Federal Government of Ethiopia

Ministry of Finance and Economic Development

Public Finance Management Assessment Somali Regional Government

Based on the Public Expenditure Financial Accountability Framework (PEFA)

June 2015

Currency and Exchange Rates

Currency unit = Ethiopian birr (ETB)

US$1 = ETB 20

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

EFY 2005 = Gregorian FY 2013 (July 1, 2012–June 30, 2013)

In this document the term *FY* refers to the Gregorian fiscal year and is not the same as the term *EFY*.

Ethiopian Fiscal Year (EFY)	Gregorian (European Year Equivalent - FY)
2003	2010/2011
2004	2011/2012
2005	2012/2013
2006	2013/2014

Support for this report was provided by:

Table of Contents

List of Tables **II**

Abbreviations and Acronyms **IV**

Summary Assessment **1**
Integrated Assessment of PFM Performance 1
Assessment of the Impact of PFM Weaknesses 6
PFM Reform Program 6
Role of Development Partners 6

1. Introduction **9**
1.1 Objective 9
1.2 Scope and Process of Preparing the Report 9
1.3 Quality Assurance 10
1.4 Structure of the Report 10

2. Region Background Information **11**
2.1 General 11
2.2 Description of Budgetary Outcomes 12
2.3 Legal and Institutional Framework for PFM 13
3.1 Introduction 16
3.2 Budget Credibility 16
3.3 Comprehensiveness and Transparency 23
3.4 Policy-Based Budgeting 35
3.5 Predictability and Control in Budget Execution 39
3.6 Accounting, Recording, and Reporting 64
3.7 External Oversight and Legislative Scrutiny 72
3.9 Predictability of Transfers from the Federal Government 81

4. Government Reform Process **83**
4.1 Recent and Ongoing Reforms 83
4.2 Institutional Factors Supporting Reform Planning and Implementation 84

Appendix A. Calculation of Performance Indicator Two on Budget Variance **85**

Appendix B. List of People Met **88**

Appendix C. List of Documents **90**

List of Tables

Table SA.1 PEFA Performance Indicators for the Somali Regional Government, 2010–14
Table 2.1 Fiscal Performance, Somali Regional State (birr millions)
Table 3.1 Assessment of Performance Indicators of Budget Credibility
Table 3.2 SRG Approved Budget and Expenditure Outturn
Table 3.3 PI-1 Results
Table 3.4 PI-2: Expenditure Composition Variance and Average Contingency
Table 3.5 PI-2 Results: Variance in the Composition of Expenditure
Table 3.6 Domestic Revenue Performance: FYs 2010/11–2012/13 (EFYs 2003–2005) (birr millions)
Table 3.7 PI-3 Results
Table 3.8 End-year Expenditure Arrears in Relation to Total SRS Expenditure (birr millions)
Table 3.9 PI-4 Results
Table 3.10 Comprehensiveness and Transparency Performance Indicators
Table 3.11 PI-5 Results
Table 3.12 Elements Underlying the Assessment of PI-6
Table 3.13 PI-6 Results
Table 3.14 PI-7 Results
Table 3.15 PI-8 Results
Table 3.16 PI-9 Results
Table 3.17 Status of Public Access for P-10
Table 3.18 PI-10 Results
Table 3.19 Policy-based Budgeting Performance Indicators
Table 3.20 PI-11 Results
Table 3.21 PI-12 Results
Table 3.22 Predictability and Control in Budget Execution Performance Indicators
Table 3.23 SRG Revenue Assignments
Table 3.24 PI-13 Results
Table 3.25 PI-14 Results
Table 3.26 SRA Arrears Data, FYs 2010/11–2012/13 (EFYs 2003–2005) (birr millions)
Table 3.27 PI-15 Results
Table 3.28 PI-16 Results
Table 3.29 PI-17 Results
Table 3.30 PI-18 Results
Table 3.31 Transparency in Procurement
Table 3.32 PI-19 Results
Table 3.33 PI-20 Results

Table 3.34 PI-2 Results
Table 3.35 Accounting, Recording, and Reporting Performance Indicators
Table 3.36 PI-22 Results
Table 3.37 PI-23 Results
Table 3.38 PI-24 Results
Table 3.39 Timelines of Submission of Financial Statements to ORAG
Table 3.40 PI-25 Results
Table 3.41 External Scrutiny and Audit Performance Indicators
Table 3.42 Scope and Nature of Audits Carried Out in EFY 2005 on EFY 2004
Table 3.43 Timeliness of Financial Audits
Table 3.44 PI-26 Results
Table 3.45 PI-27 Results
Table 3.46 PI-28 Results
Table 3.47 Donor Practices Performance Indicators
Table 3.48 D-2 Results
Table 3.49 D-3 Results
Table 3.50 HLG-1 Results
Table A1 Budgeted and Actual Expenditure by Budget Institution, FY 2010/11
Table A2 Budgeted and Actual Expenditure by Budget Institution, FY 2011/12
Table A3 Budgeted and Actual Expenditure by Budget Institution, FY 2012/13

Abbreviations and Acronyms

BI	Budget institution
BoE	Bureau of Education
BoFED	Bureau of Finance and Economic Development
BoH	Bureau of Health
BPR	Business Process Reengineering
CHB	Complaints Hearing Board
CoA	Chart of Accounts
CoCSA	Chamber of Commerce and Sector Associations
COFOG	Classification Of Functions Of Government
CBE	Commercial Bank of Ethiopia
CBF	Committee for Budget and Finance
CTA	Central Treasury Account
DP	Development Partner
EFY	Ethiopian Fiscal Year
EMCP	Expenditure Management and Control Program
ESDP	Education Sector Development Program
ETB	Ethiopian Birr
FTAP	Financial Transparency and Accountability Program
FINNIDA	Finnish International Development Agency
FY	Financial Year or Fiscal Year
GEQIP	General Education Quality Improvement Program
GFS	Government Financial Statistics
GM	General Manager
GTP	Growth and Transformation Plan
HRD	Human Resources Department
HRM	Human Resource Management
IA	Internal Audit
IAD	Internal Audit Department
IBEX	Integrated Budget and Expenditure
ID	Inspection Department
JBAR	Joint Budget and Aid Review
MDG	Millennium Development Goal
MEFF	Macroeconomic and Fiscal Framework
MoFED	Ministry of Finance and Economic Development
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia
INTOSAI	International Organization of Supreme Audit Institutions
NTR	Non-tax Revenue

