEs and companies in which the government has a minority shareholding on their expected payment to the budget. However there does not appear to be any pro-active revenue raising approach in the construction of the budget, nor is MFDP able to report on what revenue is received from individual PEs and companies.

73. Total dividends received were M117m in 2009/10, M569m in 2010/11 and M358m in 2011/12. Major components were M506m in 2010/11 from financial public corporations (Central Bank) and M222m in 2011/12 from bodies sponsored by the Ministry of Natural Resources.

74. The major AGAs are the National University, Lerotholi Polytechnic, Lesotho College of Education (teacher training) Institute of Development Management, Lesotho Housing and Lesotho Tourist Development Corporation. Each continues to operate under its own separate legislation although each is also subject to the general requirements of the 2011 PFMA Act. In addition there is the National Drug Service Organization which purchases all drugs for use in the health services and which operates as a trading fund within the health portfolio but has a board and prepares separate financial statements.

75. All PEs and AGAs including CBL are audited by the Auditor-General except for the Lesotho Post Bank and LHDA.

76. Fiscal risks are particularly significant for the major water engineering projects being undertaken by LHDA and the Metolong Authority and the network expansion program of Lesotho Electricity Company.

77. Each PE and AGA has previously operated under its own legislation. Thus there have been no standard accountability requirements and no performance management framework which would include financial and other performance targets and regular assessment of fiscal risks. The separate legislation governing each AGA and PE before the passing of the PFMA Act in 2011 provides for annual reports and audited financial statements to be provided to Parliament. In practice this requirement may not be observed, although the most important bodies (LNDC, LHDA, LEC and WASCO) do provide such information generally within 18 months of the year end to which they relate. There is no requirement for the Government, either through the sector ministry or MFDP to approve any strategic plan and there is no formal system of performance or other targets (financial or otherwise) or formal performance agreements with each organization.

78. However the 2011 PFMA Act contains standard and new requirements designed to improve the financial performance and accountability of PEs which are defined as a government entity established by law to carry out specific commercial activities. It requires that the responsible sector minister to present an annual report including audited financial statements prepared under International Financial Reporting Standards (IFRS) to Parliament within six months of the end of the financial year. It specifies responsibilities of the chief executive officer of each public enterprise, including effective, efficient and economical operation and after consultation with the responsible minister reporting to the Minister of Finance on financial and other matters. The chief executive is also authorized to report to the Minister of Finance if the board of directors requires him/her to undertake actions which are not consistent with effective, efficient and economical operation. It also restates existing requirements that the approval of the Minister of Finance be obtained to any borrowing. An interesting new provision in the PFMA Act, designed to ensure better integration of public enterprise finances with the budget, requires PEs to provide information needed by the Minister of Finance on any proposed equity or loan funding from the Government during the next three years, proposed guarantees, community service obligations and dividends during the three year period.

79. It is too early to determine the impact of these potentially important new legislative provisions but they potentially strengthen the role of the Minister of Finance and Parliament in oversight of PEs. No institutional arrangements to implement this new legislation appear to have been developed and it is not clear that sector ministries and PEs are fully aware of these new requirements.

80. In terms of financial accountability the following table lists the latest audited financial statements provided by PEs and AGAs:

Table 12: Latest audited financial statements provided by PEs and AGAs

Lesotho Highlands Development Authority	2010/11
Loti Brick Pty Ltd	2010/11
National Drug Service Organization	2010/11
Lesotho National Development Corporation	2009/10
Lesotho Electricity Company	2009/10
WASCO	2009/10
Lesotho Tourism Development Corporation	2006/07
Lesotho Housing	2006/07
National University	2010/11
Lerotholi Polytechnic	2005/06

Lesotho College of Education	2003/04

This table shows a mixed picture of financial accountability, with some PEs and AGAs being relatively timely in their reporting and others having a substantial backlog of financial statements. However it can be noted that for three of the four largest undertakings – Lesotho National Development Corporation, Lesotho Electricity Company and WASCO, the most recent statements are for 2009/10 - whereas good practice (as reflected in the provision in the 2011 PFMA Act of audited financial statements being tabled in Parliament within six months of the end of the year) would see the 2010/11 statements already being publicly available and the 2011/12 statements being shortly publicly available. It can be noted that the audit report on the 2009/10 financial statements of LNDC is dated December 2011 some 21 months after the end of the financial year and the audit report on the Lesotho Electricity Company's 2009/10 financial statements is dated February 2012, some 23 months after the end of the financial year. Both received a qualified audit opinion. On the other hand LHDA's financial statements for 2010/11 received their audit report in December 2011 and the audit opinion was unqualified.

81. Accountability to Parliament and the public through the annual report and financial statements is also reduced by the fact that having received the annual report and audited financial statements the relevant Minister does not always table them in Parliament or on a timely basis, so they do not become publicly available unless provided on the organization's website. However this failure to table or delay in tabling in the Minister's office will be overcome if the provisions of PFMA Act 2011 on tabling in Parliament within 6 months of the end of the year are observed. It should be noted that reports tabled in Parliament may not be available in hard copy except on specific request to the relevant organization. A number of AGAs and public enterprises have their own websites – see www.lndc.org.ls, www.lhda.org.ls, www.lec.co.ls, www.metolong.org.ls and www.wasco.co.ls, which include their annual report and financial statements on their websites.

82. As discussed in PI-17, under the 2011 PFMA Act (as under the previous Loans (Statutory Bodies) Act 1975) PEs and AGAs may not borrow externally without the approval of the Minister of Finance. It is unclear what analysis is carried out of any request for additional funds through borrowing or request for a government guarantee of any borrowing and by whom – so as to meet the requirement of PFMA Act (as also discussed in PI-17) that before approving any borrowing or guarantee the Minister must be satisfied that the recipients have the capacity to repay the debt. Such an assessment would inherently analyze the degree of fiscal risk in the project and the level of risk from the additional debt. It appears that such analysis, if any, is carried out by the proponents of the project without any formal review by MFDP or report to the Minister of Finance.

83. In practice MFDP borrows on their behalf on the external market and on-lends the funds to the PE. The Government in effect guarantees this debt of PEs but the Minister of Finance must be satisfied on the recipient organization's ability to repay before approving any borrowing or guarantee. However it is unclear the extent to which such decisions are supported by detailed financial analysis of the project to be financed by the borrowing and its impact on the borrowing entities' finances.

84. The 2011 EU Public Financial Management Assessment of the Ministry of Natural Resources noted that that there was no consistent approach to the monitoring of the PEs/AGAs coming under the Ministry, this being done on a case by case basis. The assessment concluded that MNR could not be said to be in control of associated fiscal risks. It appears that there are no formal arrangements in sector ministries for monitoring performance and fiscal risk of public enterprises. MNR states that it does not receive any financial or other reports from PEs during the year and that the most significant contact occurs when PEs submit their bids for budget funding to the Ministry. MNR also now has the practice of chief executives of the PEs participating in the Ministry's senior management meetings. The overall conclusion is that "most major AGAs/PEs submit fiscal reports to central government at least annually, but a consolidated overview is missing", which meets the criteria for the rating: C.

Performance change and other factors since 2009 PEFA assessment

85. The 2009 assessment reached essentially the same conclusion, and gave the same rating for the same reasons. There have as yet been no major changes on the ground, but if the relevant provisions of the PFMA Act 2011 are implemented without delay, and if MFDP is successful in developing an effective monitoring role across PEs as a whole, the position could be transformed. More effective medium-term investment planning (see PI-12 below) could also result in PEs making a greater contribution to the achievement of social and economic development objectives.

Dimension (ii) Extent of central government monitoring of SN government's fiscal position

86. As discussed in PI-8 SN government is small in Lesotho and the decentralization being pursued is at this stage small and recent. The Maseru municipality is the only SNG unit of any significance. Local government units have their own accounting systems and do not use IFMIS, which accounts only for the transfers made to them. Therefore neither the Government budget nor the government's consolidated annual financial statements record the full transactions of SN government. Local government units are required to submit monthly and quarterly financial reports in a standard template to the Ministry of Local Government by the 15^{th} of the following month but there are significant problems with compliance and quality of data given limited capacity of the council staff. MLG is now withholding quarterly releases of funds to the local government units which do not provide quarterly financial reports.

87. Local government units are also required to submit annual financial statements for audit. However the 2009/10 annual activity report of the OAG notes that none of the 10 district councils complied with this requirement, nor did the Maseru municipality.

88. In the absence of such financial statements it is not possible for central government to systematically monitor SN government's fiscal position. Further, the statements cover only receipts and payments and do not report on financial position (assets and liabilities) of the council. While under the 2011 PFMA Act local governments may not borrow without the approval of the Minister of Finance, no local governments have so far undertaken any borrowing. However there is the possibility they may build up expenditure arrears and indeed MLG has provided additional funding where it has been clear the level of funding provided has not been in accordance with the expenditure norms for recurrent funding. The 10 District Councils have bank accounts at commercial banks into which the quarterly transfers from central government are paid

but they are not permitted to go into overdraft. It may be noted that LG units are separate legal entities and the government is not legally liable for their debts should they become insolvent.

89. Thus although MLG has a role in monitoring the expenditures of SN government units its ability to do so is limited by lack of reliable and timely information from these units. It does not monitor revenues as these are mostly paid direct into the central government consolidated fund as discussed in PI-8. However given the relatively small size of local government (less than three per cent of GDP) it is unlikely that they create any material fiscal risks to the central government, although it is possible that expenditure arrears may arise. Nevertheless since central government monitoring of the financial position of sub-national governments is significantly incomplete, the rating for this dimension is D.

Performance change and other factors since 2009 PEFA assessment

90. The 2009 assessment gave the rating D on the grounds that there was no monitoring of LG expenditure arrears. However, LG is now somewhat more firmly established, and monitoring arrangements are in force, even if not always fully complied with, and the risks of significant uncontrolled expenditure arrears being incurred by LG must be very small.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-9	**D+**	**D+**	Scoring method M1 (weakest link)	
(i)	C	C	Most major PEs/AGAs report annually to central government, but pro-active financial supervision has yet to be instituted, and there is no consolidated monitoring of the fiscal risks they pose. Implementation of the PFMA Act 2011 provisions could substantially improve the position.	There has as yet been no significant change in the situation.
(ii)	D	D	A system of monitoring reports is in place but the lack of timely and accurate reporting by sub-national governments prevents it from operating effectively.	There has been no change in the underlying situation.

PI-10 Public access to key fiscal information

91. This Indicator assesses the extent to which the general public have access to 6 elements of key fiscal information. The following table shows the assessment in relation to each item.

Table 13: Access to key fiscal information

Required documentation	Available 2009	Available 2012	Commentary on arrangements for provision of information
i. Annual budget documentation when submitted to the legislature	No	No	Budget speech, Background paper and detailed fiscal tables published on MFDP web-site, but detailed proposals not published until after Parliamentary approval, as in 2009
ii. In-year budget execution reports within a month of completion	No	No	No information yet available, although IFMIS system should make this possible once data are more reliable
iii. Year-end financial statements within 6 months of completed audit	Not clear	No	Minister of Finance has delayed tabling the 2007/08 financial statements for 9 months after receipt of the audit report.
iv. External audit reports within 6 months of completed audit	Yes	No	Minister of Finance delayed tabling 2007/08 financial statements with accompanying audit report until 9 months after receipt of the audit report.
v. Contract awards above US$ 100,000 equivalent published at least quarterly	No	No	Although invitations to tender are published as required by the Procurement Regulations, no information is required to be published or is readily available to the general public about contracts awarded.
vi. Resources available to primary service delivery units at least annually	No	No	No information is available about resources in cash and in kind received by individual schools or health clinics.
Overall rating	One element clearly provided: rating **C**	No full information provided on any of 6 elements, so **D**	Rating lower in 2012 because of recent long delays in tabling financial statements and audit reports in parliament , at which time they become publicly available

Although the MFDP web-site has been further developed since 2009, and some key budget information is published with the budget proposals, the lengthy delays in the tabling of financial statements and audit reports make the D rating inevitable.

Performance change since 2009 PEFA assessment

92. From one of the six listed elements being provided in 2009, to none today, performance has clearly deteriorated. In turn, this is due to longer delays in 2012 in tabling financial statements and audit reports in parliament, at which time they become publicly available.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change
PI-10	**C**	**D**	Scoring method M1 (weakest link)	
(i)	C	D	No full information provided on any of 6 elements.	Deterioration in performance**.**

3.3 Policy-based budgeting

PI-11 Orderliness and Participation in the Annual Budget Process

93. The first two dimensions of this indicator assess the process followed during 2011/12 for the preparation of the last budget approved by the Parliament, namely the budget for 2012/2013. The third dimension covers the last three budgets approved by Parliament: the budgets for 2010/11, 2011/12 and 2012/2013.

Dimension (i): Existence and adherence to a fixed budget calendar

94. The calendar for the later stages of budget preparation in Lesotho is included in the Budget Call Circular (BCC). There is no Organic Budget Law to serve as a more "permanent" basis for the budget calendar. The PFMA Act outlines a few key stages of budget preparation, but with no time/calendar reference. In 2011/2012 the calendar included in the BCC is shown in Table 9. The other BCCs made available to this assessment (that issued in 2008 for the preparation of the 2009/2010 budget and the BCC issued in 2010 for the preparation of the 2011/12 budget) show the same stages but with dates about a month later. For the preparation of the 2012/2013 budget, minor slippages occurred in the calendar's implementation: budget discussion with line ministries started on the 12th December, rather than on December 5th, and the presentation of Budget Estimates to Cabinet was also delayed by one week, from January 4 to 12. Some MDAs submitted their proposals after November 30.

95. The budget calendar set out in the BCC covers only the later stages of the budget preparation cycle. It excludes important earlier stages covering the issue by MDAs of the BFPs, their review by the budget department, the setting of the overall revenue and expenditure envelopes through the MTFF, and Cabinet's approval of the ceilings included in the BCC.

Table 14: Calendar for the Preparation of the 2012/2013 budget

ACTION	DEADLINE
Issue of BCC	**25 November 2011**
Submission of Revenue Estimates	**30th November, 2011**
Submission of Expenditure Estimates	**30th November, 2011**
Budget Discussion with Line Ministries	**5th December, 2011**
Presentation of Budget Estimates to Cabinet Budget Committee	**21stDecember, 2012**
Presentation of Budget Estimates to Cabinet	**4th January, 2012**
Presentation of Budget Estimates to Parliament	**18th January, 2012**

Source: BCC issued on November 25 2011.

In 2011, the BCC, issued on November 25, asked MDAs to submit their proposals less than a week later, by November 30 2011. An "interim" BCC was also issued to MDAs on November 14. The deadline for MDAs to complete their proposals is November 30 according to the interim circular also. This circular includes ceilings but is short and not comprehensive, with little or no guidance for budget submissions. The BCC with guidance for budget submission is the final one (described under dimension (ii)). Furthermore, unlike those in the later Circular, the ceilings included in the interim BCC had not yet been approved by Cabinet. For this reason, this assessment takes the final BCC as the reference for evaluating PI-11 dimensions (i) and (ii). The time MDAs had to complete their submissions is thus less than a week. Even if one takes the interim BCC as a reference, the time to complete the submissions is still clearly insufficient. According to the Budget Department, some MDAs submit their proposals after November 30, given the very short time made available for their preparation.[6] Dimension score: C.

Performance change and other factors since the 2009 PEFA assessment

96. The 2009 assessment took the interim BCC as its reference, and thus gave credit for a period of 6 weeks for the preparation of budget submissions. However, the final BCC issued on 1 December 2008 gave only two weeks for the preparation of submissions. Thus, the timetable was somewhat tighter for the 2012-13 Budget than for 2009-10, but the previous assessment arguably gave credit for a more extended timescale than was really warranted.

Dimension (ii): Guidance on the preparation of budget submissions

97. The BCC includes expenditure ceilings for each ministry's recurrent and capital expenditures. Since 2005, the year of the MTEF's introduction, it has also included indicative figures for the two subsequent years (see PI-12). The BCC guidelines for budget submissions by MDAs are clear and very comprehensive. The ceilings in the (final) BCC have already been approved by Cabinet, prior to the BCC's distribution to MDAs, as required by S.8 (1) of the PFMA Act. Dimension score: A.

Performance change and other factors since the 2009 PEFA assessment

[6] It was not possible to determine how many submit late since the budget department does not have records in the system on the dates of previous budget submissions.

98. No performance change since the 2009 assessment. The BCC issued in 2011 is more comprehensive than the one issued in 2008, especially regarding the guidelines for estimates of outer years.

Dimension (iii): Timely budget approval of the budget by the legislature or similarly mandated body (within the last three years)

99. The budget has been approved every year for the past three FYs before FY end. The dates of the budget approval were:

- March 22 2010 for the 2010/2011 budget;
- March 21 2011 for the 2011/2012 budget;
- March 17 2012 for the 2012/13 budget.

Dimension score: A.

Performance change and other factors since the 2009 PEFA assessment

No change and no other factors.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-11	**A**	**B+**	Scoring Method M2 (average of dimension scores)	
(i)	A	C	A calendar is included in the BCC, but covers only the later stages in the process. It is broadly respected, but leaves insufficient time for MDAs to complete their submissions once final ceilings have been issued.	No substantial change in performance**.** The 2011-12 timetable was somewhat more constrained than that for 2008-09. But the earlier assessment gave credit for a longer preparation time than was actually available after Cabinet decisions on expenditure ceilings.
(ii)	A	A	A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet prior to the circular's distribution to MDAs.	No change in performance. The 2011 BCC is more comprehensive than the one issued in 2008, although the latter was already generally clear and comprehensive.
(iii)	A	A	The budget has been approved before the end of the FY every year for the past three FYs.	No change.

PI-12 Multi-Year Perspective in Fiscal Planning, Expenditure Policy, and Budgeting

100. This indicator refers to the budgetary central government and discusses four dimensions related to: (i) multi-year fiscal forecasts, (ii) debt sustainability analysis, (iii) existence of multi-year costed sector strategies, and (iv) linkages between investment budgets and forward expenditure estimates. The coverage in terms of time period covered by this indicator varies by dimension and is specified under each dimension below.

Dimension (i): Preparation of multi-year fiscal forecasts and functional allocations

101. This dimension covers the last two completed fiscal years, which, in the case of this assessment, are 2010/2011 and 2011/2012.

102. The Department of Economic Policy (DEP) at the MFDP has, for the past two completed FYs, and even before that, formulated a Medium-Term Fiscal Framework (MTFF). This is prepared on a rolling basis (updated annually) and includes projections for the coming year and two subsequent years. The projections are made for main fiscal aggregates (overall revenue and expenditure) which are detailed by main economic category[7], but not by function/ sector or program (or MDA). As will be discussed under dimension (iii), MDAs have been developing Budget Framework Papers (BFPs) with projections for both capital and recurrent expenditure for the upcoming year and two subsequent years since the proposed full introduction of medium-term expenditure planning in 2005. However, no consolidated BFP was issued, nor any consolidated MTEF developed, until 2010/2011 when an overall BFP document was published grouping all BFPs by MDAs together. It did not include revenue projections for the later years, or consolidated projections of expenditure. The first “consolidated BFP” issued was in 2011/2012, for 2012/13 and the two subsequent years. The consolidated BFP was thus developed only in one of the last two completed fiscal years, when the dimension requirements for a rating higher than C have to be met for both past completed FYs.

103. For at least the past three years, budget reports themselves (reports on approved budget estimates) have included the MDA detailed allocations for the coming year and projections for the two subsequent years. However, it is doubtful how far the figures for the later years reflect detailed analyses of the requirements for the development of the services in question, since in many cases they simply project forward the same amounts, and in others they appear unrealistically low. The reports also include aggregate projections for overall revenue and current, but not capital, expenditure. Projections are also still done by MDA, and not grouped by sector or function. Nor is there any aggregate presentation of revenue and expenditure by economic category. In the 2011/12 approved budget, three-year estimates by program have been also presented for 5 pilot ministries (out of 30), but for 2012-13 no detailed budget report has been issued, apparently because of difficulties in entering the data into IFMIS. The aggregate projections of recurrent expenditure by MDAs in the 2012-13 budget are 2 % higher for

[7] Specifically: Compensation of Employees, Use of goods and services, Interest Payments, Subsidies, Grants, Social Benefits, Other expense.

2013-14 and nearly 10 % higher for 2014-15 than those in the consolidated BFP paper. (There are also marked differences between the aggregate recurrent expenditure figures for 2010-11 and 2011-12, where the BFP shows M6,505m and M6,849m for the two years, while the 2012-13 budget has M7,108m and M8,188m respectively .

104. In sum, on the one hand, an overall MTFF for three years is developed on the basis of economic categories only, by DEP. On the other, MDAs develop projections for expenditure for three years also, which are included in the budget estimates document, but without any reconciliation with the overall resource framework. Thus an overall and functioning MTEF linking the two has been lacking, and only in the last year has the Budget Department started to develop it. There is thus no question of the consolidated BFP providing explanations of changes from previous projections. Dimension score: C↑.

On-going Reforms

105. As above-mentioned, during the past FY[8], the Budget Department has for the first time issued a consolidated BFP: for 2012/13 and two outer years. It includes overall projections for revenue and expenditure detailed by MDA.[9] (The revenue projections are of little interest, since all tax revenue is presented in the single line for MFDP.) However, it still does not represent a full and integrated MTEF as the Consolidated BFP only includes the recurrent and capital expenditure projections by MDA, without the link to overall fiscal aggregates or projections by economic category. There is also no explanation of how projections relate to policy priorities at the overall level, or on what basis allocations have been distributed between MDAs; only MDAs have developed links between medium-term priorities and expenditure projections. A classification by function or sector, grouping several MDAs together, may be introduced in parallel with the recently launched National Strategic Development Plan (NSDP). There are currently 43 MDAs and almost as many MDA-level BFPs being issued. The Budget Department also intends to continue the introduction of program budgeting.

Performance change since 2009 PEFA assessment

106. There has been some progress in medium-term fiscal planning since the 2009 assessment, but not yet enough to justify a higher rating. In the two completed FYs preceding both the 2009 and the 2012 assessments an MTFF for three years was being developed on a rolling basis by DEP. This included fiscal projections by main economic category, but not by function/sector/program or administrative heading. Projections for three years were already being prepared by some Ministries in 2009, although the number of Ministries has increased since then (see dimension (iii)). In FY 2011/2012, MFDP has started developing a consolidated MTEF/BFP with overall projections for revenue and expenditure, also detailed by MDA. That said, a consolidated and integrated MTEF with clear links between the MTFF and MDA projections is still lacking. Although the 2009 PEFA does not refer to multi-year projections being included in the approved estimates reports, the Budget Department have confirmed that this was the case for the two years preceding the 2009 Assessment.

[8] The date in which the Consolidated BFP for 2012/2013-2014/2015 has been published is not available.
[9] Given dimension (i) is scored on the basis of the past two completed FYs, this development does not yet impact on the score of the dimension.

Dimension (ii): Scope and frequency of debt sustainability analysis

107. This dimension covers the last three years before the assessment, which are July 2009 to June 2012.

108. A Debt Sustainability Analysis (DSA) for both external and domestic debt has been undertaken annually for the past three years by the IMF as part of the IMF Article IV Consultations and/or the Extended Credit Facility (ECF) arrangement. The debt figure actuals have been taken from data prepared by the MFDP Public Debt Department using the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). The analyses have published in the *Article IV Consultation-Staff Report* and *Review under the ECF* in May 2012, in the *First Review under the ECF* in April 2011, and in the *Request for a Three-Year Arrangement Extended Fund Facility Arrangement—Staff Report* of July 2010. The latter was done also in collaboration with the World Bank. The DSA having been produced in consultation with GoL and used as part of the justification for the agreed ECF is fully endorsed by GoL. Dimension score: A.

Performance change since 2009 PEFA assessment

109. There has been no change since 2009, since a DSA was carried out by the IMF each year during the period considered for the previous assessment.

Dimension (iii): Existence of sectoral strategies with multi-year costing of recurrent expenditure and investment expenditure

110. This dimension covers the last completed FY, when Ministries which account for 87% of total primary expenditure have developed costed strategies. The multi-year projections in terms of recurrent and capital expenditure the strategies imply are outlined in BFPs that are updated every year. The strategies are intended to be fully costed and projections are developed for the following and two subsequent years. The preparation of the BFP starts before that of the budget for the coming year with the issue of the circular for the preparation of BFP submissions. The timing of this stage varies from year to year; for the preparation of the most recent budget, the BFP circular was issued in early August 2011. The strategies should be in line with the priorities outlined in the *Vision 2020* and should also seek to promote the achievement of the MDGs.

111. Nonetheless, the projections at the Ministry level are not consistent with overall expenditure forward estimates. Ministry requests/projections presented in individual BFPs were in line with the envelopes by Ministry included in the BFP for 2010/2011, since the latter was just the sum of the individual BFPs (see the corresponding document, *Budget Framework Paper Data for FY 2011-2012*). The same holds for the Consolidated BFP of 2011/2012. The broad consistency is however limited to the projections issued the same year, and to BFP documents, and does not extend to the subsequent years or to projections included in budget documents. The envelopes at the MDA level for year n+2 formulated in year n are not consistent with the allocations, or the overall aggregates, for year n+2 issued in year n+1. More importantly, a comparison between the allocation estimates in the BFPs (sectoral and overall) and

those in the approved budget, reveals that there is very little consistency between the BFP and the budget, even for the budget year. For instance, the allocation in the approved budget for MET recurrent expenditure in 2012-13 (M1,944m) is nearly M400m less than the corresponding figure in the BFP (M2,318m), while the provision for capital (M116m) in the approved budget is barely half that in the BFP (M224m).

112. MFDP point out that BFPs are prepared on the basis of earlier projections of available resources, which may prove too optimistic once realistic forecasts of the crucial SACU revenues become available, and that budgets have to be prepared taking full account of the actual revenue prospects. The volatility of SACU certainly adds greatly to the difficulty of stable medium-term fiscal planning, which needs to provide for alternative scenarios depending on levels of resources available. This in turn requires careful prioritization of capital and other expenditures, so as to achieve in all circumstances the best possible outcome from the standpoints of economic growth and the development of public services. Meanwhile medium-term fiscal planning is not yet fully effective in aligning future expenditure plans with agreed priorities for the development of different services, and ensuring that the investments selected are the most cost effective in achieving developmental objectives. Dimension score: C↑.

Performance change and other factors since 2009 PEFA assessment

113. The 2009 PEFA Assessment does not state the proportion of total primary expenditure accounted for by the sectors with fully costed strategies, although it made clear that education, health, natural resources and agriculture were among the ministries issuing BFPs. These are among the largest ministries. The Budget Department confirmed that the main ministries were already issuing BFPs prior to 2009, though the number and thus the share of primary expenditure covered has increased since then. In any case, the "C" score in 2009 reflected the lack of consistency between the forecasts at the level of the individual BFPs and overall fiscal aggregates. There has been no change in this respect.

Dimension (iv): Linkages between investment budgets and forward expenditure estimates

114. This dimension covers the last completed FY. For FY 2011/2012, the main ministries in terms of executed primary expenditure (also refer to Annex 1) are: Education and Training (18%), Health and Social Welfare (12%), Finance and Development Planning (11%), Public Works and Transport (11%), LG (8%), Natural resources (4%). For these ministries, which are those with most investment projects, the majority of investments are selected in line with medium-term priorities, as reflected in the individual BFPs. Some investments are imposed as directives during the year and are not necessarily in line with medium term strategies.

115. In the BCC, the Budget Department asks MDAs to include the recurrent costs of using and maintaining new investments when developing forward estimates. Furthermore, Budget Committees at the ministry level have been set-up to respond to the circulars on the preparation of the budget and the BFP. The Committees should examine both the recurrent and the capital expenditure side together, as at the ministry level these are still under the responsibility of different departments. For the main Ministries above-mentioned (accounting for 64% of primary expenditure in 2011/2012) the recurrent cost implications of newly commissioned investments are being estimated

for the coming year and the two subsequent years. The recurrent cost estimates are also consistent with the overall projections at the sector level. But they are not yet fully reflected in forward budget estimates. Dimension score: B.

Performance change since 2009 PEFA assessment

116. In 2008/2009, the BCC already requested ministries to account for future recurrent expenditure linked to investment, and the response to the BCC had recently started to be made jointly for recurrent and capital expenditure. In practice, the 2009 Assessment found that only a few main sectors were complying with the BCC requirement. Now all main sectors are including recurrent cost forward estimates of expenditure and all sectors aim to select investments in line with sector priorities and also with the overall policy anchor for the budget.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-12	**C+**	**B**	Scoring Method M2 (average of dimension scores)	
(i)	C	C↑	A three-year MTFF is prepared by DEP, on a rolling basis. For the past two completed FYs, forecasts of fiscal aggregates have been prepared on the basis of the main categories of economic classification. Last year, the budget department prepared a consolidated BFP with projections by MDA and overall projections of revenue and expenditure for the coming year and the two subsequent years.	There has been some progress since 2009, but not enough to justify a higher rating**.** A consolidated BFP was issued in 2011/2012 with projections for three years for overall revenue and expenditure, and by MDA. Reports on Approved Budget Estimates already included forward forecasts by MDA before the 2009 Assessment.
(ii)	A	A	A Debt sustainability analysis for both external and domestic debt has been undertaken annually for the past three years as part of the IMF Article IV consultation process and the IMF ECF review.	No change**.** For the 3 years preceding both the 2009 and the 2012 assessments, a DSA was issued annually.
(iii)	C	C↑	Strategies for ministries representing 87 % of primary expenditure exist with full costing of investment and recurrent expenditure. But projections of expenditure in the BFPs of individual ministries are not consistent with overall fiscal projections.	Some progress has been made since 2009, as more Ministries now issue BFPs corresponding to fully costed strategies, but individual projections are still not consistent with overall projections of the fiscal framework.
(iv)	C	B	The majority of important investments are selected on the	There has been some improvement in performance**.**

			basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.	In 2009, only a few main MDAs were estimating the recurrent cost implications of investments; now all main MDAs do, and select most investments in accordance with policy priorities.

3.4 Predictability and Control in Budget Execution

PI-13 Transparency of taxpayer obligations and liabilities

117. Although a member of the Lesotho Revenue Authority (LRA) staff was nominated as a member of the counterpart team, and some written information was provided, it did not prove possible to arrange any meeting to discuss the evidence relating to PIs 13-15 until shortly before the end of the mission. Some information was obtained from the LRA Head of Litigation, but questions remained about the extent of disagreed assessments, the arrangements for tax registration, the results of tax inspections and the statistics relating to tax arrears. The assessment has therefore had to be prepared mainly on the basis of the review team's understanding of the written evidence, and information received from taxpayers and tax advisors. A recent report on Tax Planning Training produced as part of the World Bank funded Lesotho Institute of Accountants Capacity Development project found that "no training or Continuous Professional Development events in taxation are undertaken in Lesotho. The experience of practitioners was that the personnel of LRA were also not well trained, and it was often impossible to resolve technical problems with them. The Commissioner-General confirmed the need for extensive training for revenue officials." This assessment focuses on revenue collected in accordance with the Income Tax Act 1993 and the VAT Act 2003; customs duties under the Customs and Excise Act 1982 are essentially in the hands of South Africa in accordance with the SACU arrangements.