ORAG	Office of Regional Auditor General
PAC	Public Accounts Committee
PBS	Protection of Basic Services
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PI	Performance Indicator
PSCAP	Public Sector Capacity Building Program
RC	Regional Council
RVC	Review Committee
SIGTAS	Standard Integrated Tax Administration System
SRA	Somali Revenue Authority
SRG	Somali Regional Government
SRS	Somali Regional State
TAC	Tax Appeals Commission
TIN	Taxpayer Identification Number
TOR	Terms of Reference
TSA	Treasury Single Account
UNDP	United Nations Development Programme
UNFPA	United Nations Food and Population Association
UNICEF	United Nations Children's Education Fund
VAT	Value Added Tax
WFP	World Food Programme
WHO	World Health Organization
WoFED	Woreda Office of Finance and Economic Development

Summary Assessment

Integrated Assessment of PFM Performance

This is the report of the first PEFA assessment of the Somali Regional Government (SRG). A summary of scores is provided in table SA.1 at the end of this chapter.

Summary of Scores
The 29 indicator scores, excluding the Donor Practices scores, are distributed as follows: 5 A; 11 B and B+; 10 C and C+; and 3 D and D+. Just over half of the scores are B and above. PI-7 (dimension ii) indicates a strengthening trend (upward pointing arrow). The two Donor Practice scores are C and "at least C."

Budget Credibility

PIs 1–2 score B and C+ respectively. Under PI-1 (aggregate expenditure performance), the score is dragged down by a large over-performance in FY 2012/13, mainly explained by large revenue over-performance. Through a supplementary budget, the surplus revenue was used to finance capital expenditures related to a large countrywide ceremony in FY 2013/14 that Somali region was hosting.

As in other regions, the original disaggregated budget seems to be regarded as being temporary only, the meaningful one being the "adjusted" one in mid-year; this does not necessarily detract from credibility, however. Under PI-2 (variance in composition of expenditure), the variance was particularly high (27 percent) in FY 2012/13, reflecting the allocation of the revenue surplus and the expenditure contingency, both significantly larger than in the previous year. The contingency is about 10 percent of the budget, so its allocation will have a significant influence on the variance.

Though PI-11 on budget preparation scores A, reflecting reforms implemented under the Expenditure Management and Control Program (EMCP), this does not mean the budget is prepared perfectly. Uncertainties in current year revenue and external aid outcomes, and imperfect knowledge of resources to be provided by development partners (DPs) in the subsequent year (partly because of late notification by DPs), imply the likelihood of an adjusted budget later on. This is also indicated under PI-16 on the predictability of budget execution, the processes being good, but still allowing for significant reallocations following the mid-term review of budget performance. The reallocations are not imposed on budget institutions (BIs), as those that are underperforming in terms of their approved budgets agree to allow the Bureau of Finance and Economic Development (BoFED) to relocate some of their budgets to BIs that are over performing. The original approved budget is not even shown in the monthly Joint Budget and Aid Reviews (JBARs) that the Ministry of Finance and Economic Development (MoFED) discusses with Development Partners (DPs).

Budget predictability would likely strengthen with the planned establishment of a medium-term perspective to budgeting (PI-12). This was supposed to happen earlier, but did not due to capacity constraints and the awaited rollout by MoFED of program budgeting to regions, once a piloting phase in Southern Nation and Nationality People Regional Government (SNNPRG) had been completed. Having this perspective would strengthen the quality of budget preparation in terms of its linkage to policy objectives and the accuracy of cost estimations as public services are planned for and delivered on a multi-year basis. Useful first steps would be to: (1) prepare forward expenditure estimates, showing the costs of delivering current service levels over the medium term, and taking into account the future recurrent costs of providing services implied by committed capital investments; and (2) prepare fiscally realistic costed and well prioritized and sequenced sector strategic plans.

Neither of these is easy. If detailed sector costing is problematic when three levels of government are involved, the strategies should at least be well prioritized and sequenced, with the detailed costing taking place as part of the Medium-Term Expenditure Framework (MTEF) process.

Revenue performance (PI-3) has supported aggregate budget credibility. With the exception of a small shortfall in FY 2011/12, revenue outturns have exceeded approved budgets, even though budgets themselves increased significantly each year. The taxpayer education programs, the introduction of block management schemes (PI-13 (ii)), and registration drives and biometric finger printing for all potential taxpayers (PI-14 (i)) are helping to strengthen voluntary compliance and thereby reduce the extent of tax arrears (PI-15). The establishment of city administrations during FY 2010/11 is facilitating the identification of untapped sources of revenue. A constraint is that the IT-based Standard Integrated Tax Administration System (SIGTAS) is in place in only 8 of the 72 SRA branches, and connectivity problems are slowing its further rollout to woredas.

Budget execution is predictable and well controlled, also contributing to the credible budget by providing financial resources for BIs when they need them and preventing the emergence of significant payments arrears (PIs 4, 16–18, and 20). BIs are able to commit funds over a multi-month time horizon with a high degree of assurance that funds will be available for payments. This has been facilitated by robust cash flow forecasting (PI-16) and cash management (TSA-Z account system, PI-17). The in-year predictability of the block grant from the Federal Government (HLG-1), which provides 70 percent of Somali Regional Government’s (SRG’s) financial resources, good domestic revenue performance (PI-3), strong internal controls that help guard against payments arrears and misuse of funds (PIs 18–20), and minimal fiscal risk posed by public enterprises and woreda governments (PI-9), all contribute to in-year predictability of the budget.

Internal controls are mainly strong and support budget credibility.

1. *Payroll controls (PI-18) appear to be robust.* The main issue is that a comprehensive payroll audit (integrated audit of both personnel records and the payroll preparation process) has not yet been conducted due to capacity constraints. Only partial audits that separately look at these two areas have been conducted.

2. *Expenditure commitments (PI-20 (i)) are formally controlled by BIs,* according to the remaining uncommitted (“unencumbered”) budget balance, as specified by the Financial Administration Proclamation. Commitments with a time horizon for payments up to three months are also controlled by the rolling monthly cash expenditure limits derived from the cash flow forecasting system (PI-16 i). Proposed commitments with a longer term payments horizon (e.g., bulk purchases, capital projects) are formally controlled according to the remaining uncommitted budget balance, but the timing of the associated payments is

covered by the BI's cash flow forecast, which underpins the cash expenditure limit for the months for which payments are due.

3. *The other non-payroll internal control systems are comprehensive (PI-20).* Understanding of them has strengthened in recent years through the issuance of guidelines and directives, the running of training programs for staff, and the establishment of PFM Technical Support Teams (PI-20 (ii)). Compliance with rules and regulations is generally good, partly because of increased understanding of them. Reports by the Office of Regional Auditor General (ORAG) identify instances of non-compliance, mainly due to insufficient understanding of the rules rather than systemic efforts to evade them (PI-20 iii).

4. *Procurement (PI-19) is regulated and monitored by the Procurement and Property Management Core Process in BoFED.* It receives quarterly reports from BIs on their procurement operations including the minutes of Bid Endorsement Committee meetings, which include reasons for not using open tendering methods. The reports provided to the assessment team indicate that over 90 percent of contracts are awarded through competitive bidding. The Bureaus of Education and Health, as well as BoFED (as its own BI) confirmed this picture, as did ORAG (although ORAG identified instances of unjustified use of restrictive tendering methods during the financial and compliance audits it has conducted).

   The Complaints Hearing Board (CHB), located in BoFED, is supposed to be the second stage of appeal against the procurement process (the first stage is in the procuring entity itself). It appears to be insufficiently independent of the procurements process to exercise its function effectively. The Procurement Proclamation does not explicitly provide for an independent appeals process. Most procurement-related complaints are resolved at the first stage.

5. *The internal audit function is established and in general is functioning satisfactorily* (PI-21). Management tends to respond positively to audit findings, though audit findings tend to recur each year (PI-21). Through its monitoring of the performance of internal control systems it can identify issues to management, which can then take mitigative action.

6. *Potential fiscal risk posed by government entities that fall outside the budget appears to be low (PI-9).* The Regional Government owns only a handful of enterprises, which do not require government subsidies, and the finances of which are monitored by their parent bureaus and by BoFED. The financial situation of woreda governments is monitored closely by BoFED.

A downside to credibility is the insufficient comprehensiveness and transparency of the budget, as elaborated on below.

Comprehensiveness and Transparency of the Budget

Transparency has strengthened considerably in recent years, but issues remain. Strengthening has occurred primarily through the Financial Transparency and Accountability Program (FTAP) led by MoFED and strongly supported by the development partners (DPs). The DP-supported General Education Quality Improvement Program (GEQUIP) also promotes fiscal transparency. Transparency is required in order for the public (including the Regional Council, (RC)) to hold the government to account for its expenditures. True credibility requires that all planned and actual spending on goods and services which the Regional Government has a mandate to provide should be well publicized and be covered in proclaimed budgets, budget execution reports, and annual financial statements to the extent possible. Non-transparency provides scope for misallocation of resources.

The draft budget documentation presented to the RC includes supporting documentation underpinning the draft Budget Proclamation, which itself focuses entirely on resource and expenditure estimates for next year. In this regard, PI-6 scores well. Fiscal information is available to the public, particularly in the form of ORAG audit reports, service delivery reports, and contract awards (PIs 10, 23, and 26).

The transparency of Development Partner (DP) funding of projects and programs is an issue. Significant DP funding is embedded in the block grant to SRG from MoFED, by virtue of DP support to the Protection of Basic Services (PBS) Program in the form of budget support. By definition this is transparent. Information available to the public and the RC on DP-funded projects and programs has, however, been limited in transparency, although this began to improve during FY 2013/14. DPs provide significant assistance, which should all be reflected in proclaimed budgets, budget execution reports, and financial statements, or at least in separate reports (PIs 7, 11, 24, 25, D-2).

The most that seems to happen, however, is that some DP-funded projects, so-called Channel 1b (assistance channeled directly through BoFED), are included in proclaimed budgets but not in budget execution reports, due to the projects and programs using different budget classification codes. Under so-called Channel 2b and 3 projects and programs, DPs bypass BoFED and provide assistance direct to sector bureaus (Channel 2b) or even direct to projects and programs (Channel 3). Such assistance is supposedly only a small proportion of total assistance to Somali Regional State (SRS), but it is difficult to know this for sure as BoFED does not receive information on such assistance from the sector bureaus and DPs. Transparency is improving, however, with regard to NGO operations (Channel 3), which now must report to BoFED, which does not, however, publicize the information.

A number of DP-funded projects and programs (e.g., Public Safety Net Program) are being implemented in Somali Region under the Federal Government's budget; the funds are channeled to MoFED through Channel 1a. The amounts involved are large. A transparency issue arises as the public services being delivered under these projects and programs fall under the mandate of SRG. Ideally, these projects and programs should be part of SRG's budget.

Accounting, recording, and reporting systems (PIs 22–25): ***These are generally working well, helped by the integrated budget and expenditure system (IBEX), the use of which has enhanced the timeliness and quality of data, and thus the accuracy and timeliness of in-year budget execution reports***. Connectivity problems beyond the control of BoFED have resulted in electronic linkages between BoFED and sector bureaus being not yet in place, and thus the full benefits of IBEX not being realized in terms of speed, accuracy, comprehensiveness and transparency. The situation improved at the beginning of FY 2013/14 through BIs providing IBEX-generated reports to BoFED in soft copy rather than hard copy, but nevertheless the interface is still not electronic.

Expenditure commitments and remaining uncommitted budget balances are not reported on, even though the information is contained in IBEX, and thus two critical elements of budget performance are missing from the picture. Delays in clearing advances (PI-22 ii) and regularizing them as expenditures distort the picture given by the in-year budget execution reports and annual financial statements (PI-25). The DPs are, in the main, not using SRG's accounting and reporting systems, thus contributing to incompleteness of in-year budget execution reports and annual financial statements. Starting in FY 2013/14 some progress is now being made by DPs toward using these systems.

The annual financial statements are reasonably comprehensive, the main missing item being information on DP-financed projects and programs, as noted. Lack of information is one example of SRS's accounting standards not being in compliance with IPSAS.

External audit and legislative scrutiny (PIs 26–28): The external audit function is performing satisfactorily in general (PI-26). Timeliness of audit reports is improving. ORAG's annual audit coverage is about 60 percent, below what would be desirable, but this is due to capacity constraints, partly because of a staff turnover rate of about 10 percent a year (although this is lower compared to some other regions, for example, Addis Ababa city). ORAG's reports are not publicized, representing a lack of transparency and a violation of INTOSAI standards. Managements of audited BIs tend to take their time in responding to audit findings, but this may be partly due to ORAG not having any formal follow-up procedures.