Dimension (i) Clarity and comprehensiveness of tax liabilities

118. The Income Tax Act is long and complicated, allegedly having been formulated on the basis of a New Zealand model. It does, however, have a full Explanatory Memorandum which helps to explain its provisions. There is no such Memorandum to accompany the VAT Act. The legislation and explanatory memoranda, where they exist, are conveniently available on the LRA web-site. Tax professionals consider that the legislation contains gaps, particularly in respect of VAT, while new customs legislation has been pending since 2009. According to practitioners the pressure on LRA to collect more revenue in recent years has led it to seek to apply provisions in the Acts which were previously dormant: examples given were the minimum chargeable income provision (section 16 of the Act), where individuals have begun to be asked for details of their expenditure, and VAT on imported services, which is unlikely to generate any significant revenue since any amount paid would be deductible against output tax, but which may provide a basis for findings of non-compliance and therefore the imposition of penalties. Although LRA provides guidance on compliance at a basic level, it does not provide any information about changes in the way it interprets particular provisions,

nor are any consultative arrangements in place through which LRA could explain its intentions and practices. Discretionary powers to grant exemptions are very limited, but because of the limited understanding on the part of both taxpayers and revenue collectors, amounts paid may not be clearly based on the applicable law. As the report cited above notes, "dealings between taxpayers, tax practitioners and LRA lack transparency and are often based on guesswork rather than a sound foundation of law and regulation. The overall tax management system is heavily dysfunctional". Since these arrangements result in liability in many cases being settled by negotiation, there is clearly "an important de facto element of administrative discretion involved in determining tax liabilities". Dimension rating: D

Performance change since 2009 PEFA assessment

119. The previous assessment gave a B rating to this dimension. Since 2009, LRA has developed its web-site, and continued its efforts to promote taxpayer compliance at an elementary level. The absence of any sophisticated understanding of tax principles on the part of both taxpayers and LRA (and the very limited availability of tax advice from accountancy professionals) will have applied in 2009 as it does now. The limited evidence available suggests that LRA practices are now seen by taxpayers as more oppressive than they were earlier, when revenue was more readily available from SACU.

Dimension (ii) Taxpayers' access to information on tax liabilities and administrative procedures

120. Taxpayers have ready access to information about how to comply at an elementary level with the requirements of self-assessment. But there is no ready way of finding out how the law should be applied in more complex situations affecting many companies where, for example, costs have to be allocated to different activities which are charged at different rates. The World Bank report points out that the lack of information about how LRA officials apply the law results in a non-transparent process which creates uncertainty and stands in the way of the development of an effective tax practice. This lack of any easy means of communication with LRA points to the rating: C

Performance change and other factors since 2009 PEFA assessment

121. This dimension was previously rated B, on the basis of the ready availability of information about compliance with self-assessment. It seems unlikely that the underlying situation will have changed since then, but this assessment places greater weight on the difficulty of obtaining information in more complex circumstances, and the lack of transparency in the settlement of individual liabilities.

Dimension (iii): Existence and functioning of a tax appeals mechanism

122. Tax inspections apparently often give rise to difficulty when the inspectors may misunderstand a taxpayer's records, and impose an incorrect assessment (and perhaps also penalties). Taxpayers and their advisors then have great difficulty in getting LRA to accept that their interpretation is wrong, with problems remaining outstanding for many months. There is apparently little expertise in the courts or the legal profession about tax issues, and the Tax Appeals Tribunal although formally constituted has never met to hear a case. A small number of cases have been taken to the High Court, which has hitherto always found in favour of LRA. Given that LRA's practices in dealing with

complaints against assessments are the source of significant dissatisfaction, and that the Tax Appeals Tribunal has yet to operate, the tax appeals system clearly needs further development before it can be regarded as fair, transparent and effective. Dimension rating: C

Performance change and other factors since 2009 PEFA assessment

123. The 2009 assessment rated this dimension B. It does not appear that there has been any significant change in the situation, except that three years have passed without the Tribunal hearing any cases, and there is rather more evidence of taxpayers' lack of confidence in the fairness of the system.

Prospects for Reform

124. According to the LRA Head of Litigation, a substantial case will shortly be put before the Tribunal. The LRA is conscious of the need to improve taxpayers' perceptions of its activities, and is currently reviewing its administrative structure with a view to improving its service.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-13	**B**	**D+**	Scoring Method M2 (average of dimension scores)	
(i)	B	D	LRA does not consult or explain when it changes its interpretations of tax laws. Disputed assessments are in effect negotiated between LRA and taxpayers.	Evidence of the uncertainties created by LRA changes in interpretations was not available in 2009. It is unlikely that the underlying position will have changed much, but LRA are probably more determined to collect revenue to counter the loss of SACU receipts.
(ii)	B	C	Adequate information is provided about the basic elements of self-assessment. But guidance cannot be readily obtained from LRA about more complex issues.	The 2009 assessment was probably unaware of the uncertainty created by LRA's relative lack of transparency on questions of interpretation.
(iii)	B	C	The administrative appeals process is opaque, and the Tax Appeals Tribunal still has not heard any cases.	In 2009 there was a prospect that tax appeals would soon begin to be heard, while the earlier stages of administrative appeals within LRA was considered satisfactory.

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

Dimension (i): Controls in taxpayer registration

125. Taxpayers are all registered in an electronic database, with the same Taxpayer Identification number (TIN) used for all taxes, and also for company business licences. Registration of a company results in automatic registration for tax purposes. However, this does not apply to individuals whose businesses are not established as companies and who have not applied for business licences. LRA is negotiating with the commercial banks with a view to making tax clearance a prerequisite for opening a business bank account, and with the Lands Administration Authority for exchange of information. Tax clearance is required for registration in IFMIS as a government supplier and for the renewal of business licences and of permits for commercial vehicles including passenger transport. (But LRA apparently does not have access to any database of vehicles including private cars. There is at present in fact no unified electronic database of vehicles in Lesotho, and most of the records are manual and distributed among different offices in each district. Electronic records are confined to Maseru and Leribe. The current licensing system is primitive and dysfunctional; while causing much inconvenience to road users it collects only about M35m a year in respect of some 120,000 vehicles of all kinds. There are plans to install a unified electronic database by the end of 2012.) Since taxpayers are registered in a complete database with links to a number of other registration systems, rating is: B.

Performance change since 2009 PEFA assessment

126. The requirement for tax clearance before a supplier is entered in IFMIS represents an advance since 2009, but it cannot yet be said that there are comprehensive direct linkages to other government registration systems and financial sector regulations, as would be required for the rating A.

Dimension (ii): Effectiveness of penalties for non-compliance with registration and tax declaration

127. All businesses (companies, partnerships and individuals) are in principle required to register for income tax. (Employees are covered through their employers.) Businesses with an annual turn-over of more than M500,000 a year are required to register for VAT and to make monthly declarations. The Income Tax Act 1993 is silent on penalties for non-registration: non-registrants if detected would face potentially heavy penalties for non-declaration. Penalties in respect of income tax apply to failure to make the necessary self-assessment declaration, and to under or late declaration. These can take the form of prison sentences or fines, or both. In addition penalties can be imposed for late payment; LRA policy is to charge interest at 3 % per month (i.e. more than 40 % a year), as provided for in the VAT Act (the Income Tax Act says only that the Commissioner-General can set a commercial rate plus a margin). Where deliberate under-declaration is concerned a penalty of twice the amount of tax not paid may be demanded (i.e. the taxpayer has to pay three times the original amount due). Similar penalties apply to non- and late filing of VAT returns. However, problems with the accuracy of data are currently preventing LRA from imposing penalties for delay except in the case of VAT. Once the current Data Cleansing Project is completed, penalties will be extended to corporate and personal income tax. A compliance report is run monthly to identify non-filers for PAYE and VAT, and once a year to identify non-filers for

company and personal income tax. Given that there are currently constraints on the application of penalties for non-compliance provided for by law, dimension rating: B

Performance change since 2009 PEFA assessment

128. The situation and the rating are essentially unchanged.

Dimension (iii): Planning and monitoring of tax audit programmes

129. The following table supplied by LRA sets out the number of audits carried out in 2009/10 in respect of "Special sectors", traders, contractors and refunds, companies, professionals and employees.

Table 15: Number of Audits for 2009/2010

Sections	Population	Completed cases	Number of staff	Number of teams
Special sectors	500	35	6	3
Traders	2000	53	12	4
Contractors/refunds	500/200	134	6	3
Companies	3000	36	12	4
Professionals	800	55	6	3
Non-profit bodies/employees	?/47500	26/47500	15	Not applicable

Source: LRA

It will be seen that the most intensive attention was paid to contractors, whose receipts should be subject to a 5 % withholding tax, and refund cases, followed by Special sectors, Professionals, traders and companies. The plans for 2010-11 envisage an increase of 20 % in the number of audits achieved by improved working practices with a stronger focus on risk-based selection. But no information was available about the results of these audits, the extent to which they gave rise to disputed assessments, and the net additional revenue collected. But until LRA's planned Integrated Revenue Management System can be implemented (it appears that the M40m provision for this in the 2011-12 budget was not actually spent) the full use of risk-based audit selection will not be feasible. Dimension rating: C

Performance change since 2009 PEFA assessment

130. It appears that there have been some improvements since 2009 in the resources available for tax audit and in the training of those involved. But there is insufficient evidence about the results of tax audits to conclude that "they are managed and reported according to a documented audit plan with clear risk assessment criteria in at least one major tax area which applies self-assessment", which is the condition for a B rating.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-14	**B**	**B**	Scoring Method M2 (average of dimension scores)	
(i)	B	B	Each taxpayer has unique TIN used for all taxes and linked to company business licences. Tax clearance required for renewal of various licences and permits and for registration as a government supplier.	Basic situation unchanged, although tax clearance more widely required as a condition of the issue of permits, licences, etc.
(ii)	B	B	Effectiveness of penalties generally recognised by taxpayers, although LRA data problems stand in the way of application of some penalties.	Situation essentially unchanged.
(iii)	C	C	Information lacking about the impact of tax audit on revenues and on the number of disputed cases. Full use of risk-based techniques to select taxpayers for audit not yet possible, pending the implementation of the Integrated Revenue Management System.	Situation essentially unchanged.

PI-15 Effectiveness in the collection of tax payments

Dimension (i): Collection ratio for gross tax arrears

131. This dimension is assessed by reference to the percentage of tax arrears outstanding at the beginning of a fiscal year which was collected during that year (average of 2010-11 and 2011-12). LRA figures show that total arrears at 1 April 2010 were M244m, and that the amount increased to M340m on 31 March 2012, or 8.7 % of total LRA collections in 2011-12. The in-year collection ratio is shown as 64 % for 2010-11 and 42 % for 2011-12. These figures represent the proportion collected of the amounts outstanding at the beginning of each year plus the new arrears identified during the year. Information is not available about the extent to which the collections relate to arrears outstanding at the beginning of each year and to new arrears identified during the year respectively. (Although the 31 March 2010 closing balance and the opening balance on 1 April 2010 were the same (M244m), the balance at 31 March 2011 was put at M105m while the opening balance on 1 April 2011 amounted to M165m.) Despite the uncertainty of these figures, it is clear that total arrears are considerably more than 2 % of annual collections, while the fall in the collection ratio as measured by LRA suggests that the average collection ratio for "old" arrears will have been below 60 %, thus indicating the rating D.

Performance change since 2009 PEFA assessment

132. This dimension was not rated in 2009 because of the lack of evidence about the extent of arrears. That information is now available about the extent of arrears represents clear progress.

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

133. As in 2009, LRA transfers money to the Treasury weekly on Wednesdays from its bank accounts in commercial banks in all ten districts. This meets the criteria for the rating: B.

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

134. As in 2009 LRA does not undertake any reconciliation between its records and records of payments to the Treasury, but focuses only on LRA collections accounts. Reconciliations of assessments, collections and arrears takes place at least once a year for all taxes (see PI-14(ii)). Because of the absence of any reconciliation with Treasury, dimension rating: D.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-15	**NR**	**D+**	Scoring method M1 (weakest link)	
(i)	NR	D	Arrears are over 8 % of collections and increasing. Collection ratio on average is less than 60 %	No data were available in 2009 to rate this dimension.
(ii)	B	B	Collections are transferred to the Treasury weekly on Wednesdays from LRA bank accounts in commercial banks.	No change
(iii)	D	D	No reconciliations are done between LRA accounts and records of transfers to the Treasury.	No change

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

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

135. As mentioned in PI -17, Treasury holds several separate accounts at the Central Bank and even more at various commercial banks. Ministries administering donor projects also maintain project bank accounts at commercial banks. The lack of an electronic interface between the banks and the IFMIS prevents Treasury from having

real time or even daily information to manage total cash on a consolidated basis. It must request information on balances and transactions from the banks,

136. Ministries are required to submit a cash flow plan to Treasury at the beginning of the year so that release of funds can be planned. However it does not appear that Treasury prepares and monitors any annual consolidated cash management plan. That is not to say that it does not monitor the cash position on a regular basis and may slow the release of funds for capital expenditures if necessary, given that the government is not permitted to go into overdraft with the Central Bank .This lack of systematic monitoring of consolidated cash may reflect the fact that Lesotho has not in the past had problems with cash flows which have required any system of cash rationing. It is understood that the establishment of a cash monitoring and management unit is currently being considered, which would make more effective use of cash flow information from MDAs. Meanwhile since there is no systematic forecasting and monitoring of cash flows, the rating is D.

Performance change since 2009 PEFA assessment

137. This dimension is rated on the extent to which cash flows are forecast and monitored. The 2009 PEFA rating was D, reflecting the apparent absence of any annual or quarterly cash flows being prepared by MFDP or spending ministries. However it appears that ministries now submit a cash forecast to Treasury at the beginning of the year, but that Treasury does not yet make much operational use of these forecasts.

Dimension (ii): Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitments

138. Ministries are advised of their funding allocation as soon as the budget is passed. Decisions on the release of funds are made by Budget Department of MFDP, but in consultation with Treasury. Funds are released for recurrent expenditures on a quarterly basis and for capital expenditures according to physical progress of the projects. Although first quarter fund releases may be slow ministries comment that they know what funding they will receive each quarter. As mentioned above so far there has been no need for MFDP to resort to any formal system of cash rationing. Thus although formally cash is released quarterly, ministries consider that commitments may be undertaken within the ceiling constituted by the relevant provision for the year as a whole (and this is permitted by the new IFMIS commitment control: see PI-20(i) below). However there appear to be some issues concerning release of funds. Ministry of Local Government comments that release of recurrent funds is predictable but that slowness in release of capital funds is currently causing a number of SN government projects to stall. Ministry of Works and Transport comment that delays in the release of capital funds may occur because of difficulties within their own ministry rather than with MFDP.

139. The 2011 EU assessment of financial management within the Ministry of Natural Resources noted slow execution of capital expenditures but was unable to determine whether this reflected problems within Treasury or project delays or over-optimism within the Ministry concerning project implementation. Nevertheless the overall conclusion is that MDAs are able to plan and commit expenditure for at least six months in advance in accordance with budget appropriations, which satisfies the requirements for the rating: A

Performance change since 2009 PEFA assessment

140. The 2009 PEFA assessment rating B was given on the basis that release of funds was quarterly for recurrent expenditure and as required for capital expenditure. Given that MDAs can actually plan and commit on a time horizon of at least six months, and that the situation has not changed materially since 2009, that rating may have been too low.

Dimension (iii): Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

141. Under the PFMA Act provisions a Chief Accounting Officer (CAO) may transfer within a program up to 20 % of any individual allocation or within a capital project between expenditure items up to 10 % of the allocation from which the transfer is made. Reallocations above these amounts require the approval of the Minister of Finance. The Minister's approval is also required to any transfers between capital projects; salaries and wages; grants, subsidies and social benefits and two other special items. The Minister is not permitted to approve any transfer which has the effect of introducing a new expenditure policy. So far as actual current practice is concerned, the review team understood that only Budget Department, MFDP can enter virements into the IFMIS system, even where they are within the discretion of the CAO under the PFMA Act. Once a change has been made, no record remains in the system of the previously existing situation.

142. MFDP Budget Department states that it does not have a system which systematically reports reallocations approved by the Minister, reflecting the fact that the new virement system provided for in PFMA Act became effective only in June 2011. However for recurrent expenditures any reallocations subject to Minister of Finance approval would be initiated only by sector ministries and not by MFDP. For capital projects Budget Department may recommend to the Minister reallocations between ministries if it appears that based on physical progress of projects one ministry may need more funding and another may need less. MFDP generally reviews progress on all capital projects mid-way through the fiscal year which leads to some reallocations between projects and between ministries. However this is by negotiations and starts with ministries seeking additional funding rather than by unilateral action by MFDP. MFDP has provided a table of capital budget re-allocations for 2011/12 which indicates that some 11 projects in six ministries released funds beyond their needs which were reallocated to some 15 projects in nine ministries, with the total amount of reallocation being M187m.

143. Secondly while the PFMA Act provides for supplementary appropriations (in accordance with Section 112(3) of the Constitution) where Cabinet decides an item in the annual Appropriation Act is insufficient, where a need for new expenditure has arisen or where excess expenditure has occurred and requires validation, in practice supplementary appropriations have not been used for a number of years. Rather the budget Contingencies Fund, which is established by Section 114 of the Constitution and provides for "urgent and unforeseen" expenditure, is used in a "flexible" manner. The use of the Contingencies Fund which is set by the annual Appropriation Act at 1.5 % of total budget expenditure is reported to Parliament for its retrospective approval and reviewed by Parliament as indicated in the discussion under PI-27, *legislative scrutiny of the annual budget law.* The reallocation of capital funds and the use of the Contingency Fund should be authorized by a supplementary Appropriation Act

(although this has not been done for the years 2010-11 and 2011-12). Given that these reallocations, although significant, are done only once a year, and that they are done in consultation with MDAs concerned, the rating is: B.

Performance change since 2009 PEFA assessment

144. The situation has not changed, and the previous rating is maintained.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-16	**D+**	**D+**	Scoring method M1 (weakest link)	
(i)	D	D	There is no systematic planning and monitoring of cash flow, although MDAs are now asked for a cash flow projection at the beginning of the year, and the Treasury are considering establishing a cash flow monitoring unit.	No arrangements for planning and monitoring cash flow were found in 2009. The collection of information from MDAs represents an advance, which would be substantially furthered if a cash flow monitoring unit were established.
(ii)	B	A	MDAs can plan and commit expenditure for at least six months in advance in accordance with Budget appropriations	No significant underlying change: the 2009 assessment focused on the quarterly releases of funds which do not in fact constrain MDAs.
(iii)	B	B	Significant budget adjustments take place only once a year, and are made in a fairly transparent way in consultation with MDAs concerned.	No change

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

Dimension (i): Quality of debt data recording and reporting

145. Most of Lesotho's public debt is external debt, borrowed both for project funding and for on-lending to government business enterprises and parastatals. The largest amounts of recent borrowing have been on behalf of Lesotho Telecoms, in which the government has a minority shareholding, for which some $63 million has been borrowed on the Chinese market. In addition debt has been raised from various Arab funds, the European Investment Bank and the World Bank for the Metolong Dam Water Supply project. The debt data includes guarantees, although they are separately disclosed.

146. MFDP uses the Commonwealth Secretariat Debt Recording and Management system (CS-DRMS) for all public debt, both external and domestic. CS-DRMS is a debt management as well a recording tool and is capable of analyzing the debt according to a number of classifications – currency, lender, timing etc. The system provides comprehensive management and statistical reports covering debt service, stock and operations. The information is complete and is reconciled on a monthly basis. There have been no queries or qualifications or concerns expressed by the Auditor-General, the IMF or the World Bank on the reliability of public debt information in CS-DRMS. The IMF uses the data for its debt sustainability analyses which are conducted on an approximately annual basis. The system has enabled MFDP to include accurate figures for debt servicing in the budget estimates and to pay its debt servicing correctly and on time.

147. However there have been issues with the quality of debt information reported in the previous GOLFIS accounting system. This has led to differences between debt information reported in CD-DRMS and the information contained in GOLFIS which were reported on in the Auditor-General's report on the 2007/8 financial statements, which are the most recent audited financial statements. The audit report indicates that Treasury had not properly captured and recorded in the financial statements the transactions from the primary records maintained by the Public Debt Department. It comments that the figures for principal repayments and interest payments are significantly different from those in the CS-DMRS and that domestic debt has also been understated. As discussed in PI-25 on *Quality of the Annual Financial Statements* public debt data has not been included in the statement of assets and liabilities in the annual financial statements nor is there disclosure of the corresponding asset for amounts owing by public enterprises in the case of external loans raised by the government and on-lent to them.

148. To provide accurate reporting of public debt in the IFMIS, which has been operating since 2009, an interface is being developed between CS-DRMS and IFMIS so that the two systems will in future be automatically reconciled. The external debt module has been completed and the other modules are in progress. However this interface is not yet operational. Information about the extent to which the public debt information included in IFMIS is reliable will therefore not become available until the audit report on the 2009/10 financial statements is produced. As discussed under PI-25 the Accountant-General has stated that these financial statements will be submitted for audit shortly.

149. The Public Debt Department of MFDP prepares monthly reports on the public debt which are produced within 10 days of the end of the month and are provided to other relevant departments within MFDP such as Department of Economic Policy for analysis and use in GFS reporting. Reports are also provided to the Central Bank for provision of foreign exchange for external debt servicing. Full details of public debt are now published in the Background paper on the Budget which forms part of the documentation submitted to the National Assembly. To further improve public transparency concerning public debt the Public Debt Department is considering producing a Debt Bulletin which would explain in simple terms to the public the size, structure and source of or reasons for Lesotho's public debt. This would be done with the assistance of the Commonwealth Secretariat. Such bulletins are already produced in three African Commonwealth countries and are a useful mechanism to improve fiscal transparency. Given that "debt records are complete, updated and reconciled on a

monthly basis with data considered of high integrity, and that comprehensive management and statistical reports are produced at least quarterly", the rating is: A. (The weakness in external reporting of debt relates to the annual financial statements which are covered by PI-25 below.)

Performance change since 2009 PEFA assessment

150. The 2009 PEFA rating for this dimension was B, apparently on account of doubts about the accuracy and completeness of information about domestic debt. There are no current doubts about any aspect of the figures.

Dimension (ii) Extent of Consolidation of the Government's Cash Balances

151. The statement of assets and liabilities in the 2007/08 financial statements indicates that the Government operates some 32 separate bank accounts with the Central Bank and with commercial banks. Commercial banks are used for government operations outside Maseru and for a number of donor funded projects. There are four main accounts at the central Bank covering revenue, recurrent expenditures, capital expenditures and money held in trust. There is no electronic interface between IFMIS and the banking system and thus the Government does not have on-line access to these accounts - but may obtain the balances on a daily basis on request. Monitoring of the substantial amount of funds held in commercial banks, for government operations outside Maseru where the central bank has no presence, does not appear to be systematic, with no ability to obtain account balances and transaction details except on request.

152. There is thus no facility which enables MFDP to obtain real time information on its total cash balances and they thus cannot be managed on a consolidated basis. Moreover there is no cash management unit within Treasury with responsibility for overall cash management which would undertake this role, although establishing such a unit is said to now be under consideration. (This issue is further discussed under cash flow forecasting and monitoring in PI-16, *Predictability in the availability of funds for commitment of expenditures.)* Since the Treasury is unable to calculate its overall balances on a regular basis, and there is no possibility of consolidation, the rating is: D

Performance change since 2009 PEFA assessment

153. The 2009 PEFA assessment rating on this dimension was D based on the inability of Treasury to calculate overall balances on a regular basis. The situation and rating are unchanged.

Dimension (iii): Systems for contracting loans and issuance of guarantees

154. The Loans and Guarantees Act of 1967 authorizes the Government to raise and guarantee external loans. The Local Loans Act authorizes the Government to borrow domestically but with total domestic debt limited to R5 million. Under the 2011 PFMA Act the Minister of Finance must approve all borrowings, whether for budget purposes or for public enterprises or AGAs, with the prior consent of the Cabinet. This replaces similar provisions in the Loans (Statutory Bodies) Act of 1975. The Loans and Guarantees Act of 1967 limits total debt to the amount of total government revenues of the previous three years. This provision is considered to be anachronistic and lacking in logic. New legislation to replace this Act under which debt limits would be related to GDP as part of government fiscal targets is being developed. Fiscal targets relating to

debt in the form of solvency indicators agreed with the IMF which are set out in the Budget Background Paper provide a limit on total debt.

155. The Government borrows on the external market (its current credit rating is BB-) for any debt required by public enterprises and then on-lends to the relevant public enterprise. Funds borrowed on behalf of public enterprises are on-lent to them at a concessional rate of 2 % with a percentage loading added for the foreign exchange risk being borne by the Government. Funds on-lent to entities such as the Water and Sewerage Company (WASCO) may not be repayable by the entity, with the repayments being borne by the budget; may have interest payable only or may be on other concessional terms depending on the extent to which the funds are being used for commercial as opposed to non-commercial purposes. Under the 2011 PFMA Act only the Minister of Finance may approve guarantees. The only guarantee currently in place is that for the Lesotho National Development Corporation which exceptionally was given permission to borrow direct on the South African market. As guarantees are recorded as part of debt they are limited to the same extent as debt.

156. For both borrowing and guarantees the Minister must be satisfied as to the ability of the beneficiary of the loan or guarantee to repay the loan including interest charges, if applicable. This amounts to a further criterion for their assessment. However as discussed in PI-9 it does not appear that any detailed analysis is undertaken to assess the ability to repay either by MFDP or the relevant sector ministry, as a basis for advising the Minister. Recognizing this MFDP has agreed with the IMF that it will re-establish the Technical Debt Management Committee which will include representatives from MFDP, Central Bank, Attorney-General and relevant sector ministries and which was previously charged with analyzing requests for borrowing or guarantees. (Monitoring of PEs and AGAs including the fiscal risk associated with their debt and any guarantees is covered by PI-9). Since "the contracting of loans and issuance of guarantees are made within limits for total debt and guarantees and always approved by a single government entity", the rating is: B.

Performance change since 2009 PEFA assessment

157. In the 2009 PEFA Assessment this dimension was rated as C. However there has been an improvement since then through the adoption of fiscal limits on borrowing as part of the current agreement with IMF concerning the Extended Credit Facility.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-17	**C**	B	Scoring Method M2 (average of dimension scores)	
(i)	B	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis, and comprehensive reports are produced at least quarterly.	2009 assessment had doubts about accuracy of domestic debt data, and gave credit for only quarterly reconciliations.
(ii)	D	D	No consolidation of balances is possible, nor can balances	No Change.

			be calculated regularly.	
(iii)	C	B	All loans and guarantees must be approved by the Minister of Finance, and this is done within limits on the debt stock fixed in agreement with IMF.	2009 assessment considered that there were no limits on guarantees. PFMA Act 2011 makes clear that guarantees are to be included within limits.

PI-18 Effectiveness of Payroll Controls

158. This indicator is concerned with the payroll for public servants only. Dimensions (i) through (iii) of this indicator assess the payroll control function as at the time of assessment (July/early August 2012), while dimension (iv) measures performance over the last three years before assessment.

Dimension (i): Degree of integration and reconciliation between personnel records and payroll data

159. There is no integrated database of personnel and payroll information. Payroll data for all civil servants are processed at the Treasury department at MFDP. As per the 2008 *Public Service Regulations* (Chapter 2), there are four types of public employment: permanent and pensionable, contractual, temporary and casual labor. Casual laborers are hired for specific purposes and on a very short-term basis and are not part of the payroll. They are managed and paid directly at the ministry level. Temporary staff are hired for less than 6 months and are also dealt with directly by Ministries. Contractual staff are hired for between 6 months and 3 years. Contractual and permanent staff are both considered part of public service and included in the payroll system managed by the Treasury through a specific computerized application called “Unique”. Unique currently processes salaries (for permanent staff) and wages (for contractual staff) of just over 49,000 employees. Teachers are an exception as although their salaries and wages are included in Unique, they are not entered in the system by the Treasury but by the Teachers Service Department (TSD).

160. Personnel records are kept at the level of individual Ministries. All five Ministries interviewed on payroll controls (MHSW, MET for administrative staff, Ministry of Agriculture and Food Security (MAFS), MPS and MFDP) held files in the form of physical folders and did not keep a nominal list manually or electronically. For contractual and permanent staff, changes in employment status are processed manually through *casualty return* forms. Each time, a copy is sent to the Treasury, for reconciliation with payroll records, to the OAG, and to the MPS.

161. All casualty returns submitted by the 15^{th} of the month are to be reflected in that month’s payroll, with those submitted after the 15^{th} taken into account in the next month’s payroll. After the Treasury has paid employees at the end of each month Human Resource (HR) officers are expected to collect a copy of the payroll report for their MDA from the Treasury and check that all changes submitted are indeed reflected in the payroll. Then they should notify the Treasury of any changes that have not been reflected for these to be inserted in the payroll for the next month. Specifically, the

control rules for salary expenditure (cf. Section 5, Chapter 8 of *Draft Treasury Regulations*) foresee that each month ten days before the end of the month, MDAs have to certify in writing that salary payments made for that month have been reconciled with Ministry records. That said, not all MDAs are complying with the rules. At the MHSW for instance, which accounted for 12% of total primary expenditure in 2012, this control is not being undertaken at all. For the whole of 2011/2012, monthly payroll reports were never checked against the changes submitted. In fact, the HR officers responsible do not even keep a record of the changes submitted via the casualty returns. As a result, the OAG's audit of the MHSW during FY 2011/2012 found instances both of officers appearing on the payroll lists that were not in the nominal roll (i.e. ghost workers) and of officers in the nominal roll that were not on the payroll. Thus, the integrity of the payroll is significantly undermined by the absence of reconciliation between payroll data and personnel records. Dimension Score: D.

Performance change since 2009 Assessment

162. No change.

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

163. As described under dimension (i), changes are processed when they occur and notified to the Treasury through casualty returns. The rules require changes to be reflected in the payroll of the month in which they have occurred, or in the next month if received after the 15th, and personnel records and payroll data to be reconciled on a monthly basis. Despite this the time it takes for a change in employment status to be reflected in the payroll is on average over one month, but less than three, for the employees of those MDAs that check payroll reports against the changes submitted. The MAFS was found to be performing the control on a monthly basis. For this ministry, 89 changes occurred in June 2012. All corresponding casualty returns were issued and sent to the Treasury by mid-July, and 80 (90%) were reflected in the July payroll. Nine (i.e. 10%) were not, and the MAFS had already notified the Treasury to include them in the August payroll. For this ministry, changes relating to the month of February 2012 were also checked and the majority were reflected in the payroll of March 2012; it must be noted however that these were all first appointments.

164. Most other MDAs (see dimension (iii)) do not perform the monthly reconciliations. For this reason, they could not provide statistics to demonstrate the timeliness of changes. According to MSHW officials, it can take longer than 6 months for changes to be incorporated, especially for those regarding death, resignation, and termination of employment. For a sample of 16 casualty returns issued by MHSW in May 2012 relating to changes for April and May, 3 were found to correspond to officers not on the payroll, yet on the nominal roll; 5 were reflected in the next month's payroll; 6 took between one and three months, and 2 (15.4%) were still not reflected in the payroll at August 2012 and will thus take 3 months or longer. Moreover the changes involving retirement or resignation were among those which took the longest time. Other changes taking longer were also those involving higher salary expenditures. The 16 changes covered salaries totalling M88,023. The 2 cases not yet effected implied retrospective adjustments of at least M30,812 or 35% of the total salaries concerned. The total of retrospective adjustments required by all cases taking longer than a month was at least M120,000 or 136% of the sum of the salary payments initially affected by the changes.

165. Furthermore, the retrospective adjustments had not yet been made even for those changes which had already been incorporated in the payroll. Reportedly, financial controllers at the MDA level are responsible for implementing those retrospective adjustments involving more money being paid to employees, whereas the Treasury is responsible for imposing deductions from the payroll or terminal benefits. For some MDAs (e.g Parliament), the mission found that it can take up to seven months from the effective date of the change for even the casualty return to be issued. Thus, delays in processing changes to payroll and nominal roll can be longer than three months and above all require widespread retrospective adjustments. Dimension score: D.

Performance change and other factors since 2009 Assessment

166. There is no underlying change in performance. The 2009 assessment does not sufficiently evidence its rating of B for this dimension. No data were provided on the size of retrospective adjustments that were found to be widespread by the 2012 assessment.

Dimension (iii): Internal controls applied to changes to personnel records and the payroll

167. Internal controls exist but are inadequate and not sufficiently documented. As a result, payment errors were found by the OAG and this assessment. Besides the Draft Treasury Regulations, which are treated as the new applicable regulations since the passing of the PFMA Act, there are no other documents specifying the rules governing changes or access to payroll and personnel data. Manuals or internal administrative procedures have not been drafted to cover these issues. The Draft Treasury Regulations only specify that "Chief Accounting Officers must ensure that officers who approve appointment of permanent or wages [meaning contractual] employees do not also have authority to approve or certify casualty returns", and set out the rule requiring MDA staff to reconcile the payroll with personnel data on a monthly basis (cf. Chapter 8). Moreover these rules which should ensure a timely reconciliation of payroll and personnel records are not being observed. The MHSW and, according to the Salaries Unit at the Treasury, many more MDAs do not notify the Treasury that the monthly reconciliation controls have been performed, as the regulations would require, and many do not even collect the payroll reports from the Treasury. In fact, during the FY 2011/2012 inspections, besides the above-mentioned cases of apparent ghost workers being paid and of existing employees not receiving payment, the OAG also found: (i) instances of overpayments resulting from officers being wrongly placed in higher salary ranges, (ii) officers on study leave receiving a full salary instead of dependence allowance, (iii) salaries paid by means of unsigned cheques. If reconciliations were carried out as required the delays in employment changes being reflected in the payroll would be reduced, thereby reducing the scope for errors in the retrospective adjustments noted in dimension (ii) above. Finally, out of 16 casualty returns issued in May 2012 by MHSW, 3 were found by this assessment to correspond to personnel records of people who were not included in the payroll. Overall, controls of changes to records are deficient and facilitate payment errors. Dimension score D.

Performance change and other factors since 2009 Assessment

168. There is no change in performance. The 2009 assessment does not sufficiently evidence its rating of C for the dimension. It does recognize that internal controls were

not sufficient to ensure full integrity of data, and also briefly mentions complications with salary payments, which would suggest a D rating.

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

169. The internal audit department at MFDP has not audited the payroll in the past three years. Reportedly, OAG does cover payroll issues during its annual inspections of MDAs. However, this assessment was only able to access part of the results of one audit of MHSW in 2011-12, as noted in relation to dimension (iii) above. OAG's audits are in any event neither risk-based nor system oriented and their coverage in terms of total CG expenditure is incomplete (see PI-26), so that its inspection of the payroll does not constitute a "strong system of annual payroll audits […] to identify control weaknesses and/or ghost workers" (Cf. PEFA, PFM Performance Measurement Framework, page 37). OAG has never undertaken an audit focused on the payroll even for one MDA. Moreover its audit findings from inspections are not available to the public unless they are mentioned in the reports on the annual financial statements which are tabled in Parliament (for subsequent examination by the Public Accounts Committee (PAC)), and so its recommendations can usually be ignored.

170. During FY 2009/2010 OAG undertook an audit of payroll related issues, focusing on the IT system Unique and its interfaces with IFMIS, and not on payroll controls. The audit found large unreconciled discrepancies between Unique and IFMIS data. It also found several cases where bank statements showed payments to individuals who were not on the civil payroll, which further reinforces the need to improve internal controls. As no specific even partial payroll audits or staff surveys have been undertaken within the last three years, the dimension score is D.

Performance change since 2009 Assessment

171. There has probably been no underlying change in controls over payroll, but the 2012 rating is lower because whereas a staff survey had been undertaken in the three years preceding the 2009 Assessment, no such survey or payroll audit has been undertaken in the three years up to July 2012.

Ongoing Reforms

172. At the end of July 2012, the Internal Audit had just started auditing the MFDP payroll.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-18	**D+**	**D**	Scoring method M1 (weakest link)	
(i)	D	D	Integrity of the payroll is significantly undermined by lacking reconciliation between payroll data and personnel records.	No change.

(ii)	B	D	Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.	The 2009 and 2012 assessments are not comparable because the earlier assessment did not have a sufficient basis of evidence. Nonetheless, the Core Team's view is that there has been no underlying change in performance**.**
(iii)	C	D	Controls of changes to records are deficient and facilitate payment errors.	The 2009 and 2012 assessments are not comparable because the earlier assessment did not have a sufficient basis of evidence. No underlying performance change.
(iv)	C	D	No payroll audits or staff surveys have been undertaken within the last three years.	Lower rating because of absence of any recent staff survey or audit.

PI-19 Transparency, competition and complaint mechanism in procurement

173. This indicator and its dimensions were substantially revised in January 2011 and comparisons with the 2009 PEFA scoring are therefore affected, as discussed under each dimension.

Dimension (i): Transparency, comprehensiveness and competition in the legal and regulatory framework

174. Part VII of the 2011 PFMA Act provides the framework for procurement and management of government property. The Chief Accounting Officer of each ministry is required to ensure that the principles of value for money, open and effective competition, transparent and ethical behavior and management of risk are observed in the acquisition of property, and that a sound inventory management system is in place. The Public Procurement Regulations 2007 provide the detailed procedural framework. In addition to the Regulations there is a Procurement Manual to provide guidance. The Regulations apply to all public bodies including PEs, AGAs and sub-national government. The MFDP website (www.finance.gov.ls) contains the PFMA Act 2011, the Procurement Regulations 2007, Procurement Manual, a summary guide to the procurement system, the Government Code of Good Practice in Procurement, a guide for small businesses wishing to tender for government contracts and a charter for small and medium sized business enterprises.

175. Under the Regulations the Procurement Policy and Advice Division (PPAD) of MFDP maintains the legislative and policy framework for procurement and seeks to provide advice and support to ministry procurement units. It is also required under the Regulations to provide an annual report on procurement performance with recommendations, to the Principal-Secretary of Finance, but in practice is unable to obtain the information to do this due to non-compliance by spending ministries. PPAD also has a formal role to maintain a complete inventory of public assets and to provide advice on asset management and disposal, but has not yet been able to address these tasks. Revised regulations have now been drafted to better reflect the provisions of the

PFMA Act, to modernize procedures and to improve compliance. The draft is awaiting approval by the Minister of Finance.

176. Since the 2007 changes which abolished the central tender board, the centralized procurement or common use contracts have been confined to petroleum purchase and vehicle fleet management administered by another unit in MFDP, the CMU. There are plans under the draft new regulations to expand the range of central contracts. The 2007 Regulations decentralized procurement to each spending ministry which now has its own procurement unit, which generally reports direct to the chief accounting officer – the principal secretary. Anecdotally there are limitations in both quality and quantity of staff of these units, notwithstanding useful training programs conducted by the Institute of Development and Management covering various qualification levels of the (UK) Chartered Institute of Purchasing and Supply.

177. Ministries are required to prepare procurement plans to feed into their annual budget submissions. Not all do so, reflecting lack of knowledge of or willingness to adhere to the requirements of the Regulations. The quality of procurement plans is reduced in some cases by inadequate liaison between operational staff as end users and the procurement units. The Regulations provide for procurement units to establish evaluation teams drawn from operating departments of the ministry and for the chief accounting officer (the principal secretary) to establish tender panels to award tenders. The opening of tenders and meetings of the tender panel at which the evaluation report is read out are open to the public (the dates of these events being specified in the tender) and there is provision for attendance of an independent observer when requested by the business community. The Regulations provide for three types of procurement under different thresholds – direct purchase, purchase after obtaining three quotes and open tendering. There is also provision for two stage tendering.

178. Members of the donor community commonly use their own procurement systems rather than the national systems. However no statistics are available on donor use of the national procurement system. The major donors involved in procurement for projects are the Millennium Challenge Corporation (USA), EC and World Bank.

179. For the 2009 PEFA assessment there was no comparable dimension. This new dimension is rated on the extent to which the legal and regulatory framework meets six criteria, namely

- Be organized hierarchically and precedence be clearly established. Lesotho's PFMA Act and Procurement Regulations reflect this requirement

- Be freely accessible to the public through appropriate means. These are available on MFDP website

- Apply to all procurement undertaken using government funds. For Lesotho this is clearly established by the PFMA Act 2011 which also applies to PEs as well as to local authorities.

- Make open and competitive procurement the default method of procurement and define clearly the situation in which other methods can be used and how this is to be justified. One stage open tendering is clearly prescribed above a certain threshold although it is not specifically defined as the default method. However the conditions under which open and competitive procurement may be by-passed are prescribed meaning that this requirement can be regarded as met.

- Provide for public access to all of the following procurement information; government procurement plans; bidding opportunities; contract awards and data on the resolution of procurement complaints. Lesotho does not meet at least the final two pieces of information and therefore does not meet this requirement.

- Provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature, Lesotho does not meet this requirement

Since Lesotho meets the first four of the above six requirements, the rating is: B.

Dimension (ii): Use of competitive procurement methods

180. Under the Procurement Regulations open tendering is required above a threshold of M100,000 (about $7,000) with limited provision for exceptions to this, as follows

- "Exceptional circumstances" which cover situations where a contract is directly relevant to a previously completed contract and using the same contractor provides added value above any savings from a competitive tender or where the requirement can be met from only one source. "Convincing and accurate reasons" are required in these cases for not using a competitive method.

- Provision for "limited tendering" where only one or a small number of suppliers are capable of supplying the goods or services. "Convincing and accurate reasons" are also required in this case.

- Provision for "non-competitive contracting" where only one supplier exists or where it is cost-efficient to extend an existing contract or there are unforeseeable circumstances such as a national emergency.

These provisions appear to overlap and may be a source of confusion. The draft new regulations seek to rectify this.

Below this threshold direct purchasing is prescribed for goods and services up the amount of M30,000 with obtaining three tenders being the prescribed method for amounts between M30,000 and M100,000.

No statistics are available on the percentage of procurement conducted through open tendering. It appears that the requirements for open tendering are not always observed due to ignorance of the requirements, the ability to ignore the requirements without any consequences and in some cases intervention from senior management or political levels. Anecdotal evidence suggests some cases where an exemption from open tendering has been given on inappropriate grounds. PPAD estimates that about 80 % of procurement requiring public tendering is in fact publicly tendered, with the rest by-passing the system, mostly on inappropriate grounds.

181. The Auditor-General's November 2010 performance audit report on procurement within the Ministry of Health and Social Services noted some procurement bypassing the procurement unit and being carried out directly by line managers, this being partly a

reflection of ignorance of procurement procedures including the existence of the 2007 Regulations.

182. As mentioned in the discussion in (i) above while the Regulations do not explicitly state that open tendering is the default option there appears to be adequate recognition of the key importance of open tendering in the Regulations, even if there is some confusion on the grounds for being able to not use open tendering and also significant non-compliance with the requirements .The authorization of payments by authorizing officers within spending ministries includes a review of the documentation to verify that the correct procurement procedures have been followed. However it is unclear that this procedure has any significant impact on the rate of compliance.

Performance change and other factors since 2009 Assessment

183. Under the previous two PI-19 criteria, in the 2009 PEFA assessment, Lesotho rated D on evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of contract awards above the threshold) and a rating of D on the extent of justification for use of less competitive procurement methods. For 2012, this dimension is rated on the basis of the extent (measured in percentage) to which those contracts awarded by methods other than by open competition, are justified in accordance with legal requirements. Although there is no reliable data, PPAD considers that in most cases the requirements are bypassed on inappropriate grounds. Therefore, for 2012 this dimension is rated as D.

Dimension (iii): Public access to complete, reliable and timely procurement information

184. No information is available on total procurement or its composition or types of procurement used. This information is held by ministry procurement units but is not reported to MFDP where it would be consolidated.

185. Under the Procurement Regulations 2007 Ministry procurement plans are required to be publicized through the mass media within one month of the budget being passed and are also to be posted on each ministry's website. However as mentioned above a small number of ministries do not prepare such a plan and in addition not all ministries put the plan on their website. PPAD estimates that about 80 % of ministries comply with these requirements. However many of the plans are of poor quality. Tenders are advertised by ministries in the print media and sometimes on local television. A consolidated list of available tenders across ministries is also required to be prepared by PPAD and is published on the MFDP website. However this is prepared largely by PPAD assembling information already published in the media by individual ministries rather than from information provided direct to PPAD and is therefore incomplete. It does not cover PEs, AGAs or SN government. Obtaining all this information is beyond the current resources of PPAD.

186. Information on tenders awarded is not routinely available, and there is no specific provision in the Regulations, although procurement units may provide this information on request and some report the information on the ministry website. In addition the information could be provided when briefing unsuccessful tenderers, which is a requirement of the Regulations although generally not observed. As mentioned in (ii) above public or business community attendance at meetings of tender panels when the contract award is announced is permitted. However overall the lack of systematic

publication of information on tenders awarded is a significant weakness in transparency. Originally PPAD expected IFMIS to enable them to drill down into procurement information to enable this to be published, but this did not eventuate.

187. The OAG performance audit of procurement in the Ministry of Health and Social Welfare noted failure to report tender awards to MFDP, internal audit, Auditor-General and other stakeholders, failure to include tender awards in the Procurement Bulletin and a total failure to hold debriefings for unsuccessful tenderers. To overcome the problem of lack of procurement information PPAD has developed, with consultancy assistance, an IT based procurement system which would be used by all ministries and would automatically supply PPAD with the information it needs on total procurement and the methods used and exemptions granted from open and competitive tendering. However this proposal has not yet been considered by the government's Project Appraisal Committee which is a requirement before it can be considered for budget funding. Information on the system has been provided to spending ministries but it does not appear that as yet there has been detailed consultation with them on its design and operation.

Performance change and other factors since 2009 Assessment

188. For the 2009 PEFA assessment, there was no comparable dimension. Under the revised PI-19, this new dimension is rated on the extent to which four key procurement information components (government procurement plans, bidding opportunities, contract awards and data on resolution of procurement complaints) representing a certain percentage (in value) of procurement are made available to the public through appropriate means. Since Lesotho fully meets only one of these requirements – on bidding opportunities - the rating for this dimension is D**.**

Dimension (iv): Existence of an independent administrative procurement complaints system

189. The Procurement Regulations provide for a first level for any complaints against a procurement decision to be lodged with the procurement unit of the relevant ministry. If the complainant is not satisfied with the response an appeal may be made to PPAD, which will review compliance with the Regulations and may over-turn the contract award. In doing this the PPAD may seek advice from the Legal Department of MFDP. The next recourse is to the Minister of the relevant ministry who may arbitrate and beyond this is the opportunity to purse the issue through the courts. PPAD receives around 2-4 complaints per month but many are "out of time" and cannot therefore be considered. PPAD has required re-bidding in a number of cases where procedures have been irregular.

190. The establishment of an improved complaints mechanism was one of key recommendations of the World Bank's 2008 Country Procurement Assessment Review (CPAR). The 2011 PFMA Act provides for the establishment of a Procurement Tribunal of six independent members to be appointed by the Minister of Finance. Its role is to hear appeals against decisions of the Advisory Division under the 2007 Public Procurement Regulations. However the Tribunal has not yet been established although its proposed membership (comprising legal and accounting skills and representatives of the business community) has been submitted to Cabinet by the Minister of Finance. However Cabinet has yet to make a decision. If this Tribunal is established considerable

work will be required to develop its documentation and procedures. Under the PFM Action Plan donors are intending to provide assistance for this to be done.

Performance change and other factors since 2009 Assessment

191. In the 2009 PEFA assessment on the comparable dimension of existence and operation of a procurement complaints mechanism, Lesotho's score was D, reflecting the fact that no such mechanism was in place. For 2012, given that such a Tribunal has not yet been formally established, let alone commenced operations, Lesotho's rating must remain a D. However, that such a mechanism is provided for in the 2011 PFMA Act and the proposed membership has been sent to the Minister of Finance represents progress.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-19	**D**	**D+**	Scoring Method M2 (average of dimension scores)	
(i)	D	B	Lesotho meets four of six benchmarks concerning the desirable legal framework.	The 2009 and 2012 scores are not comparable**.** Indicator revised in 2011, so no basis for comparison.
(ii)	D	D	PPAD considers that when competitive tendering is by-passed, the reasons given generally do not justify this.	
(iii)	D	D	There is adequate publication of bidding opportunities, but not of procurement plans, contract awards and the results of procurement complaints.	
(iv)	-	D	No independent procurement complaints machinery is yet operational, although this is provided for in PFMA Act 2011, and specific proposals for the establishment of a Procurement Complaints tribunal have been submitted to the Minister of Finance.	This was dimension (iii) under the previous specification of PI-19. The fact that PFMA Act 2011 provides for the establishment of a Procurement Complaints Tribunal, and that specific proposals have been put to the Minister of Finance to give effect to this provision, represent an advance as compared with 2009.

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

192. Given the absence of recent Auditor-General's reports on the financial statements (the latest being for 2007/08) evidence for this performance indicator was obtained from discussions with key staff in several ministries and from a range of other reports as set out in the final section of this discussion.

193. The regulatory framework is the 2011 PFMA Act and the 1973 Finance Regulations. New Treasury Regulations to give effect to the 2011 PFMA Act have been approved by the Minister of Finance and require only transmission to Parliament to become legally effective. For this reason they are regarded by MFDP as the currently applicable legal framework.

Dimension (i): Effectiveness of expenditure commitment controls

194. Unlike the previous GOLFIS system the IFMIS contains a commitment control module. IFMIS requires a ministry to issue a purchase order which the system will only issue if the transaction does not result in the budget allocation being exceeded. Once the commitment is entered the amount is deducted in IFMIS from available funds. However one glitch is that it appears the system may have allowed ministries to access unused allocations of other ministries. Although under GOLFIS there was a requirement to register commitments, in practice commitments appear to have commonly been made outside the GOLFIS system. It is stated that all commitments now pass through IFMIS. Budget execution reports contain information on commitments as well as payments. The 2011 EU assessment of financial management in Ministry of Natural Resources considered that IFMIS has strongly contributed to more effective commitment control in that Ministry. However this does not mean that expenditure arrears will not arise if suppliers provide goods and services without purchase orders. Since IFMIS contains a commitment control which will prevent commitments from being accepted if they would exceed the available budget provision, and there has been no question of cash allocations for the year falling below budget provision , Lesotho can now be seen as meeting the condition that "comprehensive expenditure commitment controls should be in place which effectively limit commitments to cash availability and approved budget allocation for most types of expenditures, with minor areas of exception", which qualifies for the rating: B.

Performance change and other factors since 2009 Assessment

195. The 2009 PEFA assessment rating of D reflected the weakness of the commitment control system including the ability to bypass the GOLFIS system, so opening the way to a build-up of expenditure arrears. Although many problems apparently remain in respect of the functioning of IFMIS, there are no indications that the commitment control module is not working satisfactorily.

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

196. The 2011 PFMA Act sets out the duties of the Chief Accounting Officer (CAO, i.e. the Principal Secretary) of each ministry. The CAO is required amongst other things to ensure that a sound system of internal controls is in place to provide assurance that the program objectives are being met and that the necessary accounting controls are in

place. These controls cover commitment of expenditure and authorization of payments, ensuring accuracy of data through regular reconciliations, ensuring proper revenue collection and management of cash and other assets. These responsibilities may be delegated to lower level officers but the CAO remains responsible for the adequacy of these controls. In practice each ministry has a financial controller, who in most ministries reports to the planning or budget director.

197. Under the Finance Regulations 1973 the Accountant-General is responsible for ensuring a proper system of accounting; efficient systems of revenue collection, custody and classification; supervision of expenditure to guard against extravagance, excesses and misallocations; control and supervision of accounting officers and standardization of accounting documentation and records. The Regulations set out in 22 Chapters totalling some 60 pages detailed duties for accounting officers, rules for the authority for expenditure, control of expenditure, payments to suppliers, payment of salaries and wages, collection and receipt of revenues, custody and control of revenue receipt forms, safe custody of other records, imprest accounts, deposit accounts etc. They appear comprehensive but perhaps too detailed and prescriptive, which limits the ability or willingness of officials to understand and comply. The 2011 (draft) Treasury Regulations do not differ substantially from the Finance Regulations 1973 and have the same coverage but reflect a number of changes such as pre-payment checking now being done in line ministries rather than by Treasury. OAG reports have identified a lack of appreciation by some Principal Secretaries of their role as CAO. Despite this the enactment of the PFMA Act 2011 represents an improvement in the legislative framework for internal controls as compared with the Finance Order 1988 which was in force in 2009. In Lesotho "Other (i.e. other than commitment controls) internal control procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application", which is the minimum condition for the rating: C.

Performance change and other factors since 2009 Assessment

198. The 2009 PEFA assessment rating was D, notwithstanding the existence of reasonably clear and comprehensive internal control rules and procedures. It appears to have been based on a perception that there was poor understanding and application of the rules, exacerbated by low capacity in many MDAs, particularly as identified in Auditor-General's reports. This low score may not have been appropriate given that there were a reasonable set of internal controls rules and procedures for which credit should have been given despite the significant lack of compliance apparently due both to lack of understanding and lack of consequence of non-compliance. It appears that the situation was significantly better than the criteria for a D score namely that "clear, comprehensive control rules/procedures are lacking in other important areas".

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

199. Reports of the Auditor-General contain extensive discussion of widespread failure to observe required financial controls. The Auditor-General's report on the 2007/8 financial statements lists the following common examples of failures to observe regulations and procedures, which are repeated across a number of MDAs and which create potential for fraud and corruption. However the report notes that individual cases are rarely material;

- lack of reliable records for control of public assets
- improper maintenance of vote record books
- non-reconciliation of records
- failure to prepare arrears of revenue returns
- officers on study leave without approval
- failure to report losses and accidents

The Agriculture College is singled out in the report for material deficiencies including misappropriated revenue, unaccounted for revenue, revenue not paid to Treasury but diverted for other purposes. Anecdotal evidence suggests little or no improvement in the situation, with continuing widespread failure to observe internal control requirements. These problems are also reflected in the unwillingness of most donors to use the government payment and accounting system. The nine 2011/12 reports of MOF Internal Audit Division contain the most recent analysis. They identify particular problems in procurement in four ministries including failure to adhere to the requirements for obtaining three quotations below the level of M100.000, poor procurement records and poor segregation of duties. Other issues identified include poor control of cash, poor accounting for revenues leading to possibly significant fraud.

200. It is difficult to draw general conclusions from a limited number of recent internal audit reports, which are listed as sources of information in the discussion at the end of this section. However this written evidence and anecdotal evidence from a number of sources seems sufficient to conclude that there has been and is a widespread failure to observe the control requirements of Finance Order 1988, PFMA Act 2011, the Finance Regulations 1973, the (draft) Treasury Regulations 2012 and the Procurement Regulations 2007. This appears to be due to a number of factors including failure of Principal Secretaries to adequately exercise their responsibility as CAOs, lack of understanding of the regulatory framework and lack of consequences of non-compliance with the control requirements. Given the widespread failure to observe the control requirements, the rating is D.

Performance change and other factors since 2009 Assessment

201. The 2009 PEFA assessment rating of D reflected evidence from Auditor-General reports of routine and widespread breaches of rules and regulations. There has been no significant change since that assessment was made.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-20	D	D+	Scoring method M1 (weakest link)	
(i)	D	B	The IFMIS commitment module is fully operational and is for the most part complied with.	Although there was provision for entering commitments into the previous GOLFIS, there was widespread failure to do this, and nothing in the system to enforce

				compliance.
(ii)	D	C	There is a clear set of rules and procedures for processing and recording transactions which are generally understood by those directly involved.	The scores are not comparable. The 2009 assessment may have given too little credit for the existence of rules. In the view of the assessment team there has been no underlying change in performance.
(iii)	D	D	The evidence points to the continued widespread breaches of the rules for processing and recording transactions.	No change since 2009.

PI-21 Effectiveness of Internal Audit

202. Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should meet international standards in terms of (a) appropriate structure particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, (c) use of professional audit methods, including risk assessment techniques. The function should be focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

203. The dimensions assessed under this indicator are:

(i) Coverage and quality of the internal audit function.
(ii) Frequency and distribution of reports.
(iii) Extent of management response to internal audit findings.

Dimension (i): Coverage and quality of the internal audit function

204. Internal audit is coordinated by the MFDP Director of Internal Audit, who acts as head of profession throughout the government. Internal Auditors have been placed in 14 of 28 Ministries (increased from 10 in 2009) reporting on audit activities to the respective Principal Secretaries / Chief Accounting Officers and on professional matters to the MFDP Director of Internal Audit. All the main spending ministries (see list at Annex 6) now have internal auditors, representing approximately 80% of central government expenditure, based on the 2011/12 expenditure figures. Internal audits of other ministries are carried out by a special team (three people) of the MFDP Internal Audit Department. There are 50 internal auditors across the government as a whole, a slight increase since 2009 but still substantially below the estimated number required. In addition the level of staff skills and experience, especially for entrants is low, which substantially limits the effectiveness of internal audit. Twenty staff have recently

completed (awaiting results) internal audit technician training with IIA-South Africa which should in time lead to improvements. A further difficulty arises because the internal audit staff placed in the line ministries in many cases do not yet have the seniority and experience to command the attention of their colleagues. A new structure for internal audit has been developed but not yet approved by the relevant bodies. A recent study commissioned by the EU Delegation identifies substantial training and development needs for internal audit staff if they are to meet international standards of internal audit, and lays out recommendations to address the problem.

205. An Internal Audit Charter, prepared in February 2007 and finalised in November 2010, has been approved, but awaits full implementation. The Charter provides for audit committees to be established with membership confined to government officials, without the inclusion of any independent members from outside the government service. This arrangement is not consistent with best international practice. Measures are underway to establish a committee in the Ministry of Finance, and in line ministries audit committees will be established once the structure is in place. The proposed Charter envisages a modern internal audit function in other respects in accordance with international practice and standards. In the meantime internal audit work aims so far as possible to comply with international internal audit standards (IIA), though key elements are not yet followed: as well as internal audit committees not yet established, there is no audit manual[10], and no formal risk-based planning and auditing (though the staff do some risk analysis and risk based planning).

While work plans are prepared by MFDP and by the auditors placed at the individual ministries, these are often not implemented as focus is switched to emerging problem issues. A total of twenty internal audit reports from various ministries, including five consolidated annual internal audit reports as well as the report on payment arrears throughout the government discussed in relation to PI-4 above, were reviewed. These reports show that a good deal of attention is paid to the existence and operation of management, control and information systems, although the analysis is often relatively unsophisticated, and there is still much material about issues of non-compliance with regulations. There is no formal risk based auditing nor value for money audit. The quality of audit, while improving, still needs improvement along the lines envisaged in the internal audit charter.

Performance change since 2009 Assessment

206. There has been an identifiable increase in internal audit coverage since 2009. There are now internal auditors in 14 line ministries, including the main spending ministries, as set out in annex 6 below. As a result the number of reports produced has doubled over the past two years, see dimension (ii) below, with some systems audit taking place. Staff numbers have increased, and there is reportedly more appreciation of the need for and benefits of internal audit. However, weaknesses remain such as the continuing failure to adopt the Internal Audit Charter and too much focus still on compliance issues. As was the case in 2009, while internal audit plans are shared with the OAG, there is limited co-operation and interaction between the two bodies, and opportunities for closer cooperation have not been exploited. Dimension rating: C.

[10] A consultant was engaged to prepare a manual in 2011 but the draft was so poor that it was rejected by the Director of Internal Audit and not since completed.

Dimension (ii): Frequency and distribution of reports

207. The number of reports produced by internal audit has been increasing across the ministries with internal auditors in place, from 20 in 2010/11 to over 40 in 2011/12. There has been some improvement in this dimension since 2009 in that individual audit reports are now sent to the relevant PS, copied to the Auditor General, the Accountant General and PS Finance and MFDP Director of Internal Audit, but timeliness of reporting has still been affected by delays due to lack of management response. However a new approach has recently been adopted from the current financial year (2012/13) in that after discussing the draft report with management (which has always happened) the Director of Internal Audit then issues it with a cover letter requesting management response and implementation action plan, rather than waiting for management response before issuing the report. Dimension rating: B.

Performance change since 2009 Assessment

208. Improvement in performance. More reports are now produced compared to the 2009 assessment (20 in 2010/11, over 40 in 2011/12), and they are now sent to OAG, PS/Finance, Accountant General and Director of Internal Audit as well as the CAO concerned.

Dimension (iii): Extent of management response to internal audit findings

209. There is still no systematic process whereby internal audit reports are processed and acted on. Management response to internal audit findings is provided for, but current regulations do not compel management to respond, and of the nine reports reviewed, only one included any management response or commentary on implementation of recommendations.

210. As noted above the Director of Internal Audit has recently adopted a new approach whereby the final report is issued with a covering letter requesting management response (if not already received) and implementation action plan, rather than waiting for management response before issuing the report. So far this has been applied for two reports, and a management response has been received for one. The internal audit division is also planning to introduce a new format for consolidated reports for 2012/13 which will also capture management responses received. Dimension rating: D.

Performance change since 2009 Assessment

211. No change. Management responses to recommendations are still for the most part lacking. This severely limits the positive effect that the improvements achieved under dimensions (i) and (ii) can have on the overall system and the impact of internal audit.

On-going reforms

212. The Internal Audit Department has been making efforts to improve the quality of its staff through enrolling some on internal audit training via IIA-South Africa. The final approval and implementation of the Internal Audit Charter is essential for the successful implementation of internal audit. The internal audit function is included in the PFM Reform Plan currently under preparation, and it may therefore be expected that it will benefit from implementation of this plan and any donor support that is provided.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-21	**D**	**D+**	Scoring method M1 (weakest link)	
(i)	D	C	There are now auditors in 14 ministries, representing some 80% of central government expenditure in 2011/12, and the usefulness of the function is more fully recognised.	Improvement in performance. Quality and range of work has improved, although a greater systems focus is still needed**.**
(ii)	D	B	More reports produced (20 in 2010/11, 40 in 2011/12), and reports now sent to OAG, PS/Finance, Accountant-General and Director of Internal Audit.	Improvement in performance. Greater number of reports and wider distribution warrants higher rating.
(iii)	D	D	Little evidence is so far available about management responses to reports which hitherto have been limited and delayed.	No major underlying change**.** Managements are not yet paying enough attention to IA reports, although new arrangements for issue of reports should reduce scope for non-response.

3.5 Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

213. The two dimensions of this indicator are closely related. Failure to carry out these reconciliations has been a significant factor in the difficulty in preparing financial statements with reliable balances and reliable revenue and expenditure figures and therefore in the audit qualification of these financial statements. Bank account reconciliation is the responsibility of Treasury - and of any ministries managing bank accounts which in practice are only those relating to donor funded projects. Reconciling suspense and advance accounts is relevant in all ministries.