The Standing Committees of Budget and Finance (CBF) and the Public Accounts Committee (PAC) in the Regional Council appear to be performing well in terms of scrutiny of the draft Budget Proclamations and external audit reports (PIs 27–28). Under the current budget preparation system the CBF only has an opportunity to scrutinize the draft budget at the end of the process, and therefore has only limited scope to provide a meaningful critique. As noted under PI-26, the PAC is playing an increasingly active role in checking whether the recommendations contained in external audit reports are being implemented.

Cross-cutting Issues

Capacity constraints, as in other regions, are an issue, partly due to significant staff turnover in response to the attractions provided by greener pastures. The issue does not appear to be as acute, however, as in some of the other regions visited. For example, the turnover rate of ORAG and internal auditors appears to be significantly lower than that of Addis Ababa City. Implementation of PFM reforms requires skilled and experienced personnel, so significant turnover of such personnel slows the pace of PFM reform. Reducing turnover rates requires addressing the reasons for turnover (e.g., salary differentials, working conditions).

Internet connectivity appears to have weakened in recent years at the national level for reasons beyond the control of SRG. Sector bureaus are still not hooked up electronically to BoFED through IBEX, so IBEX is being used on a stand-alone basis in bureaus, thereby dissipating some of the benefits of IBEX. SIGTAS is installed in only a few woredas, albeit the largest. Its rollout to all woredas along with connectivity to the Somali Revenue Authority would help to strengthen revenue administration (PIs 14–15). The timeliness of the availability of fiscal information to the public via the Internet has been reduced.

Assessment of the Impact of PFM Weaknesses

Aggregate fiscal discipline is good, as implied by the fiscal outcome table (table 2.1) in Chapter 2. The reliable and timely receipt of the block grant from MoFED, the grant comprising the bulk of SRG's financial resources, supports aggregate fiscal discipline, but robust expenditure controls are also an important factor. Routine monitoring of the financial situation of state-owned enterprises and woreda governments helps to contain any possible fiscal risk posed by these entities which would perhaps put pressure on fiscal discipline (Pl-9).

Strategic allocation of resources: The absence of a medium-term perspective to budgeting is hindering the rational strategic allocation of resources (PI-12). As a first step, forward expenditure estimates need to be prepared, showing the projected costs of implementing current levels of service in the future. Fiscally realistic costed sector strategic plans also need to be developed that would form the basis for allocating financial resources to "new" spending above the forward estimates.

Operational efficiency: Internal control systems appear to be strong, thus supporting operational efficiency through lowering the risk of wasteful spending and diversion of funds. Open competition is the method mainly used to procure goods and services, implying that value for money is probably being achieved. A formal procurement audit system has not yet been established to check that procurement regulations are being complied with.

PFM Reform Program

Led by MoFED, EMCP has been the main vehicle for implementing PFM reforms at all levels of government and continues to be so. A PFM reform-specific donor group, co-chaired at the time of this assessment by DFID and the World Bank, liaises closely with MoFED and organizes financial and technical assistance in support of EMCP implementation. The JBARs are a further monitoring and coordinating mechanism. This is a platform for federal and Regional Governments and donor partners to review the reform plans and achievements and to resolve issues.

Chapter 4 elaborates on key PFM reforms implemented/being implemented over the last few years. These are elaborated on in Chapters 2 and 3.

Role of Development Partners

Apart from playing an important role in supporting PFM reform, DPs also finance numerous projects and programs in the regions in support of improvements in basic services. Much of the financing has been through the Protection of Basic Services (PBS) program, for the most part in the form of budget support integrated with the block grants provided by MoFED to Regional Governments, which then budget for and spend the funds using their PFM systems. The PBS program also provides support in project form for strengthening PFM at the woreda level.

DPs also provide significant support through stand-alone projects and programs. Much of this is through Channel 1 programs (e.g., Public Safety Net Program {PSNP}), which are Federal Government programs being executed by regional and woreda governments, the funds being channeled to BoFED by MoFED. The transparency of these is a Federal Government issue.

A significant portion of DP aid is also provided through the so-called Channel 1 b, DPs providing funds straight to BoFED, which then disburses the funds to sector bureaus and woredas. As indicated by low scores for PI-7 (ii) and D2–D3, transparency has been limited. This is even more the case for DP aid provided through the so-called Channels 2b (DPs channeling funds straight to sector bureaus, by-passing BoFED) and Channel 3 (DPs channeling funds straight to projects, bypassing sector bureaus as well).

This situation has recently started to improve. NGOs are now required to register with BoFED and submit operational and financial reports for monitoring purposes, but non-transparency is still significant. Such non-transparency can harm the planning and budgeting efforts of regional and woreda governments due to segmentation of these efforts into two sets of budgets rather than having one unified budget. As noted under “Cross-cutting Issues,” it can also retard capacity development in regional and woreda governments due to skilled personnel being lured away from government by higher salaries. Strong institutional and human resource capacities are prerequisites for the success of PFM reforms (and governance reforms in general), so erosion of such capacity may harm the PFM reform effort.

Table SA.1 PEFA Performance Indicators for the Somali Regional Government FY 2014

		Overall	i	ii	iii	iv
	A. Credibility of the Budget					
PI-1	Aggregate expenditure outturn compared to original approved budget	**B**	B			
PI-2	Composition of expenditure outturn compared to original approved budget	**C+**	C	A		
PI-3	Aggregate revenue outturn compared to original approved budget	**B**	B			
PI-4	Stock and monitoring of expenditure payment arrears	**B+**	A	B		
	B. Comprehensiveness and Transparency					
PI-5	Classification of the budget	**B**	B			
PI-6	Comprehensiveness of information included in budget documentation	**C**	C			
PI-7	Extent of unreported government operations	**D+↑**	A	D↑		
PI-8	Transparency of intergovernmental fiscal relations	**A**	A	A	A	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**A**	A	A		
PI-10	Public access to key fiscal information	**C**				
	C. Budget Cycle					
	C (i) Policy-Based Budgeting					
PI-11	Orderliness and participation in the budget process	**A**	A	A	A	
PI-12	Multiyear perspective in fiscal planning, expenditure policy and budgeting	**D+**	D	NA	C	C
	C (ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	**B+**	B	A	B	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**B**	B	B	C	
PI-15	Effectiveness in collection of tax payment	**D+**	A	B	D	