214. The lengthy nature of these arrears in reconciliation means that retrospective reconciliation is now impossible. The only solution is to “draw a line” under this backlog of reconciliations and start afresh, which is being proposed by MFDP as discussed under PI-25*, annual financial statements.*

Dimension (i) Regularity of bank reconciliations

215. Bank reconciliations are the responsibility of Treasury which manages the government’s bank accounts – four main accounts with the central bank and a number

with commercial banks to service activities outside Maseru. It appears that reconciliations for bank accounts established for donor funded projects are prepared as required.

216. The (draft) Treasury Regulations 2011 require finance officers controlling a bank account to obtain bank statements at least as frequently as at the end of each month and to then prepare a bank reconciliation statement which is required to be checked and approved by authorising officers. The Accountant-General is authorized to close any official bank account where reconciliations have not been completed for more than three months. However, this provision does not appear to be enforced.

217. The audit report on the 2007/08 financial statements notes that failure to reconcile bank accounts means that the balances of accounts reported in the then GOLFIS cannot be relied on. It noted major differences between cash book balances and GOLFIS information. It now means that the balances in IFMIS cannot be relied on. This comment reflected a general failure to undertake bank reconciliations in a timely manner which has occurred over a number of years.

218. Within Treasury there is a separate unit charged with carrying our reconciliations of those bank accounts controlled by Treasury. Treasury states that the backlog of bank reconciliations is being addressed, with those for 2009/10 having been completed and those for 2010/11 currently being worked on. However the continuing backlog of two full years requires the rating: D.

Performance change since 2009 Assessment
219. The 2009 PEFA assessment rated this dimension as D, reflecting the significant arrears in bank reconciliations. There has been no major change in the situation.

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

220. The (draft) Treasury Regulations 2012 appear to contain no specific requirements about acquittal of advances except that only the Accountant-General may approve advances to a spending unit or individual for which previous advances have not yet been acquitted or repaid. The Finance Order 1988 authorizes the opening of suspense clearing accounts to record transactions on an interim basis, subject to the transactions being charged against the final item and the account cleared before the end of the fiscal year. There is no reference to suspense clearing accounts in the PFMA Act. Currently available evidence is impressionistic rather than specific.

221. The Audit Report on the 2007-08 financial statements also referred to problems in obtaining accurate information on final expenditures if suspense and advance accounts are not regularly reconciled and cleared. The Treasury's Explanatory Notes to the "Below the Line" Accounts presented with the 2007-08 financial statements acknowledge that advances raised to cover cash shortages which should be repaid and cleared within the year are not followed up and reconciled. The Audit Report points out that M53m more had been paid out through suspense clearing accounts to the suppliers concerned than was warranted by the expenditure actually incurred. OAG said that their current (2011-12) inspection work showed that these problems had not been resolved. Indications that comparable problems remain on the revenue side of the account may be seen in the wide disparities between forecasts of elements of revenue and actual out-turns. Thus revenue figures obtained from the Budget Department showed M58m

expected from the oil levy in 2010-11 but actual collections of M29,000. MPWT figures for revenue from the issue of vehicle number plates show a budget for 2011-12 of M1.5m, but actual revenue only M0.4m. These are revenues which should be reasonably stable and not too difficult to forecast; it is surely impossible that there should have been practically no revenue from the oil levy in 2010-11, which suggests that actual collections must have been mis-posted, or held in an uncleared suspense account. Rating for this dimension: D

Performance change since 2009 Assessment

222. The 2009 PEFA assessment rated this dimension as D, noting that reconciliation and clearance of suspense accounts and advances was significantly in arrears and was not done on a regular basis. There is no reason to think that the situation has changed.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-22	**D**	**D**	Scoring Method M2 (average of dimension scores)	
(i)	D	D	Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months (two years) .	No change.
(ii)	D	D	Evidence is that large unresolved disparities remain between revenue forecasts and out-turns. OAG consider that performance has not improved.	No change.

PI-23 Availability on Information on Resources received by Service Delivery Units

223. The indicator covers the three years preceding the assessment: 2010, 2011 and 2012.

Dimension (i): Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front- line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

224. For primary health clinics, resources are distributed by the Ministry of Health and Social Welfare (MHSW) through the ten District Health Management Teams

(DHMTs). Reports are made by the DHMTs on the resources to be transferred to their Primary Health Care (PHC) units.[11] There are currently 185 PHC units in Lesotho. Each DHMT supervises between a minimum of 8 (Quthing district) and a maximum of 48 (Maseru). No information is however being collected on the resources that are actually distributed to the PHC units, or received by them. As a result, the Ministry could not provide (and cannot determine) the amounts that are transferred to the service delivery level.

225. The same applies to transfers to service delivery units in the education sector. There are 1481 primary schools in Lesotho. The expenditure transferred to service delivery units from MoET relates to funds for the feeding scheme in place for schools. The approved budget for the feeding scheme was 11.5% of the MET approved recurrent budget in 2011/2012. As in the case of the health service, the funds are channeled through the districts: through the Education District Offices. No reporting or verification mechanism is however in place to track whether the funds were actually received by the schools. The Treasury has no information on the amounts transferred to primary health services or primary schools, as they are administered by the line ministries.

226. In the past three years, no Public Expenditure Tracking Survey (PETS) has taken place in the health or education sectors, or in any of the major sectors in Lesotho. No performance audit (by the Internal Audit or OAG) has been carried out to assess the level of resources (cash and in kind) received by primary service delivery units e.g. health centers or primary schools. Some information about public expenditure in the education and health sectors was included in the *Public Expenditure Management and Financial Accountability Review (PEMFAR)* published in 2007 by the World Bank, for which work was undertaken between 2005 and 2006, and of which the first PEFA Assessment on Lesotho was a part. A new World Bank Public Expenditure Review became available in August 2012 just as the field-work for this assessment was being completed. Although this includes some more recent information about expenditure on education and health services and the results obtained, and in particular about problems in accessing health services, it does not include any detailed assessment of resources reaching primary service delivery units and suggests that there would be advantage in carrying out a PETS. Rating for this Indicator: D

Performance change and other factors since the 2009 assessment

227. There has been no change since 2009. No comprehensive data about resources reaching service delivery units has been collected and processed within the three years preceding either assessment, and no PETS or special survey undertaken. The PEMFAR undertaken prior to the 2009 PEFA Assessment included information on public expenditure on health and education services, as did the Public Expenditure Review whose results became available in August 2012 but neither of these reports tracked expenditures to service delivery units.

[11] The MHSW did not send examples of the reports compiled at the district level.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-23	**D**	**D**	Scoring method M1 (weakest link)	
(i)	D	D	No comprehensive data on resources reaching service delivery units in any major sector has been collected and processed within the last three years.	No change.

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

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

228. IFMIS is accessible to all budget holders (cost centre and sub-head levels) and to MOF in real time and to print their own reports. There is therefore no system of providing regular reports except at MOF level for aggregate monitoring. Ministry financial controllers should reconcile IFMIS information with ministry records on a monthly basis. The IFMIS information should cover both payments and commitments for recurrent and capital expenditures. The previous GOLFIS did not include a commitment module for capital expenditures. The IFMIS reports should in principle cover all commitments and payments as it is not possible to make payments outside IFMIS except in the case of externally financed projects where the separate bank accounts are not under Treasury control. (But it is then the responsibility of the sponsor Ministry to obtain the information about commitments and payments from the donor concerned, and enter it in IFMIS.) However according to OAG and internal audit reports as well as indications from PPAD there remain some cases where procurement may bypass correct processes, including the registration of commitments, and reliable arrangements have yet to be made to ensure that all expenditure on externally funded projects is actually entered into IFMIS. IFMIS reports are fully compatible in terms of detailed coverage with the budget estimates. Since IFMIS formally allows direct comparison with the original budget, and covers both the commitment and payment stages, it meets the criteria for the rating: A.

Performance change since the 2009 assessment

229. The 2009 PEFA assessment rating was C. The previous GOLFIS system was not producing regular reports and cost centres were relying on their own reports based on payment requests sent to Treasury. In any case GOLFIS did not provide information on commitments for capital expenditures.

Dimension (ii): Timeliness of issue of the reports

230. As mentioned above ministries are able to access the IFMIS in real time and do not receive any regular monthly reports. They may access the system at any time to meet their internal monitoring requirements. Nor does MFDP publish any monthly reports, leaving it to users such as the Budget Department to access the IFMIS system as they need to. Since reports can be produced at any time, the present arrangements more than meet the criteria (reports quarterly or more frequently, and issued within 4 weeks of the end of the period concerned) for the rating: A.

Performance change since the 2009 assessment

The 2009 PEFA assessment rating was B – reflecting delays in provision of reports monthly reports and an unelaborated comment about incompleteness of the consolidated report.

Dimension (iii): Quality of information

231. A number of ministries consider that the information produced is not reliable and that IFMIS sometimes produces contradictory information on availability of funds, reflecting connectivity problems within the system. The Accountant-General considers that any such problems are due to incorrect data input by MDAs. An assessment (entitled "Consultancy to assist the NAO to perform a quality audit and to resolve issues concerning the IFMIS for Lesotho") was carried out between August 2010 and April 2011. It identified numerous dysfunctionalities in both hardware and software involved in IFMIS as well as deficiencies in management and training. A detailed action plan was agreed with GoL and the contractors to address these problems. It is clear from that report that there were still problems in April 2011 with user rights (i.e. the system allowed individuals to carry out operations which they should not have been able to do, thereby altering and corrupting data) and parameterisation (i.e. the way the system uses one value to calculate another), as well as other problems of non-functioning modules and non-operational interfaces. This was the situation two years after IFMIS went live. It is understood that a different consultancy team is still engaged in assessing progress in improving the functionality of IFMIS, and that issues remain about the specification and performance of hardware which may also impact the production of data from the system. The interface between the CS-DRMS debt management system and IFMIS still does not work (August 2012), and it appears that difficulties in the operation of the budget module may have prevented the timely production of the 2012-13 Budget Book. The problem of training enough Lesotho staff to be able to trouble-shoot both software and hardware problems, and provide adequate training to users, is still some way from a solution. All these considerations suggest strongly that the reliability of the data produced by IFMIS remains extremely uncertain. It seems likely to take several more years before IFMIS can be relied upon to produce financial statements which will justify unqualified audit reports. The OAG report on the 2009-10 Financial Statements which have yet to be presented for audit will represent the first independent external assessment of the information produced by IFMIS. Meanwhile the dimension rating is D.

Performance change since the 2009 assessment and prospects for reform

232. The 2009 PEFA assessment rating was D, reflecting serious concerns about the quality of the data due to problems with GOLFIS and lack of reconciliations of MDA data with GOLFIS data. While the most recent audit report on the 2007/08 financial statements also indicates this problem this is not relevant given the operation of the new IFMIS system since 1 April 2009. The migration to IFMIS should eventually overcome the difficulties with the previous system, but there remains a considerable distance to travel.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-24	**D+**	**D+**	Scoring method M1 (weakest link)	
(i)	C	A	Reports can be produced at any time covering bothcommitments and payments, and capital as well as recurrent budget. Reports can compare budget and out-turn on a consistent basis.	Migration to IFMIS means that the basis for the assessment has changed completely.
(ii)	B	A	Flexibility of production of reports at any time fully meets criteria for high rating.	Reports now available much more quickly than in 2009 (daily rather than after 6 weeks).
(iii)	D	D	Difficulties persist after more than three years in getting IFMIS to produce stable and reliable data and to make operational interfaces work.	GOLFIS and IFMIS systems are not comparable, but the unreliability of data seems to be common to both.

PI-25 Quality and timeliness of annual financial statements

This assessment is based on the most recently available audited financial statements – those for 2007/08. The 2008/09 statements have been completed and the audit report was signed on 20 March 2012. They are now (August 2012) with the Minister of Finance awaiting tabling in Parliament and therefore unavailable at this time. The 2009/10 financial statements were submitted for audit on but were returned by the Auditor-General on the grounds that they were prepared in accordance with the PFMA Act and not the then relevant legal framework, namely the Finance Order 1988. Apparently the Minister of Finance issued a Direction under PFMA Act that the Financial Statements were to be presented without any comparison between budget and out-turn. The Auditor-General objected that such a direction could not be issued in respect of a period before PFMA Act came into force in July 2011.

233. Section 27 of the Finance Order 1988 made the Accountant-General responsible for the preparation of the annual consolidated financial statements, to be submitted to the Auditor-General within six months of the end of the financial year. The Auditor-General is required to express an opinion on these statements in accordance with Section 117 of the Constitution. The Finance Order 1988 required the Accountant-General to provide the statements for audit within six months of the end of the year. Section 6(1) of the Audit Act 1973 requires the Auditor-General to send a copy of the audited financial statements and the audit report to the Minister of Finance within ninety days of receiving the statements. The most recent audited statements are for 2007/08 for which the audit report was completed on 18 February, 2010.

234. The 2011 PFMA Act applicable from 1 July 2011 modifies the previous requirements and requires the annual consolidated financial statements to be prepared in

accordance with IPSAS (initially the cash basis), to be submitted for audit within five months of the end of the financial year and presented to Parliament within eight months of the end of the financial year.

235. It can be noted that in addition to annual aggregate financial statements the 2011 PFMA Act requires that each spending unit (ministry and agency) prepare its own set of financial statements as part of quarterly and annual reports covering program results as well as financial operations. The financial statements are to be prepared in accordance with IPSAS, with the Minister of Finance directing how these standards are to be applied. Each ministry's annual report including the financial statements is required to be submitted to the Minister of Finance by the CAO (the Principal Secretary) of each ministry within three months of the end of the financial year. It seems unlikely that this requirement will be able to be met within the foreseeable future, given the difficulties with IFMIS and the inability of MFDP to prepare timely and reliable aggregate annual financial statements. The specified time for the completion of the 2011/12 ministry financial statements has already passed. None have been prepared (including those for MFDP), it does not appear that any are under preparation and no guidance has been provided by MFDP to line ministries on the preparation of these statements, including the application of IPSAS.

Dimension (i): Completeness of the financial statements

236. As well as being a statement of budget execution (although no comparison with budget figures is provided in the financial statements, only in the audit report – which also provides details of over- expenditure of budget heads) the financial statements are required under Finance Order 1988 to include a statement of financial assets and liabilities. The consolidated financial statements have received a qualified (negative or disclaimer) audit opinion for the past 30 years. The Auditor-General issued a disclaimer of opinion on the 2007/08 consolidated statements due to "material uncertainties within the accounts and limitation of scope regarding the regularity of expenditure". The Auditor-General also noted that the Accountant-General had "again indicated that his accounts should be qualified" due to the overarching problem of reliability of balances as reflected in the previous GOLFIS accounting system. The major issue relates to failure to reconcile the information in GOLFIS with ministries' accounting records which means that information reported by GOLFIS cannot be relied upon. The audit report also refers to inability to verify bank account balances because of the absence of bank reconciliations or to verify assets – loans to parastatals and PEs, and the balances in deposit accounts, advance accounts and suspense accounts. The problems with regularity of expenditure relate to expenditure in excess of a number of budget heads not being authorized and to the surcharge requirement under the Finance Order 1988 not being enforced.

237. In terms of completeness of the financial statements, the 2007/8 audit report notes the omission from the statements of a number of special funds, of some capital revenues and expenditures relating to donor funded projects. It notes that some M223m of donor capital receipts including government counterpart funds are not included in the statements and that some M32m of donor funded capital expenditures and government counterpart funds are excluded.

238. The statement of assets and liabilities in the financial statements is significantly incomplete in that assets and liabilities are reported only in terms of a statement of cash

and bank balances. Thus the statement does not include information on the public debt. The 2007/08 audit report contains considerable discussion of inaccurate information on public debt in the previous GOLFIS and failure to reconcile these figures with the public debt information maintained in the CS-DRMS. Nor is any information included on guarantees or other contingent liabilities included in a statement of fiscal risk, which is now regarded as a desirable reporting practice. The statement of assets and liabilities also excludes investments in public enterprises and in companies where the government is a minority shareholder. The statements include transfers to SNGs and to autonomous government organizations. Information on the final expenditures from these transfers is not included. Comparative figures for the previous year are provided for summary items. There is no reason to expect that the problems identified by the Auditor-General in respect of 2007-08 will be any less serious in 2008-09, and the rating is therefore D.

Performance change since the 2009 assessment and prospects for reform

239. The 2009 PEFA Assessment rating of D reflected the audit opinion on the most recent financial statements that the GOLFIS information was not accurate or complete, leading to a qualified audit report. The most recent audit report – on the 2007/08 financial statements - also indicates this problem of unreliable information. It remains to be seen whether this will be changed to any extent in the audit report on the 2008/09 statements and the forthcoming audits of the 2009/10 and 2010/11 financial statements. However it is known that the 2008/09 statements follow the same form and content as the 2007/08 statements and anecdotal evidence is that the same issues of reliability of information apply to those statements. There is a prospect that the situation will improve once IFMIS is fully bedded in, but that may be some years off.

Dimension (ii): Timeliness of submission of the financial statements

240. The timeliness requirements under the previous 1988 Finance Order and under the 2011 PFMA Act are set out above. The most recent available audited financial statements are for the 2007/08 year. These were submitted for audit on 15 September 2009 and the audit report was sent to the Minister of Finance for tabling in Parliament on 18 March 2010. However the statements were not tabled in Parliament by the Minister of Finance until some 10 months later. Draft financial statements for 2008/09 were first submitted to the Auditor-General on 16 March 2011 but were returned to MFDP by the Auditor-General because of serious deficiencies. The audit of these 2008/09 statements has since been completed and the audit report is with the Minister of Finance for tabling in Parliament. The 2009/10 financial statements were originally sent for audit but later returned by the Auditor-General to MFDP because they had not been prepared in accordance with the legal requirements which existed in 2009/10 – namely the Finance Order 1988. In this case the Minister of Finance had given a Direction under the PFMA Act 2011 which the Auditor-General considered could not apply to a period ending before that Act came into force.

Thus Lesotho currently has a three [2008/09, 2009/10, 2010/11] year backlog in the preparation of the annual financial statements. This is an improvement from the 2009 PEFA assessment when the backlog was some five years. The Accountant-General states that the 2009/10 financial statements will be re-submitted to the Auditor-General in August and that it is intended to submit the 2010/11 and 2011/12 statements for audit by December this year. However this will depend on Parliament agreeing to the necessary legal changes by approving a “statement of affairs” which will accept certain balances being carried forward so that the successive statements can be reconciled. However it is not clear whether this will be accepted by the Auditor-General as sufficient grounds for not issuing continuing qualified audit reports.

241. Previous statements have not been prepared, audited and tabled in a timely way as set out in the following table. A particular concern is the time lapse from the time the audited financial statements are received by the Minister of Finance and the time they are tabled in the Parliament and thus become publicly available. It can be noted from the table that the 2007/08 statements and audit report were held in the Minister's office for some 9 months before becoming publicly available and that the 2008/09 statements and audit report are still not publicly available despite the Minister having received them some 5 months ago.

242. The Finance Order 1988 allowed six months after close of each financial year for submission of financial statements to OAG, and 90 days thereafter for the Auditor-General to submit the audit report to the Minister of Finance. Since no financial statements have recently been submitted for audit within less than 15 months from the end of the year to which they relate, dimension rating is: D.

Performance change since the 2009 assessment

243. This dimension is rated on the basis of the time taken for the consolidated financial statements to be submitted for audit. The 2009 PEFA Assessment although rating this dimension as D, noted some progress in reducing the backlog of financial statements. However in 2012 the backlog remains three years.

Table 16: Date of submissions of Annual Accounts and OAG reports for 2007/2008-2009/2010

<table>
<tr><th colspan="3">2007/08</th><th colspan="3">2008/09</th><th colspan="3">2009/10</th></tr>
<tr><td>Annual Accounts</td><td colspan="2">Audit report</td><td>Annual accounts</td><td colspan="2">Audit report</td><td>Annual accounts</td><td colspan="2">Audit report</td></tr>
<tr><td>Date of submission to Auditor General</td><td>Date of submission to Minister</td><td>Date of submission to Parliament.</td><td>Date of sub-mission to Auditor General</td><td>Date of submission to Minister</td><td>Date of submission to Parliament.</td><td>Date of submission to SAI</td><td>Date of submission to Minister</td><td>Date of submission to Parliament.</td></tr>
<tr><td>15/09/09</td><td>18/03/10</td><td>8/12/2010</td><td>16/03/2011
Returned to Treasury on 30/03/2011
Resubmitted for audit on 11/08/2011</td><td>20/03/2012</td><td>Not yet submitted
Awaiting new Parliament</td><td>22/03/2012
Returned to Treasury on 02/04/2012
Still with Treasury</td><td>-</td><td>-</td></tr>
</table>

Source: OAG.

Dimension (iii) Accounting Standards Used

244. No recognized accounting standards were used in the preparation of the 2007/8 statements. The notes to the2007/08 financial statements merely note that the cash basis has been used in preparing the statements. The audit report on these statements notes

that they are not fully compliant with International Public Sector Accounting Standards (IPSAS), which the Accountant-General is said to have justified in the grounds that the legal framework under which the statements were prepared was silent on the issue of accounting standards. However it can be noted that the Public Financial Management and Accountability Act 2011 now requires the financial statements to be prepared in accordance with IPSAS. It appears that this requirement is to be initially on a cash basis with the timing of the adoption of accrual based standards to be determined at a later date by the Minister of Finance. Meanwhile since accounting standards were not disclosed in the most recent government financial statements, the rating for this dimension is: D

245. The Finance Order 1988 allowed six months after close of each financial year for submission of financial statements to OAG, and 90 days thereafter for the Auditor-General to submit the audit report to the Minister of Finance. Since no financial statements have recently been submitted for audit within less than 15 months from the end of the year to which they relate, dimension rating is: D.

Performance change since the 2009 assessment

246. This dimension is rated on the extent to which statements are presented on a consistent basis over time and that accounting standards are disclosed. The 2009 PEFA assessment rating of D reflected the lack of any accounting standards including the failure to adopt IPSAS and inconsistencies in the presentation of the financial statements**.** There has been no advance since then.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-25	**D↑**	**D**	Scoring method M1 (weakest link)	
(i)	D	D	Financial statements incomplete.	No change in underlying situation.
(ii)	D	D	No financial statements submitted for audit in less than a year.	No change.
(iii)	D	D	No disclosure of accounting standards.	No change.

3.6 External scrutiny and audit

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

247. The indicators in this group seek to assess the scope, quality, timeliness of external audit and the level of follow up of audit recommendations. Key elements of the quality of external audit include the scope and coverage of the audit, adherence to auditing standards, including the independence of the external audit institution.

Dimension (i) Scope and nature of audit work performed

248. The Audit Act 1973 provides for the Office of the Auditor General (OAG) and sets out the duties and functions of the office. According to the law, the primary duty of the Auditor General is to carry out an annual audit of the public accounts within ninety days of receipt of accounts from the Accountant General. New legislation for the OAG has been drafted but not yet enacted, one of the delays being due to the argument that the status of the OAG under the new legislation requires a constitutional amendment. (Article 117 of the Constitution makes the Auditor-General a "Public Officer", which is arguably incompatible with the status he/she would have under the proposed audit bill. But the Constitution can be changed on this point by the vote of an absolute majority of the members of the National Assembly.)

249. The Office has the responsibility to cover all entities of central government; capacity constraints mean that all entities cannot be covered in detail annually, although high expenditure/risk ministries and offices are covered annually. The annual financial audit covers the whole of central government expenditure as well as the financial statements of assets and liabilities. Some audits of autonomous /semi-autonomous agencies are contracted out, though as noted in Annex 9 some audits are not up to date due to delays in submission of financial statements. OAG considers that at least 50 per cent of central government expenditure is covered each year by its detailed audits, although it was unable to provide specific evidence to demonstrate this.

250. The audit of the annual statutory accounts is some three years behind, due to delays in receipt of accounts from the Accountant General, as set out in Table 17 below. As a result the most recent available audit report is for financial year 2007/08.

Table 17: Date of submissions of OAG reports on the annual accounts to PAC for reports on the last 3 completed annual accounts

Financial Accounts	Received by OAG	Report issued by OAG and submitted to Minister of Finance	Time taken for completion	Report transmitted by Minister of Finance to Legislature	Time taken for submission to Legislature (from date of receipt for audit by OAG)
Accounts as at 31st March 2007	02 October 2008	14 August 2009	10 months	29 October 2009	13 months
Accounts as at 31st March 2008	14 September 2009	18 February 2010	5 months	8 December 2010	15 months
Accounts as at 31st March 2009	11 August 2011	20 March 2012 Resubmitted to new Minister on 1 August 2012	7 months	Not yet submitted, awaiting new Parliament	
Accounts as at 31st March 2010	Not yet received: last version of accounts returned to Treasury by OAG for correction on 2 April 2012				

Source: OAG and Treasury Dept.

251. The statutory audit report produced on the annual accounts is of reasonably good quality, being quite detailed and raising some serious systemic issues, though it also gives a good deal of space to individual breaches of regulations. The most recent published report on 2007-08 identifies numerous important errors in the financial statements, and also includes significant performance audit material; examples include the conduct of policies to counter the impact of the AIDS epidemic and to foster agricultural productivity[12]. The report thus draws on other audit work relating to the year in question by OAG, including performance audits. OAG attempts to follow international auditing standards including use of audit plans, appropriate supervision and record keeping, but capacity constraints mean that this is not always feasible. However its work is gravely undermined by the lengthy backlog in the annual audit report, meaning that the information is very out of date by the time it is presented to Parliament. Moreover the fact that the results of on-going audit inspections are not published unless they are incorporated in the (substantially delayed) reports on the annual financial statements deprives audit work of much of its impact, since most findings can be ignored without those responsible being subject to any pressure to respond.

252. A list was provided of audits and inspections other than the annual statutory audit carried out during 2009/10 and 2010/11 including ten performance audits. These reports are circulated to the auditee and Principal Secretary MFDP. However these reports are not presented to Parliament, except insofar as information from them is included in the annual statutory audit on the financial statements, but as noted above, given the significant backlog, this substantially reduces the transparency of information provided to Parliament. Copies of these audits and inspections (with the exception of performance audit reports) were not made available to the PEFA team because they are not publicly available: in the opinion of the Auditor General, they belong to the auditee rather than the OAG. As a result the PEFA assessment team cannot comment on the quality of these reports.

253. OAG cannot be considered completely independent, even though Article 117 of the Constitution and section (9) of the 1973 Audit Act provide for the independence of the Auditor-General. The OAG shares the same building as the MFDP, its budget is subject to MFDP approval, its staff are allocated via the MPS, and most importantly annual audited accounts are tabled in Parliament by the Minister of Finance. Overall dimension rating: C

Performance change since the 2009 assessment

254. No main performance change. The 2009 assessment noted that the audit reports were reasonably comprehensive and detailed. However, the failure to implement an updated Audit Act and limited capacity in the OAG continued to have implications for the independence of the Office and the scope and the quality of information provided in audit reports. Since 2009, while the annual audit reports seen are of reasonable quality, their utility is severely reduced by the backlog that has built up, due to delays in receipt

[12] These include: payment of suppliers; prevention of soil erosion; establishment and development of SMEs; procurement of school materials; provision of water to rural areas; management of sickness absence; review of national aids commission; maintenance of government houses.

of the financial statements, as well as by the substantial delays in submission of the audit reports to Parliament.

(ii) Timeliness of submission of audit reports to the legislature

255. As can be seen from Table 17 above, delays in presenting the annual accounts to Parliament after they have been submitted to the Minister of Finance have been common; the 2006/07, 2007/08 and 2008/09 accounts were not tabled in the required seven days, and there was a substantial increase in the overall time between submission of the financial statements for audit and the eventual publication of the audit report, which increased from 13 to 15 months in respect of the financial statements for 2006/07 and 2007/08, while the 2008/09 financial statements have yet to be published although it is more than 12 months (as of August 2012) since they were submitted for audit.

256. As noted above, the latest available report of the Auditor General is in respect of the financial statements for the year ending March 31st 2008. The financial statements for the year ended March 31st 2009 have been audited and were submitted to the Minister of Finance on March 20th 2012 but are not yet publicly available because they have not yet been submitted to Parliament. The delay has been exacerbated since Parliament was dissolved in March 2012 prior to the General Elections, and the new Parliament only reconvened on August 3rd 2012. Financial statements for the year ended March 31st 2010 were submitted for audit on 20 March 2012, but were returned to Treasury by the Auditor General both because they contained numerous errors and because they were prepared in accordance with a Direction issued under the new PFMA Act 2011 which in the opinion of the Auditor General could not apply to a financial year terminating before the PFMA Act 2011 came into operation on 1 July 2011. In addition there were changes in presentation of the financial statements for the year but without the necessary disclosures and explanations for reclassifications.

257. While the audit report has been ready for submission to the legislature within 12 months of OAG receiving the financial statements for audit, because of its submission through the Minister of Finance, actual tabling of the report has taken place more than 12 months after the financial statements were submitted for audit. This dimension has therefore been rated D.

Performance change since the 2009 assessment

258. No main performance change. In 2009, the most recent report submitted to PAC had also taken over 12 months. In 2012, delays are accumulating causing an increasing backlog.

(iii) Evidence of follow-up on audit recommendations

259. The annual reports of the Auditor General include recommendations to address issues raised in the report, but the lengthy delays in producing accounts and subsequent audit reduces significantly the value of the recommendations. The Auditor General comments on implementation of recommendations in subsequent reports, but there is no formal system in place for follow up, and indeed the Auditor General highlights the recurring nature of many of the issues raised in the report.

260. For in year inspections and audits of line ministries, the OAG seeks management responses and implementation plans in writing from the auditee, but there is no specific time period for this process. If no response is received after a number of reminders, then the OAG finalises the report without management response, or with any response that has been received. For performance audits there is a more specific process for follow up of audits. The auditee is required to respond to the audit report within one month indicating how it intends to implement recommendations, and after six months the OAG goes to check what has been done, and if deemed necessary an in-depth follow-up audit may be conducted. However, while many of the performance audit reports reviewed in the context of this assessment do include management responses (about 75%), the process to verify implementation of recommendations and management responses is rarely followed systematically in practice, and any follow up by the Auditor General to check implementation of recommendations is quite ad hoc. Dimension rating: C.

Performance change since the 2009 assessment

261. There has been an improvement with regards to formal responses to recommendations now being made, compared to 2009, yet there is still little or no evidence of their actual implementation.

On-going reforms

262. The OAG was previously receiving support from the UK National Audit Office (NAO) but this has since ceased and the OAG is not currently receiving any external support. The OAG is included in the PFM Reform Plan currently under preparation, and it is therefore expected that the Office will benefit from implementation of this plan and any donor support provided.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-26	**D+**	**D+**	Scoring method M1 (weakest link)	
(i)	C	C	The OAG does not have the required level of independence to meet international auditing standards, there is a 3 year backlog of audits of annual financial statements, due to late receipt of annual accounts; detailed annual audit coverage is not formally calculated but estimated by OAG at approximately 50%; significant issues are raised in the audit and in in-year inspection reports; the audit of around half of the autonomous agencies is not up to date.	No change.
(ii)	D	D	The OAG does not submit an audit report on its annual activities to Parliament. After receipt of the financial statements, the report is ready for submission within 12 months, but none of the last three years reports have been submitted	No change.

			to Parliament within this time period.	
(iii)	D↑	C	Some evidence that responses are now made, e.g. CAOs required to present in writing and in person to PAC, but still little or no evidence of implementation of recommendations	Improvement in performance with regard to the formulation of written responses to recommendations, not yet on their actual implementation.

PI-27 Legislative Scrutiny of the Annual Budget Law

263. This indicator assesses the legislature's review of the central government budget during the last completed fiscal year, which is 2011/2012. For PI-27 (iv), the implementation of the budget of 2011/2012 is also assessed. At the time of the assessment, the legislature was not in session, having been dissolved in March, prior to the general election on May 26 2012. The budget was however approved in March 2012, so this did not affect the review of the 2012/2013 budget.

Dimension (i): Scope of legislature's scrutiny of the annual budget law

264. The Portfolio Committee of the National Assembly which oversees financial and economic affairs (the Economic and Development Cluster) reviews detailed estimates of expenditure and revenue, fiscal policies and the aggregates for the coming year, once the Minister of Finance has initiated the process in his Budget Speech. When examining the budget, the Committee invites the Minister of Finance to present the policy context of the budget, policy priorities and implications. National Assembly Standing Orders of 2008 require the Minister of Finance or his staff to brief the Committee on the "policy context, financial implications, contents and effects of the estimates".[13] Written documents relevant to the budget proposals are left with the Committee. Once the Portfolio Committee has presented its report, the Budget proposals are debated by the Committee of Supply of 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".[14]

265. During the review of the 2012/2013 budget, the draft *National Strategic Development Plan (NSDP), 2012/13 – 2016/17,* was presented to the Committee.[15] Medium-Term priorities and the link with the policy anchor (the *Vision 2020* and the NSDP for the 2012/13 Budget onwards) were explained in the Budget Speech by the Minister of Finance and accompanying documentation which included a briefing paper on the Background to the Budget. The draft budget as submitted to Parliament includes

[13] Chapter X, page 875, *National Assembly Standing Orders*, 2008.
[14] Chapter X, section 69, page 875, *National Assembly Standing Orders*, 2008.
[15] The final version of the NSDP was not yet available.

forward estimates for the two subsequent years, for expenditure although not for revenue.[16] The National Assembly's review focuses on the revenue and expenditure estimates for the coming year, and does 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.

266. This assessment considers that the budget is submitted early enough in the process (almost two and a half months before FY-end for the 2012/2013 budget which was submitted early to ensure passage before the 2012 General Election) to allow enough time for the Executive to resubmit an amended budget in time were Parliament to request changes to budget estimates. The PFMA Act now also specifies that Parliament may "propose to Cabinet changes in allocations within programs in the Appropriation Bill" (section 14). The National Assembly Standing Orders (see dimension (ii)) also specify how the Committee of Supply of the National Assembly may recommend changes to the draft budget following the input from the Portfolio Committee. According to the Budget Department, Parliament has for several years not requested changes to the budget, nor asked the MFDP to resubmit an amended budget. The National Assembly usually issues warnings on the matters where it would recommend changes, but for consideration in the budget of the following year. Dimension score: B.

Performance change and other factors since 2009 PEFA assessment

267. There has been no substantial performance change since 2009. The 2009 Assessment does not clearly specify the grounds on which the C score was given but they appear to be that: (i) the Parliament only reviews the budget estimates at the end of the budget process; and (ii) fiscal policies and subsequent year estimates are not submitted to Parliament for approval but only for information. This assessment considers that the length of time available and the detailed documentation provided, including the medium and longer-term context in which the Government's proposals were presented, were sufficient to provide for proper consideration by Parliament of all aspects of the Government's fiscal policies, and to enable it to ask for changes if it thought this would be appropriate, thereby justifying a B rating. The PFMA Act, issued in 2011, now specifies that the draft budget should be prepared on the basis of three year estimates for revenue and expenditure and Government policies for the same period (Article 7).

Dimension (ii): Extent to which the legislature's procedures are well established and respected

268. Following the Minister of Finance's initial presentation in his Budget speech the Portfolio Committee on the Economic and Development Cluster reviews the detailed 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 prevails.

[16] The Approved Budget Estimates document published also includes multi-year revenue estimates but not the draft budget sent to Parliament.

269. 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, as well as negotiation and debate procedures for any proposed amendment to the draft budget. Section 71 of Chapter X also clearly outlines the relations between the National Assembly, the Minister of Finance and the Cabinet if amendments are to be approved. The rules have been respected for the 2012/2013 budget. The Orders also explain how the Assembly should hold public hearings on the budget and other matters. Dimension score: A.

Performance change and other factors since 2009 PEFA assessment

270. There is no performance change as the procedures were already in place and had been respected by the review of the 2009/2010 budget. The 2009 Assessment rated this dimension B on the grounds that, although the rules were firmly established and respected, and included a specialised committee for budget examination, these did not provide for negotiations on the proposed budget. The 2009 Assessment also seems to suggest that negotiations were inadequate as not held with civil society/the private sector. The current assessment considers current negotiation procedures to be satisfactory, clearly explained and included in the current regulatory framework for budget review, as represented by Chapter X of the National Assembly Standing Orders. The change in the rating from B to A is due to a different understanding of the dimension's requirements as between the two Assessments and to more evidence being available to the 2012 Assessment with respect to budget negotiations.

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

271. The Budget Speech by the Minister of Finance is made to Parliament on the day after the budget is submitted to Parliament. For the past completed FY, the date of the speech was January 18 2012. The early date reflected the need to complete all necessary procedures to enact the Budget well before the 2012 General Election. The Parliament has to approve the budget before the end of the FY: it thus had close to two and a half months to review the budget. Dimension score, based on most recent experience: A In previous years the Parliament had at least a month to consider the proposals, which would have warranted a B rating.

Performance change and other factors since 2009 PEFA assessment

272. The time the Parliament had to review the budget increased from 6 weeks for the 2009/2010 budget to over two months for the 2012/2013 budget.

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

273. There are clear rules for in-year changes described in the Constitution and in the PFMA Act and also in the Financial Regulations made under earlier PFM legislation. 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. 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 MFDP; 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. Any transfer that is not within the same program or is above the 10% or 20% ceilings can only be entered into IFMIS by the Ministry of Finance. There are no limitations on the size and types of reallocations that the Minister can make without the approval of Parliament, except that they cannot entail an increase in total expenditure. That said, the size of in-year reallocations between administrative headings during the execution of the 2011/2012 budget (contingency expenditure excluded) is small: 0.88% of total approved and executed primary expenditure.

274. The rules also specify that the in-year use of the Contingency Fund has to be presented to Parliament for approval in the form of a Supplementary Bill ex-post. Although funds to meet unforeseen expenditure were taken from the Contingency Fund in 2010-11 and 2011-2012 (see annex 1), no report on the use of the Contingency Fund in either year has yet been presented to Parliament. Dimension score: C.

Performance change and other factors since 2009 PEFA assessment

275. The two assessments are comparable and there has been no change in performance between them. The 2009 Assessment also found the rules to allow for extensive reallocations without ex-ante approval by Parliament and that the requirement for ex-post approval by Parliament of the execution of contingency expenditure had not been respected.

Indicator / Dimension	**Score 2009**	**Score 2012**	**Justification for 2012 Score**	**Performance Change Other factors**
PI-27	**C+**	**C+**	Scoring method M1 (weakest link)	
(i)	C	B	The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	The 2009 and 2012 scores are not comparable. There is no significant performance change**.** The change from "C" to "B" is due to a different interpretation of the dimension's requirements.
(ii)	B	A	The legislature's procedures for budget review are firmly established and respected. They include a specialised committee for budget examination (the Portfolio Committee on the Economic and Development cluster), and negotiation procedures.	The 2009 and 2012 scores are not comparable**.** There is no significant performance change. The change in the score is due to a different understanding of the dimension requirements related to negotiation procedures and to more information being available to the 2012 assessment.

(iii)	B	A	The legislature had almost two and a half months to review the budget.	There has been some improvement in performance, in that in the period examined by the 2009 Assessment the Parliament had 6 weeks to review the budget, whereas in 2011/2012 it had two and a half months.
(iv)	C	C	Rules exist but allow extensive administrative reallocations. Rules regarding the need for ex-post approval by Parliament for the use of the Contingency Fund were not respected for 2011/12 (and 2010/2011).	No change in performance.

PI-28 Legislative Scrutiny of External Audit Reports

276. Regarding the time coverage of this indicator, dimension (i) assesses audit reports submitted to legislature within the last three years, and dimensions (ii) and (iii) cover the last twelve months.

277. Parliamentary scrutiny of OAG reports is undertaken by the Public Accounts Committee (PAC), which is a sessional Committee of the National Assembly (i.e. it is reconstituted for each session, unlike the Portfolio Committees which continue until the next general election). The Committee has power under the Parliamentary Powers and Privileges Act 1994 to summon persons and to require the production of any documents and records. Since the new PAC had not yet been constituted following the May 2012 election, the assessment team obtained information from the Chairman of the PAC in the previous National Assembly.

Dimension (i): Timeliness of examination of audit reports by the legislature (for reports received within the last three years)

278. The Auditor-General sends her report on the consolidated government accounts for each year to the Minister of Finance who, according to the Audit Act should table the report in Parliament within seven days. As shown in Table 13, the statutory requirement has not been respected, with the MoFDP taking up to 8 and half months to table the OAG report in Parliament. At the end of its scrutiny of the OAG report, the PAC issues a report for endorsement by the National Assembly and onward transmission to the Government. The process begins when the OAG report is tabled in the National Assembly and ends when the PAC report is submitted to the House.

279. The delays in the external oversight process are such that only two OAG reports were tabled in Parliament in the last three years: those on the 2006/2007 and 2007/2008 accounts. For these reports, the average time of scrutiny has been at least 14 months, as

shown in Table 13. The table also shows that the several steps in the cycle going from the FY to which the accounts relate to, to the issue of the PAC reports, can be as long as 4 years.[17] By the end of the cycle, the findings included in the PAC report are obsolete. The fact that OAG reports are tabled in Parliament via the MFDP adds to the delay. Dimension score: D.

Table 18: Average time for scrutiny of OAG reports by PAC, for OAG reports submitted in the past three years

OAG report	**Date of submission to Minister of Finance**	**Date of tabling of OAG report by Minister of Finance**	**Date of issue of corresponding PAC report**	**Time of scrutiny**
OAG report on the consolidated financial statements of FY 2006/2007	14/08/09	Precise date unknown, but was before the letter to MDAs to call them to hearings was sent on 17 September 2010.	20/05/2011	At least 8 months
OAG report on the consolidated financial statements of FY 2007/2008	18/03/10	09/12/2010	Not yet issued at August 9 2012.	At least 20 months
Average time of scrutiny for OAG reports received in the past three years				**At least 14 months**

Sources: PAC report on the Auditor General's Report for the FY 2006/2007, 20 May 2011; Letters of invitation to the hearings and timetables of PAC hearings with Government Ministries and Departments for the reports on the 2006/2007 and 2007/2008 accounts.

Performance change and other factors since the 2009 PEFA assessment

280. No change since the previous assessment.

Dimension (ii): Extent of hearings on key findings undertaken by the legislature

281. Chief Accounting Officers from all CG MDAs mentioned in the OAG reports on the annual accounts may be called to participate in hearings. The audited entities are formally required to answer to the audit findings and appear before the Committee. The Auditor General and/or OAG staff competent in the issues being discussed participate in the hearings, and brief the PAC members in advance to ensure effective questioning of MDA witnesses. Dimension score: A

Performance change and other factors since the 2009 PEFA assessment

[17] Parliament not being active at the time of the assessment, the date of the tabling of the OAG report on the 2006/2007 accounts could not be found. The official copy of the letter sent by PAC to MDAs, which was available, to call them at hearings was dated 17 September 2010, showing that the OAG report had already been tabled in PAC by then. The timetables of the PAC hearings on the 2007/2008 accounts show hearings were held starting in June 2011 at least up to September 2011, yet no PAC report had been issued at the time of the Assessments field mission.

282. The improvement in the score of this dimension is not due to an improvement in performance, but to the 2009 assessment having under-rated the dimension. The 2009 assessment doubted whether the PAC had the technical capacity necessary for the hearings to be fully effective, and appears to have assigned a "B" score on this basis, although hearings with chief accounting officers from concerned MDAs already took place in 2008/2009. The 2009 assessment did not mention OAG participation in the hearings or the briefing provided in advance to PAC members by OAG staff, although OAG was already doing both. However, the very extended delay between the audit findings and the hearings on them means that the process contributes little to ensuring accountability on the part of the Executive.

Dimension (iii): Issuance of recommended actions by the legislature and implementation by the executive

283. The PAC issues recommendations, but there is no evidence that these are acted upon by MDAs. Dimension rating: C

Performance change and other factors since the 2009 PEFA assessment

284. No performance change since the previous assessment on this dimension.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other factors
PI-28	**D+**	**D+**	Scoring method M1 (weakest link)	
(i)	D	D	Examination of audit reports by the legislature usually takes more than 12 months to complete.	No change**.** For the reports received in the three years prior to both assessments, it has taken more than 12 months to scrutinise OAG reports and issue the corresponding PAC reports.
(ii)	B	A	In-depth hearings on key findings take place consistently with responsible officers from audited entities.	The 2009 and 2012 scores are not comparable. No underlying change in performance**.** The improvement in the score is due to an under-rating of this dimension in 2009.
(iii)	C	C	Actions are recommended, but are rarely acted upon by the executive.	No change**.**

3.7 Donor Practices

285. The indicators in this group assess the extent to which donor practices impact the performance of country PFM systems. The table below summarises the assessment of indicators relating to the "donor practices" dimension of PFM performance.

D-1 Predictability of Direct Budget Support

(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.

286. There are now three donors providing general budget support (GBS) to Lesotho, the World Bank, the EU and African Development Bank. The first disbursement was by the World Bank in 2008/09. Disbursements of funds are made against achievement of indicators clearly set out in a Performance Assessment Framework (PAF) agreed between the Government and GBS partners. For years 2011, 2012 and 2013 the EU has clearly attached amounts for disbursement to each indicator.

287. Information on intended disbursements for the years 2009/10 to 2011/12 was provided through agreements signed with Government but delays in meeting agreed indicators led to disbursements being later than scheduled. As set out in table 19 below, in one of the three years disbursements were more than 15% below forecast. Reports from the Joint Annual Reviews of GBS each November set out progress made towards agreed PAF indicators and in each of 2010 and 2011 a number of indicators were only partially met or not met by the time of the review, leading to delays in disbursement. As a result the rating for this dimension is C.

Table 19: Predicted and Actual Receipts of Direct Budget Support

	2009//10	**2010/11**	**2011/12**
Predicted budget support			
AfDB	US$10m (Feb)	Nil	Nil
EU	€6m	€8.415m	€10.5m
World Bank	SDR16.2m (Oct)	Nil	SDR11.2m (Jul)
Actual disbursements			
AfDB	Nil	US$10m (Nov)	Nil
EU	Nil	€14.2m (Dec)	€8.5m (Sept)
World Bank	Nil	SDR16.2m (Aug)	SDR11.2m (Oct)
Shortfall from forecast	100%	0% (exceeded forecast)	7%

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

288. As noted above disbursement schedules have been provided by donors in agreements with Government, and while one donor did not provide quarterly information for the years under consideration, it has now done so for future years. As can be seen from Table 19 above, disbursement delays were such that the weighted delay (percentage of receipts delayed multiplied by number of quarters by which they were delayed) exceeded 50% in each of the last three years. For 2009-10 the delays were AfDB (about 25 per cent of the total) 3 Quarters, EU (about 20 per cent of the

total) 5 Quarters, and WB (about 50 per cent of the total) 3 Quarters, i.e. altogether about 325 per cent. For 2010-11 EU payments (the only fresh amounts scheduled for that year) only arrived at the end of the third Quarter, implying one Quarter's delay for 100 per cent of allocations. In 2011-12 the WB payments (about 60 per cent of the total) were delayed by one Quarter, while those from EU were cut back because of Lesotho's failure to meet all the agreed conditions. Score for this dimension rated D.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other Factors
D-1	**NR**	**D+**	Scoring Method M1 (weakest link)	
(i)	NR	C	In only one of the three years actual disbursements of GBS deviated from predictions by more than 15%, mainly due to delays in meeting of agreed targets.	Not scored in 2009 as only one donor had made a GBS disbursement at that time.
(ii)	NR	D	Quarterly disbursement estimates have been provided and actual (weighted) delays have exceeded 50% in two of the past three years.	As above.

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

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

289. Aid Coordination Department, MFDP has not provided the information needed to rate this dimension.

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

290. For both of these dimensions, information is provided to Government upon request, and in recently Government (Aid Coordination Department of MFDP) has designed a questionnaire in order to seek information on planned and actual disbursements from donors. This has been administered once so far, and there was an 80% compliance rate. However, each questionnaire is done individually and Government does not yet have a mechanism to compile this information into a single report that can be used for planning purposes.

291. An on-going challenge for Ministry of Finance is in receiving information and also it being shared within the Ministry to the relevant responsible sections / departments. Some donors work directly with line ministries and provide information to them only, and while ministries are required to report to Ministry of Finance, this does not always happen in practice, or not on a timely basis.

292. An aid policy, Development Cooperation Partnership Policy, has been drafted and shared with development partners. It is currently being reviewed by line ministries after which it is planned to be finalised. The objectives of this policy are to:

- Improve the effectiveness of development cooperation
- Strengthen economic management by increasing flows of development assistance through the budget
- Increase transparency and accountability in the management of development cooperation
- Improve Lesotho's participation in the global aid effectiveness arena

If implemented, this policy should improve Government's management and coordination of development cooperation.

Aid Coordination Department, MFDP has not provided the information needed to rate this dimension either, and thus the overall indicator is not rated.

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other Factors
D-2	**C**	**NR**	Scoring Method M1 (weakest link)	
(i)	C	NR	No information available	
(ii)	C	NR	No information available	

D-3 Proportion of aid that is managed by use of national procedures

293. There has been some change in this indicator since 2009 as there are now three donors providing General Budget Support, the EC, World Bank and African Development Bank, which by definition makes full use of government procedures. However most other aid continues to use other procedures so that the overall proportion using national procedures remains below 50%.

294. All EC funds, with the exception of General Budget Support funds, are administered through the National Authorising Office (NAO) in MFDP, with individual projects and programmes following the relevant EC procedures for procurement, disbursement, reporting. Audits are carried out by an independent external auditor.

295. In 2007 the Government of Lesotho and the U.S. Government's Millennium Challenge Corporation (MCC) signed an agreement to improve healthcare systems, water resources, and private sector development in Lesotho over a five-year period. External agents administer all procurements and financial management services to MCA-Lesotho, including funds control, disbursement documentation and management, cash management, and accounting. An independent external audit of MCA- Lesotho should take place every six months.

296. The World Bank use their own procedures for their projects, except for GBS, although for each individual project an agreement is made on the extent of use of the government's procurement procedures. According to information received from the Donor Partners Coordination Forum (DPCF) Secretariat, the proportions of donor funds using national procedures are as follows:

National procurement procedures:	42%
National payment /accounting procedures:	38%
National audit procedures:	36%
National reporting procedures:	36%

Reasons for not using national procedures for programme and project funding include the weaknesses and unreliability of Government internal control systems, the long delays in accounting and reporting by Government on its own resources, and in particular weaknesses around procurement. All these are as reflected in reports by the Auditor General and in each PEFA assessment. Full successful implementation of IFMIS and of the PFM Reform strategy and plan currently under development should improve systems over time.

297. In conclusion, while the move by some donors to general budget support has increased the percentage of aid using national procedures, most other programme and project funding tends to use mainly relevant donor procedures, with only some few elements of government systems. Indicator Score: D

Indicator / Dimension	Score 2009	Score 2012	Justification for 2012 Score	Performance Change Other Factors
D-3	**D**	**D**	Scoring Method M1 (weakest link)	
(i)	D	D	While three major donors are now providing budget support the total comprises less than 50% of aid funds to central government.	In 2009 General Budget Support had only just begun, with only the World Bank having disbursed any funds at that time.

4 Government PFM reform process

4.1 Description of recent and on-going reforms

298. Since 2005 there have been on-going efforts supported by development partners to improve different aspects of PFM reform in Lesotho. Development partners have agreed a Performance Assessment Framework 2011-13 to measure progress in growth and macro-economic performance, improvements in public financial management and governance, and enhancements of human development and social protection, with the meeting of targets justifying the continued provision of budget support. Progress is reviewed quarterly. In addition there is a PFM Improvement Reform Steering Committee whose task it will be to determine the priorities for future PFM reform activities in the light of the findings of this assessment. An initial matrix was prepared to analyse what improvements could be made over the three years to 2014-15 which would justify higher ratings in a future PEFA assessment. In terms of actual achievements, PFM progress since 2009 is disappointing: although a new Public Financial Management and Accountability Act has been enacted and a new integrated financial management information system (IFMIS) has been introduced, the necessary steps have not been taken to implement the legislation and to ensure that IFMIS works properly. It is essential that future PFM improvement plans should command the wholehearted support of the government at every level, and that intensified efforts are made to achieve the intended benefits of initiatives which in many cases have already begun.

4.2 Institutional factors affecting reform planning and implementation

299. A structure is in place to organise PFM reform, and to ensure that this is well supported by development partners. But the impetus for achieving effective reforms seems to have depended to a considerable extent on the work of external consultants engaged for limited periods, rather than on the assumption of responsibility for action at the highest level in MFDP. PFM reform now needs to be accorded high priority by the new coalition government, so that decisions can be taken without delay to implement the various initiatives which have been prepared but not finally decided.

Annex 1

Detailed calculations for PI-1 and PI-2

The data show the budgeted/approved and executed expenditure for the 20 main MDAs, excluding expenditures budgeted and executed under debt servicing and donor-funded projects. Data reported under budgeted and approved expenditure by MDA also exclude budgeted and executed expenditure under the “Contingency Fund”, which is reported under “contingency”. The sum of remaining budget heads, excluding the contingency vote, debt servicing and donor funded project expenditure is detailed under “sum of rest”.

Table 1: Approved and actual primary expenditures for FY 2009/10

(In Maloti)

	Code	**administrative or functional head**	**budget**	**Actual**	adjusted budget	deviation	absolute deviation	percent
1	03	Education & Training	1,632,763,995	1,624,682,065	1,495,622,980	129,059,085	129,059,085	8.6%
2	04	Finance & Development Planning	1,206,146,801	1,317,889,687	1,104,838,714	213,050,973	213,050,973	19.3%
3	23	Pension and Gratuities	1,032,230,000	1,009,919,688	945,529,736	64,389,952	64.389,952	6.8%
4	02	Health and Social Welfare	1,076,301,536	942,679,331	985,899,563	-43,220,232	43,220,232	4.4%
5	42	Local Government and Chieftainship	664,725,858	626,811,563	608,893,429	17,918,134	17,918,134	2.9%
6	08	Home Affairs and Public Safety	467,813,685	437,033,140	428,520,533	8,512,607	8,512,607	2.0%
7	13	Public Works and Transport	603,867,266	428,115,053	553,146,543	-125,031,490	125,031,490	22.6%
8	37	Defence and National Security	465,560,811	416,094,991	426,456,885	-10,361,894	10,361,894	2.4%
9	12	Foreign Affairs and International Relations	355,625,571	316,446,449	325,755,454	-9,309,005	9,309,005	2.9%
10	07	Justice, Human Rights and Rehabilitation	297,383,609	228,563,949	272,405,419	-43,841,470	43,841,470	16.1%

11	15	Natural Resources	235,253,252	223,995,415	215,493,587	8,501,828	8,501,828	3.9%
12	14	Forestry and Land Reclamation	178,197,298	190,172,367	163,229,943	26,942,424	26,942,424	16.5%
13	01	Agriculture & Food Security	211,924,703	187,509,618	194,124,477	-6,614,859	6,614,859	3.4%
14	43	Gender and Youth, Sports and Recreation	187,098,562	143,360,301	171,383,562	-28,023,261	28,023,261	16.4%
15	10	Communications, Science and Technology	156,429,498	124,506,907	143,290,489	-18,783,582	18,783,582	12.0%
16	09	Prime Minister's Office	143,465,171	94,699,307	131,415,077	-36,715,770	36,715,770	25.6%
17	05	Trade & Industry, Cooperatives and Marketing	118,434,250	88,385,755	108,486,582	-20,100,827	20,100,827	17.0%
18	34	LHDA	79,000,000	81,975,000	72,364,540	9,610,460	9,610,460	12.2%
19	17	Tourism, Environment and Culture	92,039,714	78,510,471	84,309,007	-5,798,536	5,798,536	6.3%
20	41	Independent Electoral Commission	135,795,869	67,654,734	124,389,944	-56,735,210	56,735,210	41.8%
21		sum of rest	348,712,967	245,974,135	319,423,461	-73,449,326	73,449,326	21.1%
		allocated expenditure	9,688,770,416	8,874,979,926	8,874,979,926	0	955,970,926	
		Contingency	160,000,000	153,438,670				
		total expenditure	9,848,770,416	9,028,418,596				
		overall (PI-1) variance						8.3%
		composition (PI-2) variance						10.8%
		contingency share of budget						1.6%

Source: Data from the Budget Department, MoFDP; data for approved budget figures and expenditure out-turn are from IFMIS, as no Budget Book or year-end budget execution report was issued in 2009/10.

Table 2: Approved and actual primary expenditures for FY 2010/2011

(In Maloti)

	Code	administrative or functional head	budget	Actual	adjusted budget	deviation	absolute deviation	percent
1	03	Education & Training	1.658.235,451	1,731,073,543	1,559,859,743	171,213,800	171,213,800	11.0%
2	02	Health and Social Welfare	1,057,553,851	988,606,220	994,813,901	-6,207,682	6,207,682	0.6%
3	04	Finance & Development Planning	872,176,915	985,611,983	820,434,551	165,177,432	165,177,432	20.1%
4	23	Pension and Gratuities	1,032,230,000	838,649,799	970,992,401	-132,342,603	132,342,603	13.6%
5	13	Public Works and Transport	572,669,901	585,483,932	538,695,952	46,787,980	46,787,980	8.7%
6	42	Local Government and Chieftainship	596,416,510	573,005,656	561,033,780	11,971,876	11,971,876	2.1%
7	08	Home Affairs and Public Safety	386,739,108	371,883,960	363,795,603	8,088,357	8,088,357	2.2%
8	37	Defence and National Security	371,765,755	356,226,196	349,710,552	6,515,644	6,515,644	1.9%
9	15	Natural Resources	232,501,505	265,839,660	218,708,228	47,131,432	47,131,432	21.5%
10	07	Justice, Human Rights and Rehabilitation	224,079,819	191,352,329	210,786,163	-19,433,834	19,433,834	9.2%
11	43	Gender and Youth, Sports and Recreation	133,897,901	144,258,696	125,954,336	18,304,360	18,304,360	14.5%
12	01	Agriculture & Food Security	188,559,339	143,328,591	177,372,955	-34,044,364	34,044,364	19.2%
13	12	Foreign Affairs and International Relations	347,729,230	126,895.825	327,100,007	-200,204,182	200,204,182	61.2%
14	14	Forestry and Land Reclamation	153,702,359	121,887,911	144,583,884	-22,695,973	22,695,973	15.7%
15	09	Prime Minister's Office	105,286,738	98,356,351	99,040,546	-684,194	684,194	0.6%
16	10	Communications, Science and Technology	108,716,643	87,777,043	102,266,970	-14,489,927	14,489,927	13.3%
17	17	Tourism, Environment and Culture	93,687,226	85,181,415	88,129,181	-2,947,766	2,947,766	3.1%
18	34	LHDA	79,000,000	76,500,000	74,313,283	2,186,717	2,186,717	2.8%
19	05	Trade & Industry, Cooperatives and Marketing	76,954,777	72,178,592	72,389,394	-210,801	210,801	0.3%
20	38	National Assembly	51,855,094	51,487,658	48,778,763	2,708,895	2,708,895	5.2%
21		sum of rest	261,912,884	199,549,595	246,374,762	-46,825,166	46,825,166	17.9%
		allocated expenditure	8,605,671,006	8,095,134,955	8,095,134,955	0	960,172,984	
	31	Contingency	100,000,000	99,562,440				
		total expenditure	8,705,671,006	8,194,697,395				
		overall (PI-1) variance						5.9%
		composition (PI-2) variance						11.9%
		contingency share of budget						1.1%

Source: Data from the Budget Department, MoFDP; data for approved budget figures are from the Budget Book, data for expenditure out-turn are from IFMIS as no year-end budget execution annual report is issued in Lesotho.

Table 3: Approved and actual primary expenditures for FY 2011/2012

(In Maloti)

	Code	administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	03	Education & Training	1,957,945,331	1,746,899,984	1,967,444,608	-220,544,624	220,544,624	11.2%
2	02	Health and Social Welfare	1,316,460,752	1,143,910,787	1,322,847,767	-178,936,979	178,936,979	13.5%
3	04	Finance & Development Planning	1,185,618,103	1,122,159,872	1,191,370,314	-69,210,442	69,210,442	5.8%
4	13	Public Works and Transport	589,449,247	1,062,199,782	592,309,052	469,890,730	469,890,730	79.3%
5	42	Local Government and Chieftainship	861,311,994	828,771,623	865,490,783	-36,719,160	36,719,160	4.2%
6	23	Pension and Gratuities	725,500,000	787,353,222	729,019,876	58,333,345	58,333,345	8.0%
7	08	Home Affairs and Public Safety	421,430,400	415,216,045	423,475,035	-8,258,990	8,258,990	2.0%
8	15	Natural Resources	335,495,477	398,796,223	337,123,186	61,673,037	61,673,037	18.3%
9	37	Defence and National Security	385,161,528	360,956,536	387,030,199	-26,073,663	26,073,663	6.7%
10	12	Foreign Affairs and International Relations	299,441,597	287,742,395	300,894,385	-13,151,990	13,151,990	4.4%
11	41	Independent Electoral Commission	285,512,991	278,979,819	286,898,202	-7,918,383	7,918,383	2.8%
12	07	Justice, Human Rights and Rehabilitation	225,020,779	224,257,589	226,112,502	-1,854,913	1,854,913	0.8%
13	05	Trade & Industry, Cooperatives and Marketing	81,962,188	180,082,760	82,359,840	97,722,920	97,722,920	118.7%
14	01	Agriculture & Food Security	179,464,725	173,480,519	180,335,426	-6,854,907	6,854,907	3.8%
15	14	Forestry and Land Reclamation	139,447,165	146,682,830	140,123,715	6,559,115	6,559,115	4.7%
16	10	Communications, Science and Technology	178,313,693	98,251,993	179,178,810	-80,926,816	80,926,816	45.4%
17	09	Prime Minister's Office	80,299,971	80,414,513	80,689,559	-275,046	275,046	0.3%
18	17	Tourism, Environment and Culture	80,974,299	74,986,158	81,367,158	-6,381,000	6,381,000	7.9%
19	38	National Assembly	70,043,863	67,811,736	70,383,692	-2,571,956	2,571,956	3.7%
20	43	Gender and Youth, Sports and Recreation	67,857,892	55,584,646	68,187,115	-12,602,470	12,602,470	18.6%
21		Sum of rest	239,627,218	218,891,999	240,789,807	-21,897,807	21,897,807	9.1%
		allocated expenditure	9,706,339,213	9,753,431,031	9,753,431,031	0	1,388,358,295	
	31	Contingency	75,000,000	73,158,522				
		total expenditure	9,781,339,213	9,826,589,553				
		overall (PI-1) variance						0.5%
		composition (PI-2) variance						14.2%
		contingency share of budget						0.7%

Source: Data from the Budget Department, MoFDP; data for approved budget figures are from the Budget Book, data for expenditure out-turn are from IFMIS as no year-end budget execution annual report is issued in Lesotho.