		Overall	i	ii	iii	iv
PI-16	Predictability in the availability of funds for commitment of expenditures	**A**	A	A	A	
PI-17	Recording and management of cash balances, debt, and guarantees	**B**	NA	B	NA	
PI-18	Effectiveness of payroll controls	**C+**	B	A	A	C
PI-19	Competition, value for money, and controls in procurement	**C+**	B	A	C	D
PI-20	Effectiveness of internal controls for non-salary expenditure	**B**	B	B	B	
PI-21	Effectiveness of internal audit	**B**	B	B	B	
	C (iii) Accounting, Recording, and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	**B**	A	C		
PI-23	Availability of information on resources received by service delivery units	**C**	C			
PI-24	Quality and timeliness of in-year budget reports	**C+**	C	A	B	
PI-25	Quality and timeliness of annual financial statements	**C+**	B	A	C	
	C (iv) External Scrutiny and Audit					
PI-26	Scope, nature, and follow-up of external audit	**C+**	C	A	C	
PI-27	Legislative scrutiny of the annual budget law	**C+**	C	B	B	B
PI-28	Legislative scrutiny of external audit reports	**B+**	A	B	B	
	D. Donor Practices					
D-1	Predictability of Direct Budget Support	**NA**	NA	NA		
D-2	Financial info provided by donors for budget and reporting on project, program aid	**C**	C	C		
D-3	Proportion of aid that is managed by use of national procedures	**At least C**				
HLG-1	Predictability of transfers from Federal Government to SRG	**A**	A	A	A	

Notes: Shaded areas represent M2 scoring methodology. NA = not applicable, for reasons explained in the text.

1. Introduction

1.1 Objective

This first PEFA assessment of the Somali Regional Government (SRG) is part of a broader exercise, also covering the Federal National Government (repeat assessment), Addis Ababa City Government (repeat assessment), Oromia Regional Government (ORG, repeat assessment), Amhara Regional Government (ARG, repeat assessment), Southern Nations and Nationalities Peoples' Regional Government (SNNPRG, repeat assessment) and Tigray Regional Government (TRG, first assessment).

The objective of the PEFA assessments is to provide an independent assessment on the quality and performance of the public financial management (PFM) systems of the assessed governments and, in the case of the repeat assessments, to assess change in PFM system performance, since the first assessments. The assessments will inform dialogue on ongoing PFM reforms supported through the Expenditure Management and Control Program (EMCP) and for new PFM initiatives such as the request from the Ministry of Finance and Economic Development (MoFED) to the World Bank to move forward with the preparation of a stand-alone PFM project. It may also feed into the proposed projects in tax administration, audit and transparency to be funded by the United Kingdom's Department for International Development (DFID).

1.2 Scope and Process of Preparing the Report

This assessment covers the Somali Regional Government (SRG), which consists of a number of bureaus, authorities, and institutes (henceforth termed as Budget Institutions (BIs). It does not cover the PFM systems of the 68 woreda and 4 city administration governments, which constitute the next level of government. Together these two levels of government constitute the Somali National Regional State (SRS). About 30 percent of SRG's expenditures fall under SRS. The fiscal relations between SRG and the lower level governments and the extent that SRG monitors the financial situation of the lower level governments are assessed under PIs 8–9 of the PEFA Framework (Chapter 3). This assessment does not cover the PFM systems of SRG-owned public enterprises, numbering four, but does assess the extent that SRG monitors their financial situation (PI-9).

In some instances the reference point of this assessment is the SRS as information is only available at this level. The instances are the following: (1) tables 2.1 and 2.2 in Chapter 2 on fiscal outcomes; (2) PI-4 and table 3.8 on expenditure arrears; (3) PI-12 dimension (iii) on sector strategies, which are prepared on a regional state basis; and (4) PI-25 on annual financial statements and PI-26 on external audit. Furthermore, the scope of legislation is at SRS level (e.g., the Financial Administration Proclamation), but tends to be implemented separately at SRG and woreda levels. Institutions are named at both regional and state levels, even if their main responsibilities are at the Regional Government level (e.g., SRS Revenue Authority). In general the reference point is SRG, unless otherwise specified. A World Bank–funded PFM assessment of a sample of 36 woreda governments in five regions (Oromia, Tigray, SNNPR, Amhara, and Afar) and Addis Ababa city was conducted in 2011. Furthermore, in relation to donor-financed operations, it is not always easy to distinguish donor spending at the regional bureau level from spending at woreda government level.

A consultancy team of three was contracted by the World Bank to conduct the PEFA assessments of ARG, TRG, SRG, and SNNPRG from April 21 to May 16, 2014: Peter Fairman, international consultant and team leader, Getnet Haile, and Zeru Gebre Selassie. The team operated under the supervision of Parminder Brar, World Bank Sector Leader and Lead Financial Management Specialist. The team visited Jijiga, the capital city of Somali Region during May 6-9, 2014. The main contact point was the Head of the Somali Bureau of Finance and Economic Development (BoFED) and many meetings were held in BoFED (Planning and Budgeting Department, Accounts Department, Inspection Unit, and the Internal Audi Department). Meetings were also held with the Somali Revenue Authority; the Bureaus of Education, Health, and Construction; the Office of the Regional Auditor General (ORAG); the Budget and Finance Committee of the National Assembly; and the Somali Chamber of Commerce and Sector Associations.

The first draft of this report was submitted to the World Bank on July 15, 2014. The team delivered a presentation on the main findings of the first draft at a workshop held with SRG officials (led by the BoFED head) in Jijiga on October 22. The officials provided much useful feedback. Follow-up meetings were held on October 23 on specific issues raised in the workshop. A post workshop draft was submitted to the World Bank on November 24, 2014. Comments were received by the team on February 2, 2015. A revised draft reflecting the comments was submitted to the World Bank on March 7, 2015.

1.3 Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat PEFA CHECK system and through the World Bank peer review process.

1.4 Structure of the Report

Chapter 2 provides background information on the Somali Region, an assessment of budgetary outcomes, and a description of the legal and institutional framework for PFM in SRG and of the key features of its PFM system. Chapter 3 presents the evaluation of SRG’s PFM systems. Chapter 4 describes recent and ongoing reforms and the main areas of intervention by SRG.