Annex 2

Data on domestic arrears at end 2011/2012 and at end November 2011

Table 1: Summary of Pending Purchase Orders in the system as at 31 March 2012

	Financial Year 2009/10		Financial Year 2010/11		Financial Year 2011/12	
MINISTRY	NUMBER OF ORDERS	AMOUNT	NUMBER OF ORDERS	AMOUNT	NUMBER OF ORDERS	AMOUNT
Agric.	0	0	0	0	2	18,997
Health	2	345	0	0	0	0
Education	0	0	0	0	109	450,298
Finance	1	240	0	0	5	41.414,00
Trade	0	0	0	0	28	100,065
Justice	2	34,200	1	6,682	250	1,478,572
Home Affairs	0	0	1	0	132	679,296
Prime Minister	0	0	0	0	52	638,783
Communications	0	0	0	0	0	0
Law	0	0	1	199	83	830,199
Foreign	0	0	0	0	0	0
Works	0	0	0	0	1	2,632
Forestry	0	0	0	0	0	0
Natural Resources	0	0	0	0	99	519,441
Labour	0	0	0	0	24	96,511

Tourism	0	0	0	0	49	129,508
Auditor General	0	0	0	0	7	41,027
His Majesty	0	0	1	13,315	2	1,918
Public Service Commission	0	0	0	0	0	0
Statutory	0	0	0	0	8	60,927
Defense	1	1	0	0	53	5,235,449
National Assembly	0	0	0	0	41	287,525
Senate	0	0	0	0	6	33,065
Ombudsman	0	0	0	0	1	3,289
IEC	0	0	0	0	57	371,086
Local Government	0	0	0	0	0	0
Gender	0	0	0	0	102	912,550
Public Service	0	0	0	0	1	101
Total	**6**	**34,786**	**4**	**20,196**	**1112**	**11,932,663,03**
Grand Total					**1122**	**11,987,645**
Grand total (sum of total of arrears from Tables 1, 2,3, and 4 in Annex 2 of this report)						53,000,496
Arrears as a % of total expenditure at end 2011/2012						0.52%
Total expenditure 2011/2012						10,187,819,698

Source: Government of Lesotho, Internal Audit Division, MoFDP, *Verification Report on Domestic Arrears, Appendix 2,* April 2012.
Data for total expenditure from Budget Department.

Table 2: Summary of Pending Payment Vouchers in the system as at 31March 2012

	Financial Year 2009/10		Financial Year 2010/11		Financial Year 2011/12	
MINISTRY	NUMBER OF VOUCHERS	AMOUNT	NUMBER OF VOUCHERS	AMOUNT	NUMBER OF VOUCHERS	AMOUNT
Agric	2	13,219	1	4,673	3	9,023.91
Health	3	3,105	1	9,384	3	12,300
Education	0	0	3	15,147	37	3,892,698.83
Finance	0	0	2	11,945	2	10,067,802.50
Trade	1	331.5	0	0	4	31,385.48
Justice	0	0	0	0	30	475,760.79
Home Affairs	1	0	0	0	19	235,569.15
Prime Minister	0	0	0	0	2	0
Communications	0	0	1	672	218	195,318.58
Law	1	13,643.95	0	0	10	100,599.93
Foreign	0	0	0	0	12	2,300,780.74
Works	0	0	0	0	30	9,071,588.60
Forestry	0	0	0	0	3	9.899.92
Natural Resources	0	0	1	8,400	26	1,927,396.27
Labour	0	0	1	1,741	2	14,517.60
Tourism	0	0	0	0,00	8	98,414.2
Auditor General	0	0	0	0,00	1	600

His Majesty	0	0	0	0,00	0	0
Public Service Commission	0	0	1	33,400.23	0	0
Statutory	0	0	0	0	0	0
Defense	0	0	0	0	17	9,156,537.46
National Assembly	0	0	1	41,350.53	0	0
Senate	0	0	0	0	0	0
Ombudsman	0	0	0	0	0	0
IEC	0	0	0	0	2	9,876.46
Local Government	0	0	0	0	79	76,335.12
Gender	0	0	1	2,200	13	144,474.29
Public Service	0	0	1	0	1	45,041.40
Total	**8**	**30,299.76**	**14**	**128,913.56**	**522**	**37,875,921.55**
Grand Total					**544**	**38,035,134.87**

Source: Government of Lesotho, Internal Audit Division, MoFDP, *Verification Report on Domestic Arrears, Appendix 3*, April 2012.
Data for total expenditure from Budget Department.

Table 3: CG Sub-Accountancies pending Purchase orders from the system as 31 March 2012

	Financial Year 2009/10		Financial Year 2010/11		Financial Year 2011/12		
Districts	Number of invoices purchases orders	Amount	Number of purchases orders	Amount	Number of purchases orders	Amount	Grand Total
Berea	49	414,731.94	61	560,766.10	11	44,333.29	1,019,831.33
Leribe	0	0	1	300	0	00	300
Butha Buthe	11	96,493.77	75	866,830.01	13	278,637.53	1,241,961.31
Mokhotlong	0	0	0	0	0	0	0
Thaba Tseka	0	0	0	0	0	0	0
Qacha's Nek	0	0	0	0	53	444,239.18	444,239.18
Quthing	1	16,151.11	1	50,235.80	0	0	66,386.91
Mohale's Hoek	0	0	0	0	0	0	0
Mafeteng	0	0	0	0	0	0	0
Total	**61**	**527,376.82**	**138**	**1,478,131.91**	**77**	**767,210**	**2,772,718.73**

Source: Government of Lesotho, Internal Audit Division, MoFDP, *Verification Report on Domestic Arrears, Appendix 4,* April 2012.
Data for total expenditure from Budget Department.

Table 4: CG Sub-Accountancies Outstanding payment vouchers from the system as at 31 March 2012

	Financial Year 2009/10		Financial Year 2010/11		Financial Year 2011/12		
Districts	**Number of vouchers**	**Amount**	**Number of vouchers**	**Amount**	**Number of vouchers**	**Amount**	**Grand Total**
Berea	1	13,515	0	0	1	7,474.38	20,989.38
Leribe	0	0	0	0	0	0	0
Butha Buthe	0	00	0	0	9	180,513.23	180,513.23
Mokhotlong	0	0	0	0	0	0	0
Thaba Tseka	0	0	0	0	0	0	0
Qacha's Nek	0	0	0	0	0	0	0
Quthing	0	0	0	0	2	3,495	3,495
Mohale's Hoek	0	0	0	0	0	0	0
Mafeteng	0	00	0	0	0	0	0
TOTAL	**1**	**13,515**	**0**	**0**	**12**	**191,482.61**	**204,997.61**

Source: Government of Lesotho, Internal Audit Division, MoFDP, *Verification Report on Domestic Arrears, Appendix 5,* April 2012.
Data for total expenditure from Budget Department.

Table 5: Outstanding invoices from April 2009 to November 2011

	ACCOUNTS		PROCUREMENT		HUMAN RESOURCES		LEGAL		
Ministry	**Number of vouchers**	**Amount**	**Number of purchases orders**	**Amount**	**Number of officers awaiting terminal benefits**	**Amount**	**Number of cases**	**Amount**	**Grand Total**
Agric.	18	310,067.87	21	167,238.07	92	0	0	0	477,305.94
Health	31	1,005,415.62	165	33,004,337.39	224	0	0	0	34,009,753.01
Education	35	345,061.29	18	5,355,014,26	108	0	0	0	5,700,075.55
Finance	8	258,426.00	59	1,355,539.64	0	0	0	0	1,613,965.64
Trade	9	56,427.68	128	655,169.53	197	0	0	0	711,597.21
Justice	51	326,237.26	48	752,378.34	23	0	9	325,380,60	1,078,615.60
Home Affairs	10	93,980.62	147	1,173,240.11	0	0	0	0	1,267,220.73
Prime Minister	14	113,895.66	16	42,763.79	1	0	0	0	156,659.45
Communications	6	344,780.46	1	1,269.00	28	0	0	0	346,049.46
Law	0	0	0	0	0	0	0	0	0
Foreign	5	26,572.00	17	171,202.88	3	0	0	0	197,774.88
Works	0	0	28	1,382,243.02	21	0	0	0	1,382,243.02
Forestry	94	1,121,950.86	44	287,845.60	6	0	0	0	1,409,796.46
Natural Resources	15	55,174.98	11	92,366.67	31	0	0	0	147,541.65
Labour	72	1,048,282.70	41	127,352.74	2	0	0	0	1.175,635.44
Tourism	11	63,778.69	24	168,565.85	2	0	0	0	232,344.54
Auditor General	0	0	0	0	0	0	0	0	0
His Majesty	0	0	3	30,000	1	0	0	0	30,000
Public Service Commission	0	0,00	0	0	0	0	0	0	0

Defense	7	27,160.90	123	3,688,870.30	47	0	0	0	3,716,031..20
National Assembly	0	0,00	10	41,868.76	0	0	0	0	41,868.76
Senate	0	0,00	1	3,179.10	6	0	0	0	3,179.10
Ombudsman	0	0,00	0	0	1	0	0	0	0
IEC	0	0,00	0	0	0	0	0	0	0
Local Government	8	192,000.37	45	264,469.70	12	0	3	23,675	456,470.07
Gender	9	15,657.22	91	648,030.65	0	0	0	0	663,687.87
Public Service	13	788,587.39	14	92,220.71	3	0	0	0	880,808.10
Total	**416**	**6,193,457.57**	**1055**	**49,505,166.11**	**808**	**0**	**12**	**349,055.60**	**55,698,623.68**
Total expenditure 2010/2011									**8,545,856,745.52**
Arrears as a % of total expenditure									**0.65%**
Total expenditure 2011/2012									**10,187,819,698**
Arrears as a % of total expenditure									**0.55%**

Source: Government of Lesotho, Internal Audit Division, MoFDP, *Verification Report on Domestic Arrears, Appendix 1,* April 2012.
Data for total expenditure from Budget Department.

Annex 3

Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Cardinal Sources used
A.	**PFM-OUT-TURNS: Credibility of the budget**		
PI-1	Aggregate expenditure out-turn compared to original approved budget	**B**	Based on preliminary data, the variance was: 8.3% in 2009/2010, 5.9% in 2010/2011 and 0.5% in 2011/2012. ***Sources*** – Approved Budget Estimates for 2010/2011, 2011/2012; Detailed (unaudited) statement of Recurrent and Capital Expenditure (sub-head wise) for FYs 2009/2010-2011/2012 from Budget department/IFMIS.
PI-2	Composition of expenditure out-turn compared to original approved budget	**C+**	Based on preliminary data, variance in the composition of expenditure was: 10.8% in 2009/2010, 11.9% 2010/2011 and 14.2% in 2011/2012.The average actual expenditure charged to the contingency vote in the period 2009/10-2011/12 was 1.1% of the original budget. ***Sources*** – Approved Budget Estimates for 2010/2011, 2011/2012; Detailed (unaudited) statement of Recurrent and Capital Expenditure (sub-head wise) for FYs 2009/2010-2011/2012 from Budget department/IFMIS.
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**	Deviations were 10.9%, 12.3%, 11.7% for the three years. **Sources:** Tables attached to Budget speeches
PI-4	Stock and monitoring of expenditure payment arrears	**NR**	Data on the stock of arrears has been generated by a comprehensive audit of the stock which determined that the stock of arrears at end 2011/2012 was 0.5% of total expenditure, and arrears generating from unpaid goods and services for which purchase orders or contracts had not been registered in IFMIS was between 0.55% and 0.65% of total expenditure at end-November 2011. ***Sources*** – Budget Estimates; Data from Aged Payables Module, IFMIS/Treasury Department; Internal Audit Verification Report on Domestic Arrears, Treasury Action Plan to Address the Report's Findings, IMF Article IV staff reports and ECF review staff reports; Interviews – Treasury, Budget, MET.
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency**		
PI-5	Classification of the budget	**B**	New Chart of Accounts underlying IFMIS should make possible consistent comparison between Budgets and out-turns in accordance with GFS 2001 and COFOG. But consistent presentation not yet produced. **Source**: Budget and Treasury Depts.
PI-6	Comprehensiveness of information included in	**B**	5 of 9 elements of information provided.

No.	Indicator	Scoring	Brief Explanation and Cardinal Sources used
	budget documentation		**Source:** Budget Dept.
PI-7	Extent of unreported government operations	**D+**	Unreported domestically financed operations small, but serious deficiencies in information about donor-financed projects. **Sources**: Budget Dept, MFDP, discussions with Road and Petroleum Funds, and MFDP divisions concerned with different forms of financing by development partners.
PI-8	Transparency of inter-governmental fiscal relations	**B**	Most expenditure provision formula-based. Timely provision of information on expenditure for budgeting purposes. No reporting of sectoral breakdown of LG expenditure. **Source:** MLG
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	**D+**	There is some reporting by PEs/AGAs to sponsor Ministries, but no consolidated overview of the fiscal risks posed. Although sub-national governments are too small and too closely controlled to present significant fiscal risks, their reporting is seriously deficient. **Sources**: Discussions with MFDP and sponsor Ministries for (i), with MLG for (ii)
PI-10	Public access to key fiscal information	**D**	
C.	**BUDGET CYCLE**		
C(i)	**Policy-Based Budgeting**		
PI-11	Orderliness and participation in the annual budget process	**B+**	Well-established Budget Calendar covering later stages of budgeting process, with expenditure ceilings approved by Ministers included in final Call Circular, but only a short time for MDAs to respond. Budget approved by Legislature before beginning of financial year. ***Sources*** – Call Circulars issued in FYs 2008/2009, 2010/2011, 2011/2012; Budget submission documents; Appropriation Bills for FYs 2010/2011 to 2012/2013; interviews with line ministries (MOET, MHSW, Energy, Public Works) and Budget Department.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	Debt sustainability analysis done annually with IMF Medium-term fiscal projections produced and sectoral strategies prepared for main programmes including recurrent expenditure implications of new investments. But aggregate of sector strategies not consistent with overall fiscal envelope, and previous year's projections ignored when next budget is prepared. ***Sources*** – Approved Budget Estimates for 2010/2011, 2011/2012 and 2012/13; Call Circulars issued in 2011/2012; Call Circulars issued for BFP submissions in 2011/2012; Budget submission documents; Background to the 2012/13 Budget, Vision 2020, draft NDSP; sectoral and overall BFPs issued in FYs 2010/2011 and 2011/12; MTFF, interviews with line ministries (MOET, MHSW, Energy, Public Works), Budget Department and DEP.
C(ii)	**Predictability and Control in Budget Execution**		
PI-13	Transparency of taxpayer obligations and liabilities	**D+**	Much exercise of discretion by tax officers in settlement of liabilities, although reasonably good information to taxpayers on basic elements of compliance .Independent tax appeal tribunal not yet operational. ***Sources*** –Written evidence from LRA, and discussions with practitioners and taxpayers. World Bank report on training Lesotho accountants on tax issues.

No.	Indicator	Scoring	Brief Explanation and Cardinal Sources used
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**	Unique Taxpayer Identification Numbers in force with links to business licensing but not to other databases. Penalties for non-declaration or under-declaration fairly effective. Consistent risk-based selection of taxpayers for inspection/audit only just now being introduced. ***Sources*** – as for PI-13
PI-15	Effectiveness in collection of tax payments	**D+**	Tax arrears over 8% of collections and increasing. Receipts almost all paid into Treasury without delay. No reconciliations between LRA and Treasury records. ***Sources*** – as for PI-13
PI-16	Predictability in the availability of funds for commitment of expenditures	**D+**	No detailed cash flow forecasting and planning by Treasury. But MDAs have reasonable assurance that total annual provision in Budget will be available, so commitments can be made within approved totals. Changes in provision not imposed on MDAs during the year. ***Sources*** – Discussions with Treasury and Budget Dept, MFDP
PI-17	Recording and management of cash balances, debt and guarantees	**B**	Good debt records, but no consolidation of cash balances or readily available information about total cash holdings. All borrowing including provision of guarantees subject to approval by Minister of Finance, within limits set in relation to GDP. ***Sources*** –Treasury and Debt Departments, MFDP
PI-18	Effectiveness of payroll controls	**D**	Reconciliations between personnel and payroll data not consistently carried, and long delays before some changes are entered into payroll system, leading to extensive retrospective adjustments. Weak controls over changes to records, and no recent payroll audits. ***Sources***-interviews with Accountant General and Treasury department, department for IT/Unique, MoPS, Internal Audit, OAG, MoAFS, MoHSW, MoET, TSD?; OAG Report on the Audit on Government Payroll and Third Parties, Internal Audit Verification Report on Domestic Arrears; personnel records at MoPS, payroll at MoPS, Casualty Return documents, internal reports from MoPS on all movements in personnel processed in February, March and May 2012; Internal reports on payroll and personnel records for April-July 2012 from MHSW and MoAFS, Public Service Regulations 2008; Draft Treasury Regulations
PI-19	Competition, value for money and controls in procurement	**D+**	Legal framework generally in line with international standards, but requirements for competitive tendering widely overridden. No publication of procurement plans, contract awards or the results of procurement complaints. Independent complaints machinery not yet established. ***Sources*** –Interviews with PPAD, MFDP and with Finance officers of MNR, MPWT, MHSW, also OAG report on health procurement
PI-20	Effectiveness of internal controls for non-salary expenditure	**D+**	Commitment controls introduced as part of IFMIS. There are clear rules for the processing and recording of transactions, but widespread failure to observe them. ***Sources*** –Interviews with Treasury and Finance Officers of line Ministries, Internal Audit reports
PI-21	Effectiveness of internal audit	**D+**	Some progress in volume and range of Internal Audit work, but coverage still narrow and insufficient focus on systemic issues. Not much evidence of action in response to reports. ***Sources:*** Interviews with Internal Audit staff, internal audit reports
C(iii)	**Accounting, Recording and Reporting**		
PI-22	Accounts Reconciliations	**D**	There is a large backlog of reconciliations between Treasury and bank records.There is evidence of delay in clearing suspense clearing accounts, and of mis-posting certain revenues.

No.	Indicator	Scoring	Brief Explanation and Cardinal Sources used
			Sources –IFMIS outputs, report of consultants reviewing progress in overcoming IFMIS problems, interviews with Treasury and OAG staff.
PI-23	Availability of information on resources received by service delivery units	**D**	There is no information available on the resources actually received by primary schools or primary health clinics. ***Sources*** – Estimate documents, Internal documents from MHSW, Internal documents from the MoET, Interviews - Line ministries, Accountant general and Treasury Department.
PI-24	Quality and timeliness of in-year budget reports	**D+**	IFMIS should make possible the flexible production of in-year budget execution reports consistent with the presentation of the Budget. But the quality of the data is poor. ***Sources*** – Interviews with Treasury, OAG, Internal Audit, IFMIS outputs
PI-25	Quality and timeliness of annual financial statements	**D**	Financial statements incomplete, long delayed, and without disclosure of accounting standards. ***Sources*** – Interviews with Treasury and OAG
C(iv)	**External Scrutiny and Audit**		
PI-26	Scope, nature and follow-up of external audit	**D+**	Fair range of audit work carried out by OAG, but coverage limited, and OAG lacks sufficient independence. Reports delayed, but some evidence of improvement in auditees' responses to findings. ***Sources*** – OAG reports, and interviews with OAG staff
PI-27	Legislative scrutiny of the annual budget law	**C+**	Arrangements for the Legislature's review of budget proposals and fiscal policy are well-established and allow sufficient time for this work. But extensive budget reallocations by the Executive are possible without reference to the Legislature. ***Sources*** – Interview with Portfolio (Economics and Development) Committee former Chair, Interviews Budget Department, internal documents from the Committee on examination of the 2012/2013 budget, National Assembly Standing Orders, Financial regulations, Constitution, PFMA Act, Budget Speech to Parliament for the Fiscal Year 2012/2013, Background to the 2012/13 Budget, Draft Budget 2012/2013, Appropriation Bill 2012/2013; IFMIS reports showing budget reallocations during 2011/2012.
PI-28	Legislative scrutiny of external audit reports	**D+**	It takes more than a year for the Legislature to consider and report on annual audit reports submitted to it There are in-depth hearings with representatives of audited bodies, but not much evidence of action taken in response to OAG recommendations. ***Sources*** –Interview Former Chairman of PAC; Interview OAG staff, PAC report on the Auditor General's Report for the FY 2006/2007; Timetables for meetings of PAC with Government Ministries and Departments for the reports on the 2006/2007 and 2007/2008 accounts.
D.	**DONOR PRACTICES**		
D-1	Predictability of Direct Budget Support	**D+**	Total amounts projected actually delivered in two of the three years, but subject to considerable delays as compared to initial indications. ***Sources*** – Information from WB, EU Delegation, Millennium Challenge Corporation
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**NR**	Aid Coordination Department, MFDP has not provided the information needed to score this indicator**.**
D-3	Proportion of aid that is managed by use of	**D**	Although amounts received as direct budget support are managed through national procedures, the majority

No.	Indicator	Scoring	Brief Explanation and Cardinal Sources used
	national procedures		of assistance is provided for projects/programmes where development partners insist on use of their own procedures, so that the average use of national procedures is less than 50 per cent. Information from Donor sources

Annex 4

Sources of Information

General:
Government of Lesotho, *National Strategic Development Plan, 2012/13 – 2016/17,* (draft), March 2012.

Lesotho, Government Constitutional Matters, *The Constitution of Lesotho*, 1993.

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World Bank: Lesotho Public Expenditure Review, August 2012

IMF: Country Reports 11/88 and 12/101

PFMA Act, 2011.

PI-1 and PI-2
Approved Budget Estimates 2010/2011 and 2011/2012.

Statement of Recurrent and Capital Expenditure (sub-head wise) for FYs 2009/2010-2011/2012 from Budget Department/IFMIS.

PI-4
Data from Aged Payables Module, Treasury Department.

Government of Lesotho, Internal Audit Division, MFDP, *Verification Report on Domestic Arrears*, April 2012.

Treasury Department, *Action Plan to Address Issues Raised in the Internal Audit Report on Arrears*, internal document, 29 June 2012.

PI-5
Discussion with Budget Department, MFDP

PI-6
Material provided by MFDP Budget Department, and discussion with former members of National Assembly

PI-7
(i) Discussions with Road Fund, Petroleum Fund, LHDA, and financial reports about revenue collected by MET and MHSW.

(ii) Discussions with MFDP Departments responsible for different aspects of cooperation with development partners.

PI -8
Local Government Act 1997

Public Financial Management and Accountability Act 2011

Discussions with MLG staff (including Director of Planning, Financial Controller and Director, Decentralization Unit, on 11 July 2012. Follow up discussion with Director of Planning on 7 August,2012

2011/12 and 2012/13 Estimates of Expenditure

PI-9 (i)
Annual reports and websites of LEC, WASCO, LNDC, LHDA, Metolong Authority
Public Financial Management Act 2011

Discussions with officials of Private Sector Division of MOF, 6 July and 6 August 2012.

Discussions with officials of LEC (3 August), LNDC (1 August), LHDA (8 August), Ministry of Natural Resources (6 August),

Discussions with Ministry of Communications, Science and Technology - Principal Secretary and Planning Staff, 6 August

EU Public Financial Management Assessment of Ministry of Natural Resources, 2011

PI-9 (ii)
Discussions with MLG staff (including Director of Planning, Financial Controller and Director, Decentralization Unit, on 11 July 2012. Follow up discussion with Director of Planning on 7 August, 2012

PI-10
Discussions with MFDP Budget Dept, and MFDP website

PI-11
Ministry of Finance and Development Planning, Finance External Circular Notice No.10 of 2011, 25th November, 2011.

Ministry of Finance and Development Planning, Finance External Circular Notice No…of 2011, 14th November 2011.

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PI-12 (i)
Kingdom of Lesotho, *Budget Framework Paper Data for FY 2011-2012.*

Kingdom of Lesotho, *Consolidated Budget Framework Paper, FY 2012/13 – 2014/15.*

Kingdom of Lesotho, *Background to the 2012/2013 Budget.*

MTFF from DEP, in excel.

PI- 12 (ii)
IMF, *Kingdom of Lesotho: Staff Report for the 2012 Article IV Consultation and Second and Third Reviews Under the Three-Year Arrangement Under the Extended Credit Facility and a Request for Augmentation of Access—Staff Report*, May 2012, IMF Country Report No. 12/101.

IMF, *Kingdom of Lesotho: First Review Under the Three-Year Extended Credit Facility Arrangement and Requests for Waiver of Nonobservance of Performance Criterion and Modification of Performance Criteria—Staff Report*, April 2011, IMF Country Report No. 11/88.

IMF, *Kingdom of Lesotho: Request for a Three-Year Arrangement Extended Fund Facility Arrangement—Staff Report*, July 2010, IMF Country Report No. 10/225.

PI-12 (iii) and (iv)
BFP Health and Social Welfare, issued in 2010/11.
BFP MET, issued in 2011/12.
BFP Local Government, issued in 2011/12.
BFP Public Works, issued in 2011/12.
BFP Natural Resources, issued in 2011/12.

PI-13 to PI-15
Written evidence from LRA.

Discussions with practitioners and taxpayers.

World Bank report on training Lesotho accountants on tax issues.

PI-16
PFMA Act 2011

Constitution of Lesotho, Sections 112 and 114

Discussions with Accountant-General, MOF and staff 12 July

Discussions with Budget Director, MOF 6 July and 2 August

Discussions with Ministry of Natural Resources- Financial Controller 6 July, Planning and Financial Control staff 6 August,

Discussions with Ministry of Health and Social Welfare, Director of Planning and Financial Controller 11 July.

PI -17 (i)
Discussions with Director, Public Debt Department, MOF 9 July.
Auditor-General's Report on 2007/08 financial statements.

Discussions with staff of OAG.

PI -17 (ii)
Discussions with Accountant-General and staff, 12 July.

PI -17 (iii)
Discussions with Manager, Public Debt Department, MOF 9 July.

PI-18
Casualty Returns, Payroll extracts, and summary of changes to personnel records and payroll records for February, March and June 2012.

OAG, *Audit on Government Payroll and Third Parties*, 5th December 2011.

Lesotho Government Gazette, Vol. LIII, No. 38, June 2 2008, *Public Service Regulations*, *2008*.

Government of Lesotho, *Draft Treasury Regulations.*

PI-19
Public Financial Management Act 2011

Procurement Regulations 2007

World Bank Country Procurement Assessment Review (CPAR) 2008

Discussions with Director, Procurement and Policy Advice Division, MOF, 4 and 10 July, 5 and 13 August

Auditor-General's November 2010 performance audit report on procurement within the Ministry of Health and Social Services

EU Public Financial Management Assessment of Ministry of Natural Resources, 2011

Discussions with Ministry of Public Works and Transport, 6 July

PI-20
Discussions with staff of the Office of the Auditor-General

Discussions with staff of the Ministry of Public Works and Transport, Director of Planning 6 July, Ministry of Energy

Auditor-General Report on 2007/8 financial statements

OAG Annual Report 2009/10

EU 2011 Review of financial management at Ministry of Natural Resources

Performance Audit Report on Procurement in Ministry of Health and Social Welfare

2012 Internal Audit Verification Report on Domestic Arrears

2011/12 Reports of the Internal Audit Division of MOF covering a range of topics in nine ministries, including MOF

Finance Order 1988

Public Financial Management and Accountability Act 2011

Finance Regulations 1973

(Draft) Treasury Regulations 2012

PI-21
Discussions with staff members, MFDP Internal Audit Directorate, 6 July and 6 August 2012

Review of a range of Internal Audit reports

PI- 22
Auditor-General's Report on 2007/08 financial statements.

Discussions with OAG staff.

Discussions with Accountant-General and staff.

PI-23
Discussions with MFDP Treasury and staff of MET and MHSW

World Bank, Lesotho Public Expenditure Review, August 2012

PI- 24
Discussions with Accountant-General and staff 12 July, Discussion with Deputy-Accountant-General, 7 August

Discussions with Ministry of Public Works and Transport, 6 July

Discussions with Ministry of Natural Resources, 6 August

Final Report of Consultancy engaged by EU to resolve issues arising from implementation of IFMIS, March 2011

PI- 25
Auditor-General Report on the financial statements for 2007/08

Audit Act 1973

Finance Order 1988

Public Financial Management and Accountability Act 2011

Discussions with Accountant-General and Deputy Accountant-General, 12 July and 7 August

Discussions with staff of Office of Auditor-General

PI-26
OAG report on Financial Statements for 2007-08, and also Performance audits on drugs procurement and aspects of payroll

Other recent performance audits, together with auditees' replies where applicable (Discussion with Assistant Auditor-General, 10 August 2012

Discussions with OAG staff members

PI-27 (i)
Draft Budget Estimates 2012/2013

Kingdom of Lesotho, *Budget Speech to Parliament for the Fiscal Year 2012/2013*,18th of January 2012.

PI-27 (ii)
Lesotho Government Gazette, Vol. LIII, No. 35, 28th May 2008, *National Assembly Standing Orders,*
Legal Notice No. 44 of 2008.

PI-27 (iii)
Kingdom of Lesotho, *Budget Speech to Parliament for the Fiscal Year 2012/2013*,18th of January 2012.

Lesotho National Assembly, Order Paper, Monday 13th February 2012, *Adoption of the Report of the Portfolio Committee (…) on the Budget and Estimates for the Financial Year 2012/2013*.

PI-27 (iv)
IFMIS report on expenditure reallocations for 2011/2012.

PI-28
National Assembly, *Report on the Auditor General's Report for the FY 2006/2007*, 20 May 2011.

Timetables for meetings of PAC with Government Ministries and Departments for the reports on the 2006/2007 and 2007/2008 accounts.

Annex 5

List of People Met

Counterpart Team Members

Mr Habofanoe Makopela, Chief Economist, Planning Unit
Mr Tsolo Maoeng, Planning Unit
Ms. Itumeleng Borotho, Budget Officer, Budget Department
Linkeng Maremoholo, Budget Dept
Ms. Meisi Matobako, Accountant General and Treasury
Mr. Thuso Soane, DEP
Mrs Refiloe Thakaso, Assistant Auditor General, OAG.
Ms Maselikane Makhemeng, PSD
Mrs Boithabiso Tjobe, PSD
Mr Motseki Malikalike, Internal Audit Divn.
Paleoa Mashoai, Planning Unit
Mamolemo Malaleka, Planning Unit
Mr Gerard Heqoa, Aid Coordination Unit

MFDP

Mr M. Khetisa, Principal Secretary

Accountant General and Treasury
Ms Motseoa Masheane, Accountant General
Mr. Richard Letsoela, Deputy Accountant General
Mr Mpati Phoka, Main Cashier
Mr. Muso Mokoena, Operations Supervisor (IT department for Payroll, “Unique” system)
Mr. Motalingoane, Head of Salaries
Ms. Nkhahliseng Nthare, Salaries department
V.M.Motalingoane, Salaries
Ms. Nholelo Thoso, Applications Manager/IFMIS
Ms Mathabo Seoli, IFMIS
Makopoi Lrotholi, IFMIS
Mpho Mlungwana, IFMIS
M. Mokoena, Operations
Mampoi Makhetha, Inspectorate and Sub-Accountings
Mr Joalane Mokone, Bank reconciliations
M. Tsikulu, Main Accounts

Budget Department
Mr Khosi Letsie, Budget Controller
Mr Tom Mpeta, Deputy Budget Controller
Ms. Maleshoane Lekomola , Senior Budget Officer

Ms. Keneng Motjamela, Senior Budget Officer

Private Sector Development Dept.
Mrs M. Lekholoane, Private Sector Manager
Ms Reitunetse Elias
Public Debt Dept.
Mr J.T. Nteso, Director
Ms M. Tsolele, Debt Manager
Ms M. Makhakhe, Senior Debt Officer

Procurement Policy Advice Division
Mr David N.K.Nchela, Director

Internal Audit
Masebili Masia, Internal Audit Manager

Aid Coordination Unit
Ms Ntsiuoa Jaase, Director, Aid Coordination

Macro-Unit
Frederik Schlosser, Economist
M. Mofuoa, Economist.

Planning Unit
Mr. Anthony Higgins, Support to PFM Reforms
Mr. Potlako Peko, Director Planning
Ms. Jackie Koning, NAO Advisor

MAFS

Ms. Ntsepase Makara, Acting Financial Controller
Ms. Maneo Mohlahloe, Assistant HR Officer (Remuneration and Benefits)

MHSW

Peter Maohama, Financial Controller, Finance and Accounts.
Mahotso Ramahlapane, Financial Controller, Finance and Accounts.
Mphohle Sekoli, Finance Director, Finance and Accounts.
Ms. Makopoi Tlhomola, HR Officer (Remuneration and Benefits)
Ramahlapane Lechesa, Assistant Economic Planner, planning Unit

MET

Mr. Lebesele Letsie, Financial Controller
Mr. Thato Ntholeng, Senior Economic Planner
Mrs. Pulane Sebatane, HR Manager

MPS

Ms. Likeleli Mothibi, Management Services Officer
Mr. Dameane Seribetso, Director Human Resources

MENR

Mr Mpoea Zakia Phatela, Chief Planning Officer
Ms Malebohang Tjelebe, Accounts
Ms Malineo Seboholi, Senior Economic Planner
Ms Mamotsie Ralebiho, Director, Human Resources

MLG

Mrs Maselemeng Mokose, Director – Planning
Ms Makakubung Ritso, Financial Controller
Ms M. Mahoona, Director, Decentralisation Unit
Ms Likeleli Mphaloane, Director, Human Resources

MPWT

Mr Karabo Marite, Director, Planning

MCST

Mrs Maseqobela Williams, Acting Principal Secretary

Parliament

Hon. Thabang Nyeoe, Former Member, Economic and Development Cluster Portfolio Committee
Hon. Vincent Malebo, Former Chair, PAC

Lesotho Revenue Authority

Mr Ithuteng Pefole, Director Change and Project Management
and the Acting Head of Legal Dept.

Road Fund

Mr Refiloe Pule, Executive Secretary
Ms Mphaphthie Ramalyalane, Financial Controller
Mr Tlelima Hlalele, Human Resources

Mr Halebonoe Setsaki, Accountant
Mr Thato Makoele, Financial Accountant

Petroleum Fund

Mr Mahoema Peife, Executive Secretary
Mr Moeketsi Tsela, Accountant

Lesotho National Development Corporation

Mr Thabang Khabo, Head of Finance
Mr Lebohang Mofammere, Head of Property Management
Ms Puseletso Makhakhe

Lesotho Highlands Development Authority

Mrs Refiloe Tlali, Chief Executive
Mr Marius Botha, Manager Finance
Mr M. Molapo

Lesotho Electric Company

Mr Sello Mothae, Finance
Ms Thato Mojaki, Treasury
Ms Puseletso Leshoella, Corporate Services
Ms Kelello Tsatsi, Commercial Divn.
Ms Keketso Thulo, Commercial Divn
Mr Nathaniel Maphathe, Transmission Manager

Land Administration Authority

Ms Lineo Makaaka-Monne, Director finance and Administration

Delegation of the European Union (DEU)

Ms. Josephine Kalinauckas, Head of Operations
Mr. Laszlo Csoto

World Bank

Mr G. van der Linde
Mr Tony Redmond

Millennium Challenge Corporation (USA)

Mr Nathan Hulley, Resident Country Director

Annex 6

List of participants at PEFA opening workshop, 4 July 2012

NAME	ORGANIZATION	TITLE
Sekhametsi Matamane (Mrs.)	Irish Aid	Internal Auditor
Meisi Matobak (Ms.)	MoF Treasury Dept	Senior Accountant
Tsehlo T (Mr.)	UNDP	National Economist
Mohapi Sekalaka (Mr.)	Roads Director	Director of Finance
Tsepang Linko	Ministry of Public Works &Transport	Senior Economic Planner
Mphohle Sekoli (Mr.)	Ministry of Health	Finance Director
Makhotso Ramochela	Ministry of Health	Financial Controller
Retselistsoe Motsoeneng	Lesotho Revenue Authority	Director
Mampoi Keta (Mrs)	Energy,Met,and Water Affairs	Financial Controller
Mathuto Morahanye (Mrs)	Works	Senior Accountant
Itumeleng Borotho (Ms.)	MoF Budget dept.	Budget Officer
Motlomelo Lekhafola (Mr)	Ministry of Natural resources	Economic Planner
K. Letsie	Ministry of Finance	Budget Controller
Lisebo Mahalika (Ms.)	MoPWT	Senior Accountant
Moeketsi Mokhoele		
Matumelo Daemane (Mrs)	Min of Works	Procurement Manager
Nomalizo Nzeku	Min of Works	Procurement Officer
Makatiso Mosola	Min of Works	Accounts
Mamakhakhe Mabeta (Mrs)	Min of Dev Planning	Senior Debt Officer
Moeketsi Mabeta (Mr.)	Min of Dev Planning	Senior Economic Planner
Motseki Malikalike (Mr.)	MoF	Senior Internal Auditor
Boithabiso Tjobe	MoF	Senior Private Sector Dev Officer
Palesa Mashoai (Mrs.)	MoF	Senior Economic Planner
Ramahlape Lechesa (Mr.)	Min of Health	Planning Unit
Habofanoe Makopela (Mr)	MoF	Chief Economist (Planning Unit)
Edmund Motseki	World Bank	Operations Officer

Presenters: Mr John Wiggins, Ms. Elena Morachiello, Mr David Shand, Ms Laura Leonard (DFAT Ireland).

Annex 7
List of Participants at PEFA Concluding Workshop, 10 August 2012

Mr M Khetisa, Principal Secretary, M of Finance
Mr K. Letsie, Budget Controller, MoF
Ms Motsesa Masheane, Accountant-General, MoF
Mr D.N.K.Nchela, Director PPAD, MoF
Mr R.T.Letsoela, Deputy Accountant General, MoF
Mr Habofanoe Mafopela, Chief Economist, Planning Unit, MoF
Ms Itumeleng Borotho, Budget Dept, MoF
Ms Maseeiso Lekholoane, Private Sector Manager, MoF
Ms Maselikane Makhemeng , PSD MoF
Mrs Boithabiso Tjobe, PSD MoF
Ms Reitunetse Elias, PSD MoF
Ms Queen Lesenya, Development Planning, MoF
Mr Motseki Malikalike, Internal Audit, MoF
Mr Moeketsi Mokhoela, Aid Coordination MoF
Mr Moeketsi Mabota, Aid Coordination MoF
Mr Gerard Heqoa, Aid coordination, MoF
Mr Potlako Peko, Planning Unit MoF
Ms Palesa Mashoai, Planning Unit MoF
Mr Tsolo Maoeng, Planning unit MoF
Mr Molise Koto, assistant to Natl. Authorising Officer (Lesotho)
Mr Tony Higgins, Advisor Planning Unit MoF

Tieho Senamolele, Office of the Auditor-General

Mr Lebesele Letsie, M of Education and Training
Mr Thato Ntholeng, MoET

Mr Ntai Maboetje, M of Local Govt
Mabakuburg Pitso, M of Local govt

Mr Karibo Marite, MPWT

Mr Mpoea Z Phatela, Head of Planning, MENR
Ms Malineo Seboholi, MENR

Nr I Pefole, Lesotho Revenue Authority

Mr Sello Mothae, LEC

Mr Moeketsi Tsela, Petroleum Fund

Ms Mphaphathi Ramanyalane, Road Fund

Mr Motebeng Mokoaleli, LNDC

Mr Matheaura Molato, LHDA

Tumelo Jafeta, Millennium Challenge Account

Mr Tony Redmond, World Bank Consultant

Mr Laszlo Csoto, EUD

Ms Sekhametsi Matamane, Irish Aid

Presenters: Mr John Wiggins, Mr David Shand, Ms Laura Leonard (DFAT Ireland).

Annex 8

List of ministries with resident internal auditors

1. **Local Government and Chieftainship** **5**
    - Internal Audit (1)
    - Assistant Internal Auditors (4)

2. **Agriculture and Food Security** **4**
    - Assistant Internal Auditors (4)

3. **Health and Social Welfare** **4**
    - Internal Audit (1)
    - Assistant Internal Auditors (3)

4. **Finance and Development Planning** **8**
    - Senior Internal Auditor (1)
    - Internal Audit (1)
    - Assistant Internal Auditors (3)

    [Special Assignment]
    - Senior Internal Auditor (1)
    - Assistant Internal Auditors (2)

5. **Public Works and Transport** **3**
    - Internal Auditor (1)
    - Assistant Internal Auditors (2)

6. **Home Affairs and Public Safety and Parliamentary Affairs** **3**
    - Internal Audit (1)
    - Assistant Internal Auditors (2)

7. **Education and Training** **3**
    - Senior Internal Auditor (1)
    - Assistant Internal Auditors (2)

8. **Justice, Human Rights and the Correctional Services** **3**
    - Assistant Internal Auditors (3)

9. **Tourism, Environment and Culture** **2**
    - Assistant Internal Auditors (2)

10. **Defence and National Security** **2**
    - Assistant Internal Auditors (2)

11. Gender Youth Sports and Recreation	**1**
• Assistant Internal Auditors (1)	
12. Natural Resources	**2**
• Assistant Internal Auditors (2)	
13. Trade and Industry, Cooperatives and Marketing	**3**
• Senior Internal Auditor (1)	
• Assistant Internal Auditors (2)	
14. Forestry and Land Reclamation	**2**
• Assistant Internal Auditors (2)	

Annex 9

Latest External Audits

Office of the Auditor General		
List of Corporations, Companies, Statutory Bodies and Special Funds		
Auditees	**Last Financial Year Audited**	**Remarks**
Corporations		
1. Lesotho Communications Authority	31/03/2011	Audit for 2011/12 in progress
2. Lesotho Electricity Authority	31/03/2011	Audit for 2011/12 in progress
3. Lesotho Revenue Authority	31/03/2011	Audited accounts for 2011/12 awaiting Board approval
4. Lesotho Tourism Development Corporation	31/03/2007	No accounts
5. Basotho Enterprises Development Corporation	31/03/2010	Audit for 2010/11 in progress
6. Lesotho National Development Corporation	31/03/2011	Audit for 2011/12 in progress
7. Lesotho Housing & Land Development Corp.	31/03/2007	Audit for 2007/08 in progress
8. Lesotho Freight & Bus Service Corporation	31/03/2007	Audit for 2007/08 in progress
9. Land Administration Authority	31/03/2012	
10. Metolong Authority	31/03/2011	
11. Lesotho Pharmaceutical Corporation	31/03/2004	Liquidated
Companies		
1. Asset Recoveries (Pty) Ltd	31/03/2009	Audit for 2010-11 in progress
2. JHI Real Estates (Pty) Ltd	31/03/2004	No accounts
3. Loti Brick (Pty) Ltd	31/03/2011	
4. Basotho Fruit & Vegetable Canners (Pty) Ltd	31/03/2006	Accounted accounts for 2007/08 awaiting Board approval
5. Lesotho Brewing Company (Pty) Ltd	31/03/2011	Audited accounts for 2011/12 awaiting for Board approval
6. Lesotho Electricity Company (Pty) Ltd	31/03/2010	Audited accounts for 2010/11 awaiting for Board approval
7. Lesotho Sun (Pty) Ltd	31/06/2011	

8. O.K. Bazaars Lesotho (Pty) Ltd	31/06/2011	
9. Water and Sewerage Company (Pty) Ltd	31/03/2010	Audit for 2010/11 in progress
Other Statutory Bodies		
1. Baylor College of Medicine	30/06/2011	
2. Corporate Bodies Pension Scheme	31/12/2006	
3. Directorate of Dispute Prevention & Resolution	31/03/2008	Audit for 2008/09 in progress
4. Examination Council of Lesotho	31/03/2009	Audit for 2009/10 in progress
5. Lesotho National Dairy Board	31/03/2009	
6. National AIDS Commission	31/03/2009	Restructuring
7. National Drug Service Organisation	31/03/2009	Audited accounts for 2010 approved by Board
8. National University of Lesotho	30/06/2011	
9. Roads Directorate		No accounts
10. Agric College	31/03/2009	Audit for 2010/11 in progress
11. Lesotho Co-op College	31/03/2004	No accounts
12. Council for Higher Education	31/03/2011	Audit for 2012 in progress
A. Special Funds		
13. Export Development Fund	31/03/2006	
14. Infrastructure Development Fund	31/03/1998	No accounts
15. Lesotho Fund for Community Development	31/03/2008	Dissolved
16. Post Office Fund	31/03/2006	
17. Road Fund	31/03/2011	
18. Petroleum Fund	31/03/2011	
19. Workmen's Compensation Trust Fund	31/03/2006	Audit for 2007-09 in progress
20. School Supply Revolving Fund	31/12/2000	
21. Loan Bursary Fund		No Accounts
22. Guardian Fund	31/03/2009	
Note: List of Special Funds is not complete		

Source: Office of the Auditor General – note data does not appear complete.

Annex 10

Comments of the PEFA Secretariat and authors' responses

This note sets out the PEFA Secretariat's comments on the PEFA Assessment 2012 of Lesotho, as requested by Gert van der Linde from the World Bank, on August 26th, 2012. We are grateful for the opportunity to present our comments, which address the following questions:

1. Is the requisite background information for the assessment adequately included?
2. Have the standard indicators been used (with or without modification)?
3. Are the indicators correctly applied or interpreted?
4. Is sufficient evidence provided for all aspects of each indicator? If not, what is missing?
5. Is the information specific, presented clearly and used correctly?
6. Is the scoring methodology correctly chosen and applied?
7. Is the scoring correct, on the basis of the information provided?
8. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicators (constitutional arrangements, system heritage)?
9. Have the indicator-related information and ratings as well as other relevant information been combined in an analysis that highlights the main strengths and weaknesses of the PFM system and indicates priorities for reform?

Our comments do not consider if the data/information presented in the report is likely to be correct and we can only judge the correctness of scoring on the basis of the evidence actually presented.

Overall impression

This is a very good draft report which shows a good understanding of the methodology and provides thorough evidence to support the ratings. The document closely follows the model PEFA PR format.

It is a repeat assessment, and the tracking of changes since 2009 is excellent, providing a wealth of detail for future repeats. Table 2 at the end of the Summary Assessment tracks changes in the ratings, dimension by dimension, and explanations are found in the text: doubt is cast on 12 of the previous ratings.

General observations

Documents reviewed are specified indicator-by-indicator in Annexes 3 and 4, and there is a list of the many government stakeholders consulted: however, Annexes 5, 6 and 7 reveal an absence of non-government sources (always valuable for triangulating information) – except for development partners.

Comment: Neither Lesotho Chamber of Commerce nor Lesotho Institute of Accountants answered their telephones, and neither responded to email requests for meetings. It would be invidious to identify individual taxpayers or tax advisers who provided information relevant to PI 13-15.

The fiscal year and the exchange rate are stated, but the list of abbreviations is not comprehensive.

Comment: Some additions have been made to the list of abbreviations.

Section 1 – Introduction

The purpose of the report is clearly stated: *"to provide all stakeholders with an updated assessment of PFM in Lesotho"* as is the scope of the assessment: central government – while this covers the majority of general government expenditure, it would be helpful to provide an overview of the public sector. Although measuring progress since 2009 does not appear to have been an objective, this was certainly achieved!

Government provided a Counterpart Team from the MoF to support the work of the Core Team of external consultants (all of whom were experienced in PFM assessments), which was joined by a staff member from Irish Aid.

Donor coordination for the assessment could be further explained. While the European Commission led the assessment and there is mention of Irish Aid and the MCC, there is no explanation how these agencies coordinated with each other, nor with other donors active in the PFM area (such as DFID and the World Bank).

Comment: some amendments have been made to clarify arrangements for consulting donors. DFID are no longer actively involved.

It would be useful to be more specific about arrangements to quality assure the work, and also to provide a 'snapshot date' – which by inference is 10 August 2012 (the date of the final workshop).

Comment: Text amended to clarify arrangements for quality assurance.

Section 2 – Background information

The country's economic context is described, and key economic data is included (GDP and inflation). Information on budgetary outcomes is provided for the government budget, but not in the 'standard format' – there is an economic, but no functional classification using COFOG. Little is said about fiscal policy and there is insufficient information to assess the links between the budgetary outcomes and the operation of the PFM systems.

Comment: some information has been added about the stance of fiscal policy, including a new Table 3 showing revenue, expenditure and the overall fiscal balance for the period 2009-12.

The links between the executive, judiciary and oversight institutions are all described, as are the institutional arrangements for PFM. The legal framework is explained, as is the division of responsibilities within the Ministry of Finance.

Section 3 – Assessment of PFM systems, processes and institutions

This section follows the structure of the Framework document closely. The methodology is well understood, and all the standard indicators for a national assessment have been applied. The table below contains specific observations where additional evidence or clarification to justify the scoring is required, or where there is a lack of correspondence between the evidence provided and the rating allocated.

Indicator/dim	**Comments on evidence and rating**	**Comparison with 2009**
PI-1	Appears correctly rated as 'B' on the basis of adequate evidence: reference to 'average' is irrelevant!	Rated 'A' in 2009, but said to be 'no major change', justified by a different method of rating.
PI-2 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Not comparable.
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	New dimension.
Overall	Correctly combined to 'C+'.	
PI-3	Appears correctly rated as 'B' on the basis of adequate evidence. (NB. SACU receipts (import duties) should be included in the calculation, irrespective of their controllability, but this makes no difference to the B rating).	Not comparable.
PI-4 (i)	Correctly not rated, due to unreliability of data.	Not previously rated.
(ii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Improvement evidenced.
Overall	Correctly combined to NR.	
PI-5	Appears correctly rated as 'B' on the basis of adequate evidence.	Final report showed 'B' ('A' in draft):

		no change.
PI-6	Appears correctly rated as 'B' on the basis of adequate evidence.	Doubts about 2009 'B' rating, but no change.
PI-7 (i)	Appears correctly rated as 'B' on the basis of adequate evidence.	NR in final 2009 report ('C' in draft): comparison not possible.
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Rated 'C' in 2009: suggests should have been 'D': no change.
Overall	Correctly combined to 'D+'.	
PI-8 (i)	Rated 'B', but the text covers only allocations to district councils, not urban councils: please clarify <u>Response: Same processes apply – text amended to clarify this</u>	Not scored in 2009.
(ii)	Rated 'A', but SNG budget preparation timetable not given and date the councils are told of their allocations not stated. Rating uncertain. <u>Response: Text amended to make clear when Councils know allocations. The internal timetable for Councils is based on the MLG circular requesting the information as part of the MLG budget bid and they must therefore meet that timeline. So in that sense the internal timetable is of no particular concern. Para 59 makes it clear that Councils know their allocation de facto when the MLG estimates are finalized with MOF and submitted to Parliament and formally as soon as the budget is passed by Parliament. Rating maintained.</u>	Not applicable in 2009, as DCs only just set up. Comparison not possible.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'B', but now uncertain.	
PI-9 (i)	May be correctly rated as 'C', but Table 11 states that several PEs & AGAs do not submit recent statements: it would be	No change,

	helpful to know the magnitude of these omissions. Response: Paragraphs 68 and 73 identify the most important PEs and AGAs, and Table 12 gives information about the latest audited accounts available. The three most important PEs and the National University, although in most cases falling short of the new requirements in PFMA Act 2011, have produced relatively recent reports (and more recent reports than the Government itself). In the view of the review team this situation corresponds to the criteria for the rating C. Rating maintained.	evidenced.
(ii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Rated ‘D’ in 2009, suggests this should have been ‘C’. No change.
Overall	Correctly combined to ‘C’.	
PI-10	Appears correctly rated as ‘D’ on the basis of adequate evidence.	Deterioration evidenced.
PI-11 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Suggests that 2009 ‘A’ rating was too high. No change.
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to ‘B+’.	
PI-12 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	No change, evidenced.
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	No change, evidenced.
(iv)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Improvement evidenced.

Overall	Correctly combined to 'B'.	
PI-13 (i)	May be correctly rated as 'D', but evidence is anecdotal. Response: the difficulty of obtaining evidence from LRA is explained. Rating is essentially based on strong indications from tax practitioners that settlements between LRA and taxpayers are based on negotiation involving substantial exercise of administrative discretion.	Deterioration not evidenced.
(ii)	May be correctly rated as 'C', but if *"complex cases"* are untypical, may be 'B'. Response: again there were difficulties in obtaining necessary evidence. Table 15 (see PI-14) makes clear that the largest groups of staff engaged on inspections are those dealing with traders, professionals and the contracting and VAT refund sectors, all of which may be seen as examples of more complex situations. Rating maintained.	Deterioration not evidenced.
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Appears correctly combined as 'D+', but now uncertain.	
PI-14 (i)	Appears correctly rated as 'B' on the basis of adequate evidence.	No change, evidenced.
(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'B'.	
PI-15 (i)	Rated 'D', but not clear how the debt collection ratios (64% and 42%) were calculated (should be collections of arrears each year/opening arrears). Rating uncertain. Response: again there were difficulties in interpreting the evidence provided, which are stated in the text. Rating reflects the fact that arrears are substantial and increasing, although figures are not available in precisely the form required by the PEFA criteria. Rating maintained.	Not previously rated.

(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'D+', and not affected by dim (i) uncertainty.	
PI-16 (i)	Although the Treasury may not *"make much use"* of MDA forecasts, they do exist. Rating uncertain. Response: Extent to which cash flows are monitored and reported surely refers to their use by Treasury. Text amended to clarify this. D rating maintained.	Rating uncertain.
(ii)	Rated 'A', but not clear how MDAs know their funds for the next 6 months (text says they know next quarter's only). Rating uncertain. Response: True there is no *formal* process for advising beyond the quarter but in *practice* they know the full year allocation and they receive it. Text amended to clarify this. Rating maintained.	Rating uncertain.
(iii)	Appears correctly rated as 'B' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'D+', but now uncertain.	
PI-17 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement not evidenced. Response: Seems clearly described in para. 149. We do not know what the 2009 concerns were concerning domestic debt and therefore why it was

		rated B
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Improvement evidenced.
Overall	Correctly combined to 'B'.	
PI-18 (i)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change (2009 'B' not evidenced).
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change (2009 'C' not evidenced).
(iv)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Correctly combined to 'D'.	
PI-19 (i)	Appears correctly rated as 'B' on the basis of adequate evidence.	Not comparable.
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	
(iv)	Appears correctly rated as 'D' on the basis of adequate evidence.	
Overall	Correctly combined to 'D+'.	
PI-20 (i)	Rated 'B', but not clear if IFMIS prevents commitments outside cash availability as well as budget provision. Rating uncertain. Response: IFMIS or for that matter any system cannot prevent officials making commitments without a purchase order. Only refusing to pay if there is no purchase order might change behaviour of suppliers	Improvement not evidenced Para 193 IFMIS has a commitment control module. GOLFIS did not.
(ii)	Appears correctly rated as 'C' on the basis of adequate evidence.	No change (D in 2009 not

		evidenced).
(iii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to ‘D+’, and not affected by uncertainty on dim (i).	
PI-21 (i)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Improvement evidenced.
(ii)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	Improvement evidenced.
(iii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to ‘D+’.	
PI-22 (i)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
(ii)	May be correctly rated as ‘D’, but evidence is weak: do suspense accounts exist? Rating uncertain. <u>Response: Agree the evidence is impressionistic rather than specific. Yes, suspense accounts exist. The only alternative would be NR which the review team consider would be too “lenient” a rating</u>	Rating uncertain.
Overall	Appears correctly combined as ‘D’, but now uncertain.	
PI-23	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
PI-24 (i)	May be correctly rated ‘A’, but paras. 50 and 236 suggest that significant expenditure on budgeted donor projects is omitted, which would undermine value of comparisons: please clarify. <u>Response: The coverage of IFMIS reports is in principle the same as the Budget. The problems arise when information is not entered into IFMIS which is not captured automatically, and dimension (iii) is accordingly rated D.</u>	Improvement evidenced.
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	Improvement evidenced.

(iii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to ‘D+’.	
PI-25 (i)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
(ii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
(iii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to ‘D’.	
PI-26 (i)	Rated ‘C’, but there is no evidence that between 50% and 75% of CG expenditure is audited each year. Rating uncertain. Response: OAG were unable to provide any precise statistics which would measure the proportion of expenditure covered every year. Their assessment was that taking one year with the next, coverage exceeds 50 per cent.	No change, not evidenced.
(ii)	Appears correctly rated as ‘D’ on the basis of adequate evidence.	No change (‘C’ score in 2009 not evidenced)
(iii)	Appears correctly rated as ‘C’ on the basis of adequate evidence.	Improvement evidenced.
Overall	Correctly combined to ‘D+’, and not affected by uncertainty on dim (i).	
PI-27 (i)	Appears correctly rated as ‘B’ on the basis of adequate evidence.	No change (‘C’ score in 2009 not evidenced).
(ii)	Appears correctly rated as ‘A’ on the basis of adequate evidence.	No change (‘B’ score in 2009 not evidenced).

(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.
(iv)	Appears correctly rated as 'C' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'C+'.	
PI-28 (i)	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	No change ('B' score in 2009 not evidenced).
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	No change, evidenced.
Overall	Correctly combined to 'D+'.	
D-1 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Not applicable in 2009, no comparison.
(ii)	Rated 'D', but no calculation of weighted delay each year is shown. Rating uncertain.	
Overall	Correctly combined to 'D+', but now uncertain.	
D-2 (i)	*Not yet rated*	*No comparison.*
(ii)	*Not yet rated*	
Overall	*Not yet rated*	
D-3	Appears correctly rated as 'D' on the basis of adequate evidence.	No change, evidenced.

Section 4 Government Reform Process

Section 4 provides a very brief review of the reforms underway, although the reforms related to each indicator are described in section 3. There is a paragraph about the institutional factors that will support the reform program.

Summary Assessment

The Summary Assessment brings together the impact of the main strengths and weaknesses of the PFM system across the six ‘critical dimensions’ very well, together with the implications of these weaknesses for each of the three main budgetary outcomes.

There is, however, a clear ‘story line’, which unfortunately states that there is “a disappointing lack of progress”.

PEFA Secretariat

September 10, 2012

Annex 11
Comments of the African Development Bank and authors' responses

1. The general overall comment is that the report, although very well written, is too long.

Response: We think that at 106 pages it is less than average length of recent PEFA assessments

There are areas of repetition (e.g. Exc. summary Vs Introduction) as well as those with rather too much details(e.g. The methodology seems to include activities undertaken rather than focusing on approach, scope could also be shortened, Detailed information on PI-9 is also lengthy)

Response: We did discuss this internally but on balance favour leaving the PI-9 information. Repetition is inevitable between Executive Summary and Main Report, given the instructions in the PEFA Handbook.

2. The 2007 PEFA methodology is said to have been applied, have the subsequent revisions been taken into consideration, it will be crucial to mention this?

Response: the report has been amended to make clear that the latest revisions have been taken into consideration.

3. The IFMIS, this is said to cover only central government operations (thereby excluding Local Government), it is important to put this in context by highlighting the level of Local Government operations as a fraction/% of overall Government operations so as to reflect how much is left outside. Response: This is covered – para 53.

4. Consistently maintain the acronym for Ministry of Finance and Development Planning as MFDP as per list of abbreviations provided, i.e. avoid using MOF as in page 40.

Response: MFDP now consistently used.

5. The dividend paid in by SOEs jumped from M117 (2010) to M569 (2011), this is a huge jump and pre-empt question marks by highlighting the main contributory factor, if this information is to be included Response: Amounts are explained in para. 72 (PI-9).

6. It is mentioned in the document that the "The World Bank and Irish Aid are using the services of OAG for the audit of projects – It is to be noted that the AfDB is also using the services of the OAG for the audit of its projects. This should be mentioned in the document.

Response: Report amended to record this point.

7. These are so many and major weaknesses for a country of 2 million that raises the question as to where the PFM reforms as delivered through the Budget Support Programmes have added much value. There appears to be a slight disconnect.

Response: Not really a point about the PEFA Report.

8. Generic to the Report

1. To what extent is the deterioration in the PEFA scores such as the IFMIS problem, Credibility of Budget etc related to shortage or lack of professional accountants in the public sector. Many other countries – especially those that are based on the Westminster model – are making an effort through civil service reform to ensure that adequacy of accountants to support PFM reforms. Was parallel running between the new IFMIS and GOLFIS the only problem in its implementation. Isn't this too simplistic a lesson to draw from implementation of systems. Other things may relate to training, inadequate specs etc. As IFMIS is already "live" then the issue of parallel doesn't really arise and the question might be what to do next. Burried somewhere in the document (para 116) as regards Taxation is the following comment "A recent report on Tax Planning Training produced as part of the World Bank funded Lesotho Institute of Accountants Capacity Development project found that "no training or Continuous Professional Development events in taxation are undertaken in Lesotho. The experience of practitioners was that the personnel of LRA were also not well trained, and it was often impossible to resolve technical problems with them" so perhaps in the IFMIS question, the issues might be beyond just "parallel running" which alone might be construed to be resistance to change.

   Response: Amendments made to paras. 10 and 16 in the Executive Summary and 10 and 19 in the Main Report to explain the problems of IFMIS more fully. It appears that the problems derive more from the system hardware and software than from a lack of professional accountants, although if there were more accountants there would probably be a greater willingness to take the problems seriously.

2. Why is it indicated that this is the "baseline" when according to the PEFA Secretariat Country Experience as of 2 April 2012, previous assessments and repeat assessments exist for Lesotho? (Page 19 – Introduction "It is intended to provide a baseline measurement of PFM performance against which the direction and extent of future progress can be measured". It could be interpreted that the current consultants had a problem with the ratings of the 2009 PEFA. (See for example in Table 10 where some items were given credit in the 2009 PEFA but the current consultants did not receive the requisite documentation for this PEFA. Is this the case and it may be useful to clarify whether indeed the previous PEFA was correctly rated or whether the situation has deteriorated? Perhaps this should appear clearly in the summary as in many instances we find comments such as the below that put into question the 2009 assessment.

   Response: Each PEFA assessment is intended to set the baseline for the next. Text amended to make this clear. As PEFA Secretariat comments point out we cast doubt on 12 of the previous ratings.

Performance change and other factors since 2009 PEFA assessment

51. The 2009 assessment considered that complete income/expenditure information was being recorded for all loan-financed projects (although it recognised that information on grant-financed

projects was incomplete), and therefore rated this dimension C. Given the evidence subsequently produced by OAG about the position in 2008-09, this assessment cannot be seen as correct.

3. Tables 3 and 4 should specify currency.

   Response: They do –Mm =Maloti millions

   Paragraph 13 – It is not clear whether from an allocation of resources perspective the figures are commensurate to the population levels. For example in table 4 for which para 13 relates to it is not clear as to the message it really intends to pass on. Spending in education and training is not compared to the number of students in the school system. Wouldn't have been better from a resource allocation perspective to indicate the spending per student or spending per child to allow the reader to understand whether the allocation makes sense from a PFM perspective or not. Is the IFMIS able to provide this information? Response: This is beyond the scope of a PEFA Report. Such issues are discussed in the recent WB Public Expenditure Review of Lesotho.