2. Region Background Information

2.1 General

The Somali Regional State (SRS), located in the eastern part of Ethiopia, is the second largest region in Ethiopia, with an estimated area of 350,000 square kilometers.. It is bounded by Oromia region in the west, Afar region to the northwest, Djibouti to the north, Somalia to the east and southeast, and Kenya to the south. Its population is 5.3 million (July 2013), 86 percent of which is rural, as estimated in 2012 (Central Statistical Agency of Ethiopia). The average population density is 15 persons per square mile. Its economy is mainly based on agriculture and livestock. The capital is Jijiga, located in the north of the region.

Regional Governments have substantial political, administrative, and fiscal powers under the federal system of government in Ethiopia. SRS comprises two main levels of government, the Regional Government (known as Somali Regional Government {SRG}), and, below it, woreda governments in nine administrative zones. Expenditure of SRG is about 22 percent of total SRS expenditure. Woreda governments consist of 68 rural woreda (district) governments and 4 city administrations (also known as municipalities).

The number of rural woredas increased from 52 a few years ago, one of the recommendations of the Business Process Reengineering (BRE) exercise that took place during FY 2008–09. The city administrations were formed in 2010, following a proclamation that provided more power, including revenue raising powers and the potential to borrow, subject to SRG approval. The woredas are grouped under nine administrative zones under the control of SRG. Woredas and city administrations are further divided into 865 rural and urban kebeles (villages). Eleven municipal towns are in the process of being established under the four city administrations.

The structure of government is similar at all the different levels of government in Ethiopia. The regional equivalent of the Federal Ministry of Finance and Economic Development (MoFED) is the Bureau of Finance and Economic Development (BoFED). Similarly, sector ministries at the federal level have their equivalents at Regional Government level in the form of sector bureaus located in Jijiga and their offices in the zones. The Woreda Office of Finance and Economic Development (WoFED) forms the equivalent of BoFED, while sector offices at the woreda level form the equivalent of SRG sector bureaus at SRG.

Similarly, the external audit and legislative oversight function is broadly the same as at Federal Government level. The external audit function is conducted by the Office of the Regional Auditor General (ORAG). The ORAG covers woreda governments as well as SRG. The legislative oversight function is conducted by the elected Regional Council (RC), the Budget and Finance Committee and Public Accounts Committee of the RC carrying out PFM-specific scrutiny functions.

As with other regions, the SRG takes its lead from the Federal Government in relation to economic development strategies and government reform programs. Sector development strategies are based on the region's Growth and Transformation Plan (GTP), itself based on Federal Government's GTP covering FYs 2010/11–2014/15.

The Expenditure Management and Control Program (EMCP) that was initiated in the early 2000s with extensive support from DPs continues to be the main vehicle for implementing PFM reform at all levels of government in Ethiopia. PFM reforms at regional state level at first focused on Amhara, Tigray, Oromia, Southern Nations, and Addis Ababa City. As a result, substantial PFM reforms in SRS started much later. As an example, SRS government was the last regional state government to introduce double entry bookkeeping, in FY 2009/10.

2.2 Description of Budgetary Outcomes

Table 2.1 Fiscal Performance, Somali Regional State (ETB millions)

EFYs 2003–05	FY2010/11 Actual	FY2011/12 Actual	FY2012/13 Actual
Total Financial Resources	**2,431**	**2,943**	**3,737**
Region's revenues	267	393	828
Federal Government subsidy	2,164	2,550	2,909
External assistance and loans[a]	NA	NA	NA
Total expenditures	**2,361**	**2,946**	**3,775**
Recurrent	1,481	2,225	2,656
Capital	880	721	1,119
By function	*2,361*	*2,946*	*3,775*
Administration and general services	930	1,415[b]	1,790[b]
Economic services	621	631	1,022
Social services	810	900	963
By economic classification	*2,361*	*2,946*	*3,775*
Personnel services	782	1,155	1,342
Purchase of goods and services	588	946	1,120
Transfers (subsidies, grants, investments)	111	124	194
Acquisition of capital assets	880	721	1,119
Balance	*71*	*-3*	*-38*
Accumulation/use of cash	- 71	3	38

[a] External loans are incurred by the Federal Government, not SRS, the loan proceeds being channeled to SRS.
NA = not available. Budgeted external assistance and loans were ETB 40 million, ETB 89 million, and ETB 52 million in FYs 2010, 2011, and 2012 respectively, but actual expenditures were not reported in IBEX.
Source: Trial balances generated by IBEX.

Total SRS expenditures increased by 60 percent between FYs 2010/11 and 2012/13, enabled by a near tripling of domestic revenues (due to strengthened revenue administration and the creation of city administrations) and a 35 percent increase in the Federal Government subsidy. The main reason for the large increase in the Federal Government subsidy was the establishment of the Millennium Development Goals (MDG) grant in FY 2011/12. The grant is funded by DPs and the Federal Government. The grant can be used only to finance capital expenditures at the woreda level in the basic sectors (health, education, water and sanitation, rural roads, and agriculture).

As opposed to the situation in Amhara and Tigray regions, administration and general services expenditure rose as a share of total expenditure (to 47 percent from 40 percent), the share of economic services remaining about the same, at 22–23 percent and the share of social sectors falling to 26 percent from 34 percent. The share of capital expenditures fell to 30 percent from 37 percent.

Table 2.1 omits expenditures financed directly by DPs, as elaborated on under PI-7 in Chapter 3. For the most part, these expenditures are still not being captured by the IBEX system.

2.3 Legal and Institutional Framework for PFM

Legal Framework for PFM

Following their approval in FY 2009/10 (EFY 2002), two new proclamations came into effect in 2011, the Financial Administration Proclamation and the Procurement and Property Administration Proclamation, procurement effectively having been separated from financial administration. Financial administration regulations were issued in 2011, the previous regulations having been in place for 14 years. Ten directives were subsequently issued for the effective implementation of these proclamations. Areas of increased focus include the need for improved quality of cash flow forecasts, procurement plans, and financial reports. The directives also took into account the business process reengineering exercises conducted during FYs 2007/08–2008/09.

Tax System: Tax laws closely follow federal legislation. The Regional Government shares some taxes with the Federal Government. No revenue-raising powers are assigned to woreda governments, but woreda bureaus collect some revenues on behalf of the Regional Government. In the interests of administrative efficiency, they can retain some of the revenues (e.g., agricultural income tax), offset by a reduction in the block grant from SRG.

Institutional Framework for PFM and Key Features of the PFM System

Responsibilities of BoFED: BoFED has the overall responsibility for PFM in SRG. BoFED was reorganized in FY 2011/12 in line with the two new proclamations referred to earlier. The main reorganization was the splitting of the financial administration, procurement, and property administration core process into two core processes: (1) financial administration, covering accounting and treasury functions, and (2) procurement and property administration. Other core processes (the business process reengineering terminology for *department*) are (1) planning and budgeting and (2) the Inspection Unit, which supervises the activities of internal audit departments in budget institutions (BIs).

Responsibilities of BIs**:** BoFED oversees the budget preparation process, the draft budgets being prepared by the BIs and approved by the Regional Council (RC). The BIs execute their approved budgets and report on and account for budget performance. They do this in principle using the mechanisms and controls embedded in the electronic Integrated Budget and Expenditure Management system (IBEX) that was established several years ago in BoFED, and was rolled out to bureaus during FY 2010/11 and more recently to woredas.[1]

In practice, however, the BIs are not using IBEX to control budget execution (PI-20, Chapter 3), mainly due to power-related interconnectivity problems (as in other regions) that have caused the IBEX systems in BIs to remain on a stand-alone basis. Commitments are instead being controlled through the manual commitment ledger cards used before the advent of IBEX, which means, in practice, checking that the proposed commitment is consistent with the as yet uncommitted approved budget. Commitments are, however, registered in IBEX, which enables

[1] This was done under the Decentralization Support Activity project. This was a component of the multi-donor funded EMCP and executed by a team from the Harvard University Institute of International Development led by Stephen Petersen. Many of the PFM reforms implemented under EMCP during the 2000s took place under the Decentralization Support Activity project.

the estimation of the remaining uncommitted budget balance for the rest of the year, which therefore allows budget managers to determine whether any proposed commitment is consistent with this remaining balance.

The electronic connectivity problems mean that the monthly budget performance reports and trial balances prepared by BIs in IBEX have been manually conveyed to BoFED through hard copy, resulting in efficiency loss. This situation has improved somewhat since the beginning of FY 2013/14 (EFY 2006), with the reports being conveyed in "soft" copy (CDs, flash drives), thus avoiding having to retype the information. The connectivity issue remains, however.

Internal controls (PI-20): A recent development was the establishment by BoFED of PFM technical support teams to help staff in bureaus and woreda offices to strengthen their understanding of internal controls systems.

Accounting and reporting is performed using the double entry bookkeeping system contained in IBEX (introduced in FY 2006/07, EFY 1998), under which trial balances are generated every month. As noted already, Somali region was the last region to move to double entry bookkeeping.

BoFED prepares annual financial statements for submission to ORAG for audit. ORAG audits these statements and prepares audit reports for review by the Public Accounts Committee of the Regional Council.

Sub-national governments: The legal and institutional framework for this is covered under PI-8 in Chapter 3.

Audit functions and transparency: The legal framework for audit is covered under PIs 20, 21, and 26 in Chapter 3. The coverage of the audit function has expanded over the past few years.

DP funding modalities (PI-7, D-2): DPs provide funding to SRS in a variety of ways, ranging from straightforward and transparent to not so straightforward and transparent, the rationale for not using the most straightforward way not always being clear:

1. *Through the Protection of Basic Services (PBS) program, now in its third phase*. The DP funding for much of this is essentially budget support to the Federal Government, which then incorporates it into its block grant transfer to Regional Governments (described under PI-8 of the Federal Government PEFA). The Regional Governments then determine the allocation of the block grants through its budget preparation procedures. In practice this is the most straightforward method of support; the most straightforward way in principle would be general budget support to the Federal Government with no earmarking of the amounts to be included in PBS, but this has not been possible for political reasons.

2. *Through Channel 1a*. DP funding for projects and programs is channeled through MoFED to BoFED, the budgeting of the expenditures out of these funds for the most part being incorporated under the relevant ministry under the Federal Government budget. BoFED (through a Channel 1 unit, established three years ago through the amalgamation of the different Channel 1 monitoring components in BoFED) and the relevant sector bureaus in effect act as the deconcentrated financial administration, monitoring and executing agencies for MoFED and federal sectoral ministries.

   The projects and programs comprise (1) the Public Safety Net Program, (2) the Water, Sanitation and Hygiene program; (3) the Public Sector Capacity Building Program, which ended in 2009/10; (4) the Urban Local Government Development Program; (5)

the partly World Bank–funded General Education Quality Improvement Program (GEQIP), established in 2009; and (6) the technical assistance and capacity-building programs under PBS (PBS II). GEQIP is proclaimed under SRG's budget.

3. *Channel 1b:* DP funding for projects and programs is channeled directly to BoFED by DPs, the funds being budgeted for in the proclaimed annual budgets under the relevant sector bureau: ETB 40 million in FY 2010/11, ETB 89 million in 2011/12, and ETB 52 million in 2012/13. The bulk of funding is provided by UNEXCOM agencies (UNICEF, UNDP, UNFPA), particularly by UNICEF. An Aid Co-ordination Unit, located in BoFED, monitors implementation of these programs. Expenditure performance reports are prepared, but not through IBEX (PI-7 in Chapter 3).
4. *Channel 2a*: DP funding for projects and programs is channeled to sector bureaus directly through sector ministries. The funding is budgeted for at Federal Government level. The main examples are the Agricultural Growth Program, co-funded by World Bank and USAID, and projects funded by International Fund for Agricultural Development, and the USAID-funded Sustainable Land Management Project.
5. *Channel 2b*: DP funding for projects and programs is channeled directly to sector bureaus and is unlikely to be proclaimed in the Regional Government's budget (PI-7 ii).
6. *Channel 3*: DP-funding for projects and programs is channeled straight to the projects and programs with the limited involvement of the relevant sector bureaus and BoFED. The spending is not incorporated into the SRS proclaimed budget. NGOs fit into this category, some of which may be funded directly by a major donor, USAID and the Global Fund being the main examples. Starting in FY 2013/14, NGOs have been required to register with BoFED and report their activities to BoFED.

3. Assessment of the PFM Systems, Processes, and Institutions

3.1 Introduction

The following subsections provide the detailed assessment of the PFM indicators contained in the Public Finance Management-Performance Measurement Framework (PFM PMF). The scoring methodology only takes into account the existing situation and does not cover ongoing and planned activities that may result in higher scores under future assessments, but these are summarized at the end of the discussion on each section.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multidimensional indicators where weak performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multidimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table for 2, 3, and 4 dimensional indicators is used to calculate the overall score.