Ministry	2009-10 (Mm)	2010-11 (Mm)	2011-12 (Mm)
Education and Training	1625	1731	1747

4. Income Tax – Paragraph 130:- Are remittances subject to Income Tax? (Just a thought as in the opening paragraphs it was indicated " Its population is about 2 million, with national income per head about US$1,000 a year, of which about 20 per cent comes from remittances from Lesotho citizens working in South Africa".) Response: No discussions were possible with LRA. It would be normal for such income to be taxed in South Africa. The people concerned are probably not resident in Lesotho for tax purposes.

9. It is also to be noted as a general comment that as indicated in the draft report, the overall progress since 2009 is rather disappointing. The trajectory of changes for some of the PEFA ratings are downward. It is also stated that in terms of actual achievements in the area of PFM reforms, the progress since 2009 is disappointing. The most important lesson from this type of exercise would be for the government to prepare an action plan to support and improve the PFM system in the country. In this regard, although perhaps not the main focus of a PEFA assessment, the causal factors are important as to assist the GOL to move the gaps in the reforms forward and "The Need for an Action Plan beyond the diagnostic".

Response: This will be the task of the Institutional Reform Steering Committee.

Annex 12
Comments of Technical Advisor to the GoL and authors' responses

PEFA Draft Report, 26 August 2012: comments by G. West, October 2012

PI-1 and PI-2: It is important to know whether we are comparing equivalent numbers but the Tables fail to indicate what values refer to (e.g. actual outturn, budget, amended budget). Terms are also not used consistently (e.g. Table 3 refers to Capital expenditure instead of Acquisition of Non-Financial Assets).

Response: For PI 1 and 2 the figures used were supplied by Budget Dept. In accordance with the PEFA instructions, figures refer to Original Budget and actual out-turn. Table 4 (formerly 3) is a simplified version of the IMF table 2 from the 2012 Article IV Report (source is clearly described). There are some issues at the margin where maintenance work is treated for budgetary purposes as capital expenditure.

PI-1 and PI-2: Although it is unlikely to affect the scoring, the numbers in Annex 1 do not match those quoted in annual Budget Speeches and Budget Background papers. What source has been used and how accurate is it?

Response: Sources are indicated in each case. The report makes clear the uncertainty and instability of the figures (see PI-1, 2 and 12). The Government has not yet commented on or corrected any figures.

PI-6: The assessment claims that 5 elements of budget documentation are provided but the recent World Bank PER states (para 107) that “They provide little basis for Parliament and external readers to review the Government’s proposed budget and performance”.

Response: The report seeks to respond to the PEFA criteria. The WB PER goes well beyond PEFA in asking whether policy choices were well judged. The information provided to the National Assembly does provide the starting point for members to ask questions about the justification for the allocations for different purposes.

PI-6 1: Despite the claim in the Commentary, the Budget Background paper (which is tabled for the legislature) does contain forecasts for economic performance from 2011/12 – 2014/15.

Response: The Background paper gives projections of average growth rates over the three years, but does not provide a forecast for the budget year immediately ahead.

PI-6 9: The Commentary argues that budget implications were not available in 2009 – however, periodic tax task teams did undertake this work so the 2009 claim is correct.

Response: We have deleted the sentence about 2009. The 2012 Budget material does not quantify the effects of the tax and expenditure changes announced.

Para 51: The 2012 PEFA team should refrain from making judgements about the 2009 report when they are not familiar with the basis for those judgements e.g. just as in 2012 (para 149) "there are no current doubts about any aspect of the [debt] figures" so in 2009 the Debt Division also confirmed that loan-financed projects were accurately recorded in CS-DRMS.

Response: In para 149 we say "apparently" – the 2009 report should have made the basis for its rating clear which it did not

Para 58: The January 2011 revision of the PEFA framework explicitly states that this dimension measures "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)". The absence of outturn data does therefore justify the 2009 score.
Response: As the text makes clear, most current expenditure of sub-national governments is directly borne on the central government budget. The capital allocations are formula based, but actual out-turns depend on the progress of work, which may result in amounts different from those fixed by formula. The idea of a rules or formula based system really only makes sense at the stage of deciding allocations. The PEFA Secretariat have not questioned our approach. We consider that our comment is correct and does not require changing.

Para 59: Before awarding an "A" rating, it would have been useful to find out from representatives of SN governments if they consider that they get reliable and timely budget information.

Response: Fair point, but no time (and too late now) and no real reason to question what MLG told us as SNG transfers are part of MLG budget

PI-1(i): Although "C" appears to be the correct score, it is clear that the preparation of the 2012/13 Budget failed to satisfy several key milestones in this timetable as set out in Figure 6 of Lesotho's Draft PFM Manual (July 2010). The recent World Bank PER states (para 109) "there are significant weaknesses in the management of the budget calendar, with delays and missed deadlines commonplace". Response: The report refers to missed deadlines by some MDAs, and explains that Budget Department does not have detailed records. The PER comment is made in the context of a discussion of MTEF experience, where the PEFA report independently reached essentially the same conclusions (see PI-12).

PI-11(ii): Although the ceilings in the BCC have been considered by Cabinet, they are not treated as "hard" ceilings and estimates submissions are frequently far in excess. Cabinet revises the allocations late in the Budget process (i.e. after the draft Estimates have been compiled).

Response: There is a distinct stage where the Cabinet considers the ceilings to be issued to MDAs, which is what PEFA looks for. Even if the ceilings are not fully respected, they clearly strengthen the MFDP hand in any negotiations before the detailed consolidated Budget is submitted for approval by the Cabinet.

PI-12(i): Although it would probably not affect the scoring, it is worth noting that the progress in terms of a consolidated BFP and programme budgeting may not be sustainable in the absence of the full-time US Treasury adviser.

Response: The review team looked at several Ministries' BFPs. The mechanics of producing such documents appear to be reasonably well understood. We were not aware of the existence of this adviser.

PI-12(iii): A review of most of the BFPs prepared for 2012/13 confirms their poor quality, internal inconsistency and failure accurately to cost recurrent implications, capital projects and recurrent implications of completed projects.

Response: The report makes clear the disconnect between BFPs and actual budget decisions.

PI-12(iv): This assessment greatly overstates the performance of ministries in preparing accurate forward recurrent estimates arising from the completion of projects (and fails to assess the ability of Budget Department to provide quality assurance). Ministries do not prepare forecasts of manpower required to service and maintain additional facilities. The proposed scoring of "B" should be reduced to "C".

Response: Perhaps we have given too much credit for form rather than substance. The report is sufficiently clear that the MTEF and budgetary processes are not working together as intended.

PI-13(i): The vast majority of income tax and VAT payers do know and understand their tax liabilities so the scoring of "D" seems much too harsh. Although the criticisms seem valid, they apply to the much smaller number of complex cases.

Response: If it had been possible to discuss with LRA, the report might have reached a different judgment. A large proportion of those actually subject to income tax are government employees. A tax system cannot be seen as satisfactory if it is well adapted only to the most straightforward situations.

PI-16(ii): The assessment fails to consider the potential adverse impact on implementation of capital projects resulting from political decisions taken through the mid-year review and reallocation process (this is referred to in para 141 but described as a more cooperative process than in practice). The scoring should be "B".

Response: The reallocations were clearly documented by MOF as part of an annual mid-year review and there were no complaints from spending ministries about arbitrary and unexpected changes in capital expenditure allocations

Para 141 (and elsewhere): Even though the PFMA Act was passed in 2011, that does NOT mean that it is being implemented. Many procedures are not yet in place and the Ministry does not have the capacity to enforce implementation or punish failure to comply.

Response: The text has been amended to make the point more clearly that the PFMA Act is not being implemented in some areas.

PI-16(iii): A number of adjustments occur throughout the year without proper administrative (MFDP) or legislative (no ex ante approval of Supplementary Estimates or of Contingency utilisation) approval so the scoring should be “C”.

Response: In para 142 we note non-use of supplementary appropriations but use of the contingency fund and failure to follow procedures for ex post authorization. Our B rating that it is done in a “fairly” transparent way was mainly based on capital reallocations. The Budget Department told us that they had not initiated any reallocations of recurrent expenditure.

Para 147: Although integration of CS-DRMS and IFMIS may generate identical values, it is not clear how the reconciliation will be undertaken. If IFMIS simply ensures consistency through journal entries, it will NOT provide quality assurance.

Response: CS-DRMS produces accurate figures as a stand-alone system. The debt manager has undertaken assignments in other countries on behalf of the Commonwealth Secretariat to train her colleagues in its use.

PI-18: It is surprising that this section fails to comment on the outcome of ongoing reforms identified in the 2009 report, namely: “The Office of the Auditor General (OAG) with the assistance of the UK National Audit Office (NAO) is in the process of finalising a payroll audit. GoL recognise the deficiencies of the payroll system, which are partly due to the age of the payroll software. A tendering procedure for an integrated personnel and payroll system is underway.”

Response: The report provides the information available to the review team about recent payroll audit work. The introduction of IFMIS has resulted in the fragmentation of payroll controls. It does not appear that the progress towards an integrated personnel and payroll system intended in 2009 was actually made.

PI-18(ii): The assessment provides no evidence on the frequency of this problem or the average length of time for amendments (“can be longer than three months” suggests that the majority of changes occur in less than three months). Given the low number of complaints, the scoring of “D” seems too harsh.

Response: Paragraph 163 provides specific evidence of changes taking longer than 3 months to be implemented.

PI-19(i): The assessment fails to consider whether the PFMA has been implemented with respect to procurement and whether the regulations are appropriate given the small amount of procurement and the limited availability of skilled and impartial officers.

Response: The discussion on dimensions (ii), (iii) and (iv) covers whether PFMA is being implemented. On the second comment we consider that Mr West sees it the wrong way round – the regulations cover “standard” ground for procurement. The issue is capacity development to properly implement the regulations, not downgrading the regulations to reflect low capacity.

PI-19(ii): It seems inevitable that the premature decentralisation of procurement increased the likelihood of deviation from competitive procedures and weakened quality assurance. Response: Probably, but supposition only and does not require comment

Para 192: It seems that much of the PFMA Act and the new Treasury Regulations are not yet being implemented and should not be regarded "as currently operational".

Response: Text amended to say that MFDP regards them as " the currently applicable legal framework".

PI-20(i): The assessment actually implies that "Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated ", which leads to a score of "C".

Response: the text makes clear that commitment controls are more than partially effective – we say that the system is working satisfactorily. No system can prevent unauthorised commitments being made without purchase orders.

PI-24(i) and (ii): The report justifies an "A" score because IFMIS can generate management reports. However, the recent World Bank PER (para 103) states that ministries "do not have ready access to the disaggregated data on actual expenditures required to analyze performance of ministry programs" and that "Capacities are not sufficiently developed in the IFMIS unit for generating management reports". The World Bank conclusion seems more realistic and would justify a score of "C" for both dimensions.

Response: What is the Bank's evidence? We spoke to enough spending ministries to support our comment. Paragraph 230 emphasises the point that although the system provides for the generation of in-year budget execution reports in the same format as the budget, and MDAs should be able to derive from it the reports they need, there are serious doubts about the completeness and accuracy of IFMIS reports.

PI-26(i): In view of inadequacies in the extent and accuracy of Budget documentation, and since Parliamentary debates do not address fiscal or sectoral policies and have limited impact on appropriations, a score of "C" would be more appropriate.

Response: Presumably this comment and the next are addressed to PI-27. The Standing Orders provide for the Budget debate to cover both the overall fiscal stance and the detailed allocations. The review team's contacts with members of the 2007-12 Legislature indicated that these issues were actually discussed.

PI-26(iii): The report argues that Parliament had 10 weeks to consider the 2012 budget proposals. However, the Budget was presented on the abnormally early date of 18 January 2012 solely because of the forthcoming elections and the imminent prorogation of Parliament. By ignoring this, the Commentary is highly misleading and the score of "A" appears too high.

Response: Text amended to draw attention to the point that the speech was brought forward to facilitate the 2012 election.

PI-28(ii): Hearings do take place (which may strictly justify the “A” score) but the multi-year delays mean that there have often been changes in the responsible officers and relevant evidence is frequently no longer available. This reduces accountability and means the hearings are not “in-depth”, which would suggest a lower score.

<u>Response: Evidence from OAG was that there has been detailed questioning of Accounting Officers by the PAC, based on briefing provided by OAG. The report emphasises that the delays deprive audit work of much of its force.</u>

Section 4: Although this is a very brief review of PFM reforms since 2005, the conclusion that there has been limited progress is fully justified. One problem may be that too much has been attempted across a broad reform agenda. In order to make substantive progress prior to the next PEFA review, the report could identify core reform areas on which to focus scarce skilled manpower.

<u>Response: PEFA reports are not asked to propose reform priorities. This will be the task of the IRSC.</u>

Overall Impression

Annex 13
Comments of the Quality Assessment Team and authors' responses

Quality Review of PEFA Assessment Report

Review of Comparative Assessment

Country:	**LESOTHO**
Document name:	**Public Expenditure and Financial Accountability (PEFA)**
Version:	Draft Report dated 26 August 2012
Date of completed review:	**29 October 2012**
Reviewers:	**Giovanni Caprio** **Elizabeth Sumar**

<table>
<tr><td>Overall impression of the report</td><td>This is a very good draft report with a very good understanding of the PEFA methodology. In addition the single dimensions as well as the indicators are well evidenced. Moreover comparison with the previous PEFA is correctly made with a good attempt to measure progress in performance between 2009 and 2012.

Despite the very good quality of this draft, the current review has identified several issues that need to be dealt with. The most common of these issues relates to the use of the arrow (↑) in measuring progress in performance (PI-5, PI-12 i and iii, PI-14 iii, PI-19 iv and PI-25 i, ii and iii). There are also several other issues that are presented in detail in the comments related to Section 3.

Suggestions for the other sections of the report are as follows:

1) Consider drafting a Preface;
2) Indicate that the latest version of the PEFA framework was issued in January 2011 and not 2007 (Paragraph 2, penultimate sentence of the Executive Summary and paragraph 1 of the Introduction);

In the introduction (sub-section 1.2), consider:

3) Making a distinction between methodology and process of preparing the PFM-PR;
4) Providing information on team members (names) and level of efforts (man-days);
5) Providing more detailed information on the overall process of quality control;

6) Section 4 should be expanded.</td></tr>
<tr><td colspan="2">General Comments</td></tr>
</table>

Preface	A Preface would indicate which report is being presented (draft, final, etc.), who the authors are and the duration of the PEFA evaluation process. It would also thank all stakeholders. Response: although a preface has not been prepared, amendments have been made to the previous text to clarify all the issues suggested for inclusion. It has to be recognized that the contribution to this assessment of the principal stakeholder – GoL - has in some ways been disappointing.
Context of this assessment	The latest version of the framework was issued in January 2011 and not 2007 (Executive Summary and Introduction) Response: amendments made to ensure that there are no misunderstandings on this point.
Summary Assessment	Comprehensively written although Appendix 1 for ii) is missing in the annexes Response: The report draws on Appendix 1 in analyzing the impact of PFM practices on the three levels of budgetary outcomes in accordance with the PEFA Handbook, page 57.
Introduction	In the methodology there is a mix of methodology and information on the process of preparing the PFM-PR. Response: the misleading heading "Methodology" has been deleted. Section 1.2 is actually about process not methodology, Information on the authors of the report, level of effort (total man-days) and duration of the process is missing. Response: amendments made to the text to cover these points. The process of quality control is incomplete and not presented explicitly. This is important here because of the PEFA check. Response: The text has been completed on this point, now that the final comments have been received.
Section 2	--
Section 4	Section 4 on reforms is very short Response: Some sentences have been added. A further contribution from GoL would have been very helpful in the preparation of this section.

Section 3: Comments on the Performance Indicators

Indicator /dimension	Comments on evidence and rating	Comparison with 2009 assessment
PI-1	**B** correctly evidenced	Status quo not correctly evidenced. Comparison with 2009 cannot be made on the basis of the average variance (not supported by the methodology). Scoring in 2012 suggests a deterioration in performance <u>Response: the report presents the full facts and gives the correct rating according to the PEFA Framework. The review team's judgment is that the lower rating does not however signify a deterioration in performance, on the basis of the additional evidence it includes in the report under PI-1. Moreover, the PEFA Secretariat has not questioned this approach.</u>
PI-2 (i)	**C** correctly evidenced	Comparison with 2009 not possible due to modification of the dimension and indicator
(ii)	**A** correctly evidenced	"
Global	**C+** correctly evidenced	"
PI-3	**B** correctly evidenced	Comparison with 2009 not possible due to modification of the indicator
PI-4 (i)	Correctly **NR**	Improvement in performance correctly evidenced
(ii)	**C** correctly evidenced	Improvement in performance correctly evidenced
Global	Correctly **NR**	Overall improvement evidenced
PI-5	**B** correctly evidenced	With regard to the comparison with 2009, the narrative (paragraph 43) emphasize that there is no: "*main improvement in performance*". However when referring to the new Chart of Accounts it is said that it represents significant progress and "…*the benefits of the new system are not yet being fully achieved*". On balance there is progress when compared to 2009 but this progress is not yet

		translating in an improved score. Therefore **B↑** should be considered. Response: the text has been slightly amended, but the review team consider it better not to give recognition in the ratings to intended improvements which have not been implemented in practice.
PI-6	**B** correctly evidenced	Status quo correctly evidenced
PI-7 (i)	**B** correctly evidenced	Comparison not possible because more information was collected in 2012
(ii)	**D** correctly evidenced	No deterioration in performance. The 2 assessments are comparable since PI-7 (ii) was not correct. The narrative in the scoring box for PI-7 (ii) (last column) is contradictory (no comparison possible on one side…and in retrospect no deterioration in performance) Response: the review team consider that it is reasonable to conclude both that assessments are not comparable, because significant evidence was not available in 2009, and that there is no underlying deterioration in performance even though a lower rating is given on this occasion. The PEFA Secretariat has not questioned this approach.
Global	**D+** correctly evidenced	--
PI-8 (i)	**B** correctly evidenced	Apparent status quo in performance
(ii)	**A** correctly evidenced	Status quo not correctly evidenced. Comparison not possible because the dimension was not rated (NR) in 2009. Response: the objective is to assess whether there has been any change in performance since 2009. An answer can be given to this question even though the dimension was not rated in 2009.
(iii)	**D** correctly evidenced	Status quo correctly evidenced.
Global	**B** correctly evidenced	--

PI-9 (i)	**C** correctly evidenced	Status quo correctly evidenced.
(ii)	**C** not sufficiently evidenced Response: agreed that the rating should be D. Text and score amended accordingly. Note: It is good to know whether Local Governments create or do not create any material fiscal risks to the Central Government. However this is not the issue and this is not an element to score. The evidence provided in the narrative: "*…but there are significant problems with compliance and quality of data given limited capacity of the council staff (paragraph 85)"* and "*...that none of the 10 districts councils complied with this requirement, nor did the Maseru municipality (paragraph 86*)" Suggest a **D** score (not a **C**) because the annual monitoring of SN governments is significantly incomplete.	Evolution of performance uncertain.
Global	**Uncertain**	--
PI-10	**D** correctly evidenced	Deterioration in performance correctly evidenced.
PI-11 (i)	**C** correctly evidenced	Status quo correctly evidenced.
(ii)	**A** correctly evidenced	Status quo correctly evidenced.
(iii)	**A** correctly evidenced	Status quo correctly evidenced.
Global	**B+** correctly evidenced	--
PI-12 (i)	**C** correctly evidenced Comment: Score changed to C ↑ in view of QA Team comments on comparison with 2009.	With regard to the comparison with 2009, the narrative (paragraph 105) emphasizes that: "…*there has been some progress*…" If this is the case **C**↑ should be considered.

		<u>Response: agreed and arrow inserted, score C↑.</u>
(ii)	PI-12 (ii) evaluates Government of Lesotho practice and its ability to carry out DSA. This is not an evaluation of IMF or WB practice. For the **A** to be assigned it depends on whether the IMF (and the WB) has conducted the DSA in agreement with the Government, perhaps as part of technical assistance to Government, and whether the Government accepts the findings of the DSA conducted on its behalf. If the answer to this is unambiguously yes on the basis of verbal and documentary evidence, then this should not reduce the performance rating. In PI-17 (i) it is said that the IMF uses the Government debt data for its debt sustainability analysis (paragraph 145, penultimate sentence). This should be mentioned under PI-12 (ii). <u>Response: text amended to make clear that DSA has been undertaken in cooperation with GoL, and that GoL endorses its results in the context of the agreement on the Extended Credit Facility. Rating maintained.</u>	Comparison not possible at this stage.
(iii)	**C** correctly evidenced <u>Comment: Score changed to C ↑ in view of QA Team comments on comparison with 2009.</u>	If the share of primary expenditures covered has increased since 2009, there is progress (although not yet reflected in the score). Consider **C**↑. The text in the scoring box is contradictory. On one side it is said that: "*No substantial change in performance*". On the other side it is said that: "*Some progress has been made since 2009…*" <u>Response: Sentence “No substantial change in performance” deleted and score changed to C ↑</u>

(iv)	**B** correctly evidenced	Improvement in performance correctly evidenced
Global	**B** likely the right score.	Overall improvement evidenced
PI-13 (i)	**D** correctly evidenced	Status quo correctly evidenced Note: "*Anecdotal evidence*" (paragraph 18 last sentence) in the PEFA methodology is no evidence. Response: description of evidence amended to avoid "anecdotal".
(ii)	**C** correctly evidenced	Status quo correctly evidenced
(iii)	**C** correctly evidenced	Status quo correctly evidenced
Global	**D+** correctly evidenced	--
PI-14 (i)	**B** insufficiently evidenced Note: The narrative concludes that the database is complete (paragraph 124, last sentence). However it is said that owners of small businesses that are not established as companies are not automatically registered for tax purposes (same paragraph 3rd sentence). In addition linkages to financial sector regulations are one of the conditions to assign a **B** to the dimension. This is not the case and this is not evidenced. Consider revising Response: some amendments made to clarify text. It is not clear that the rating B requires the existence of links to both government registration systems and financial sector regulations. The review	Comparison not possible at this point. To be made when 2012 score for (i) is finalized.

	team (as did their predecessors in 2009) regarded the existence of some links to non-tax databases as sufficient for B. The PEFA Secretariat did not raise any questions on this point. Rating maintained.	
(ii)	**B** insufficiently evidenced Note: the narrative (paragraph 126) only covers penalties for tax declaration. Nothing is said about penalties for non-compliance with registration. Consider revising Response: text clarified in so far as possible. PEFA Secretariat did not raise any question on this point. Rating maintained.	Comparison not possible at this point. To be made when 2012 score for (ii) is finalized.
(iii)	**C** correctly evidenced	With regard to the comparison with 2009, the narrative (paragraph 129) emphasizes that: "…*there have been some improvements since 2009*…" If this is the case **C↑** should be considered. Response: Review team think it better not to enter into any further detail here, since it was not possible to discuss any aspect of this evidence with LRA.
Global	**Final score uncertain**	--
PI-15 (i)	**D** correctly evidenced	Comparison not possible because (i) was not rated (NR) in 2009
(ii)	**B** correctly evidenced	Status quo in performance evidenced
(iii)	**D** correctly evidenced	Status quo in performance evidenced
Global	**D+** correctly evidenced	--
PI-16 (i)	**D** correctly evidenced	Status quo in performance evidenced

(ii)	**A** correctly evidenced	Status quo in performance evidenced (although score improved)
(iii)	**B** correctly evidenced	Status quo in performance evidenced
Global	**D+** correctly evidenced	**--**
PI-17 (i)	**A** Uncertain Note: The narrative (paragraph 148) states that monthly reports on the public debt are prepared and provides details to recipients of the reports. However nothing is said about the content of these reports. Are they comprehensive management and statistical reports covering debt service, stock and operations? This should be evidenced with clear reference to the reports (as at the time of assessment) Response: text amended to make clear that " *CS-DRMS is a comprehensive debt management tool which provides management and statistical reports on on debt stock and debt servicing"* Rating maintained.	Comparison not possible at this point. To be made when 2012 score for (i) is finalized.
(ii)	**D** uncertain Note: **D** means that the system does not allow the consolidation of bank balances. This is not the case because: 1) The Government may obtain the balances of the four (4) main accounts at the Central Bank on a daily basis (paragraph 150); 2) Balances of the other accounts at commercial banks (outside Maseru and project accounts) can be obtained on request (paragraph 150).	Comparison not possible at this point. To be made when 2012 score for (ii) is finalized.

	One should ask whether the Government receives at least monthly statements from banks (Central Bank and commercial banks)? This is likely the case and this supports the fact that the system used allows monthly calculation and consolidation of at least the four (4) main accounts, which should be a straight forward and easy exercise. Consider revising upward <u>Response: Consolidation surely means whether the disaggregated information can be/is used to for consolidated management of cash on an ongoing basis. It cannot be and is not so managed. The argument above would seem to justify C so long as the Treasury could get information on all different cash balances, even if it never actually did so. The fact that GoL Treasury are only now considering establishing a cash management unit, but have not yet done this, is further confirmation that there is no consolidated management of cash resources. The review team consider that the D rating is correct.</u>	
(iii)	**B** correctly evidenced	Improvement in performance correctly evidenced
Global	**Final score uncertain** **<u>Response: overall B rating maintained.</u>**	
PI-18 (i)	**D** correctly evidenced	Status quo in performance evidenced
(ii)	**D** correctly evidenced	Status quo in performance evidenced <u>Note</u>: The narrative in scoring box (5th column) indicates that the 2009 and 2012 assessments are not comparable. Then it is said that: "*There is no change in performance*". This is contradictory. It seems though that there was indeed no change in

		performance. In any case, the authors should revise the wording and decide on the change in performance between 2009 and 2012. Response: the review team do not agree that it is contradictory to state that assessments are not comparable, because of differences in the availability of evidence. It can conclude that there is no change in performance, because the position in *both* 2009 and 2012 is now clearer thanks to greater evidence (and time) available to the 2012 Assessment to assess performance of both 2009 and 2012. The PEFA Secretariat did not raise any questions on this point.
(iii)	**D** correctly evidenced	Status quo in performance evidenced Note: (same as above ii) Response: as for (ii) above.
(iv)	**D** correctly evidenced	Status quo in performance evidenced
Global	**D** correctly evidenced	"
PI-19 (i)	**B** correctly evidenced Note: It is referred to the website of MFDP where procurement legislation can be found. It would be useful to indicate the address of this website (as well as other websites consulted) in Annex 4 (Sources of Information). Response: text amended to mention www.finance.gov.ls	Comparison not possible because this dimension did not exist in 2009 (the indicator was modified in January 2011).
(ii)	**D** correctly evidenced	"
(iii)	**D** correctly evidenced	"
(iv)	**D** correctly evidenced	With regard to the comparison with 2009, the narrative (paragraph 190) emphasizes that:

		"…*such a mechanism (Tribunal) is provided for in the 2011 PFMA Act and the proposed membership has been sent to the Minister of Finance represents progress*". In such a case where progress is not yet translating in a better score, **D↑** should be considered (comparison with 2009 is broadly possible). Response: the review team consider that an arrow should only be used to indicate that progress *is* occurring, but has not yet translated into an improvement in the score, not when there is potential progress. The Tribunal still does not exist.
Global	**D+** correctly evidenced	
PI-20 (i)	**B** correctly evidenced	Improvement in performance evidenced
(ii)	**C** correctly evidenced	Note: The narrative (paragraph 197) indicates that the 2009 may not have been appropriate. The narrative (scoring box 5th column) also indicates that the scores are not comparable. However nothing is said about the change in performance. Based on the information available it seems that there has been change in performance between 2009 and 2012. The authors must decide on that. Response: as in other cases giving a rating different from that given in 2009 does not necessarily mean that there has been an underlying change in performance. Text amended to make this clearer.
(iii)	**D** correctly evidenced	Statu quo in performance
Global	**D+** correctly evidenced	**--**
PI-21 (i)	**C** uncertain Note: The narrative indicates that: "*There is evidence of some focus on systems audit not noted in 2009, though it is modest…*" In order to assign a **C** at least 20% of staff time must be	Comparison not possible at this point. To be made when 2012 score for (i) is finalized.

	dedicated to systemic audit. Is it possible to gather documentary evidence to this fact? Response: the review team consider that the 20% test is passed on the basis of the reports seen. Text amended to make this clear. Rating maintained.	
(ii)	**B** correctly evidenced	Improvement in performance correctly evidenced
(iii)	**D** correctly evidenced	Status quo in performance evidenced
Global	**D+** (regardless of i score)	**--**
PI-22 (i)	**D** correctly evidenced	Status quo in performance evidenced
(ii)	"	"
Global	**D** correctly evidenced	**--**
PI-23	**D** correctly evidenced	Status quo in performance evidenced
PI-24 (i)	**A** correctly evidenced	Improvement in performance correctly evidenced
(ii)	**A** correctly evidenced	"
(iii)	**D** correctly evidenced	Status quo in performance evidenced
Global	**D+** correctly evidenced	**--**
PI-25 (i)	**D** correctly evidenced	With regard to the comparison with 2009, the narrative (paragraph 233) emphasizes that the Public Financial Management and Accountability (PFMA) Act valid from July 1, 2011: "…*modifies the previous requirements and requires the annual consolidated financial statements to be prepared in accordance with IPSAS (initially the cash basis), to be submitted for audit within five months of the end of the financial year and presented to Parliament within eight months of the end of the financial yea*r". In such a case the new legislation represents a progress in reforms, which is not yet translating in a better score. Therefore **D↑** should be considered.

		Response: As nothing has been implemented there is no upward performance trend, only potentially improved performance. See PI-19(iv) above.
(ii)	"	**D**↑ should be considered (refer to above i). Response: as (i) above
(iii)	"	**D**↑ should be considered (refer to above i) Response: .as (i) above
Global	**D** correctly evidenced	**D**↑ should be considered (refer to above i). Response: as (i) above
PI-26 (i)	**C** Uncertain Note: There is no evidence provided that 50% of CG expenditure is covered each year by OAG. Therefore **C** cannot be assigned. In addition it is not known whether audits carried out and related reports identify significant issues. This is only indicated in the scoring box (and not in the narrative). Consider revising Response: text amended to make clear that financial audit covers the whole government, that detailed inspections cover the largest and riskiest MDAs every year, that OAG consider their detailed coverage meets the 50% test, and that audit reports identify significant and systemic issues. Rating maintained.	Comparison not possible at this point
(ii)	**D** correctly evidenced	Status quo evidenced
(iii)	**C** correctly evidenced	Progress in performance evidenced
Global	**Uncertain** **Overall D+ rating maintained.**	--
PI-27 (i)	**B** correctly evidenced	Status quo evidenced (despite better score)

(ii)	**A** correctly evidenced	Status quo evidenced (despite better score)
(iii)	**A** correctly evidenced	Improvement in performance correctly evidenced
(iv)	**C** correctly evidenced	Status quo evidenced
Global	**C+** correctly evidenced	--
PI-28 (i)	**D** correctly evidenced	Status quo evidenced
(ii)	**A** correctly evidenced	Status quo evidenced (despite better score)
(iii)	**C** correctly evidenced	Status quo evidenced
Global	**D+** correctly evidenced	--
D-1 (i)	**C** correctly evidenced	Comparison not possible at this point because dimension was not rated in 2009 (NR)
(ii)	**D** correctly evidenced	"
Global	**D+** correctly evidenced	--
D-2 (i)	**NR** (data not available)	--
(ii)	"	--
Global	"	--
D-3	**D** correctly evidenced	