The PEFA handbook (PFM Performance Measurement Framework, www.pefa.org) provides detailed information on the scoring methodology. Effective January 2011, a revised methodology is being used for PIs 2, 3, and 19.

An upward pointing arrow (↑) may be provided if a PFM-strengthening activity is under way, which, when completed, would result in a higher rating.

The PEFA assessment reviews PFM performance under the existing situation. The relevant time period depends on the type of indicator. For some indicators, the relevant time period is the last completed fiscal year (2012), for example, PIs 4, 7, 9, 24–26, and 28. For some other indicators, the time period is the last three completed fiscal years (FYs 2010–2012), e.g., PIs 1–3. For some indicators the relevant time period is the situation at the time of the assessment. (e.g., PIs 13–14, concerning revenue administration, and the first three dimensions of PI-18, concerning payroll control). More information is available in the PEFA secretariat's field guide (March 2012) on evidence and sources of information to support the scoring of indicators.

3.2 Budget Credibility

Good practice in PFM emphasizes the importance of the budget being credible so that planned government policies can be achieved. Budget credibility requires actual expenditures to be similar to approved budgets and that there should be no outstanding payables at the end of the year; payables carried over to the following year and paid that year is at the expense of the approved budget for that year. The matrix in table 3.1 summarizes the assessment of indicators relating to budget credibility.

Table 3.1 Assessment of Performance Indicators of Budget Credibility

No.	Credibility of budget	Score
PI-1 (M1)	Aggregate expenditure outturn compared to approved budget	B
PI-2 (M1)	Variance in expenditure composition	C+
PI-3 (M1)	Aggregate revenue outturn compared to approved budget	B
PI-4 (M1)	Stock and monitoring of expenditure payment arrears	B+

PI-1 Aggregate expenditure outturn compared to original budget

The ability to implement the budgeted expenditure is an important factor in supporting the government's ability to deliver the public services for the year, as budgeted for. The indicator reflects this by measuring the actual total expenditure compared with the originally budgeted total expenditure, but excludes two expenditure categories over which the government has little control: debt service payments and development partner (DP)–funded project and program expenditure.

In the case of SRG, debt service payments are zero as the stock of debt is zero; the Financial Administration Proclamation does not allow SRG to borrow. Investment expenditure is divided into three categories: domestically financed, externally financed through grant assistance, and externally financed through loans to the Federal Government, which then disburses to SRG. The budget and budget performance tables prepared by SRG clearly distinguish between these categories, so omitting DP-financed expenditure is straightforward.[2]

Appendix A shows the approved budgets for SRG's BIs (bureaus, authorities, institutes), as approved by the Somali Regional Council, for FYs 2010/11, 2011/12, and 2012/13 (EFYs 2003–2005) and the actual outturns for these years.

Table 3.2 is extracted from Appendix A and shows the aggregate percentage deviation between the actual outturn and the originally approved budget.

Table 3.2 SRG Approved Budget and Expenditure Outturn (ETB millions)

(EFYs 2003–05)	2010/11 Budget	2010/11 Outturn	2011/12 Budget	2011/12 Outturn	2012/13 Budget	2012/13 Outturn
Total primary expenditure[a]	1,186	1,259	1,538	1,514	1,800	2,150
Deviation	**6.2%**		**-1.6%**		**19.4%**	

Source: BoFED, IBEX tables (as shown in Appendix A.

a. Total recurrent expenditure plus domestically financed investment expenditure.

The over-performance in EFYs 2003 and 2005 was due to two distinct reasons:

1. In EFY 2003, the Federal Government approved salary increments for all government employees at all levels. For this reason the Federal Government approved a

[2] Externally financed investment expenditure is a misnomer as it includes recurrent expenditure items.

supplementary budget for Somali Region to finance the salary increase, financed by an 8.5 percent increase in the federal subsidy to the Somali of ETB 172.2 million. The increase was beyond the control of the region.

2. The over performance of 19.4 percent (ETB 350 million) in EFY 2005 was due to the supplementary budget (seventh month of the year) that was approved by the Regional Council (RC), which was financed by the surplus revenue of ETB 357 million that year (Table 3.6 under PI-3), partly due to the reestablishment of the Somali Revenue Authority. The expenditure performance was entirely under the capital budget, particularly under the economic services function and reflected preparation of the Ethiopian Nations and Nationalities Day, which the Somali Region was going to host in EFY 2006; capital expenditure increased by 55 percent to ETB 1.1 billion in EFY 2005 from ETB 720.5 million the year before.

Table 3.3 PI-1 Results

Score PI-1	Minimum requirements	Justification
B	In no more than one of the last three years has actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 10 percent of budgeted expenditure	The deviations (in absolute terms) were 6.2 percent in FY 2010/11, 1.6 percent in 2011/12, and 19.4 percent and 2012/13. The equivalent wording of the minimum requirement is "The aggregate expenditure outturn was between 90 percent and 110 percent of the approved aggregate budgeted expenditure in at least 2 of the last 3 years" (as it appears in the draft revised PEFA Framework).

Source: Tables generated through IBEX (details in Appendix A).

PI-2 Composition of expenditure outturns compared to original budget.

Where the composition of expenditure varies considerably from the original budget, the budget may not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure outturns against the original budget at a sub-aggregate level. In SRG there is an administrative classification, with organizations classified into four broad functional groups - administrative and general, economic, social, and other - under which fall a number of sub-functions (PI-5), and, under each of these, a number of administrative units (referred to as budget institutions, or BIs, throughout this report). Appendix A shows the original budgets and actual outturns for each of the 20 largest units, the remainder (18) being aggregated into a 21st unit.

As shown in Appendix A, the variance in the composition of the budget is assessed after taking into account any change in the resource envelope for the budget that may have occurred during the year. For example, if the resource envelope has fallen or is expected to fall by 10 percent (e.g., due to domestic revenue shortfalls) the original budget for each BI is adjusted downwards by 10 percent. The actual expenditure of each BI is then compared with its "adjusted" budget (this is a PEFA term, and is not the same as the term *adjusted budget* which appears in SRG's budget execution reports).[3]

[3] Based on the principle that the original budget was an optimal budget in which expenditure under all heads had equal marginal benefits. A revised methodology for assessing PI-2 came into effect in January 2011.

In assessing PI-2, the contingency item in the originally approved budget (subhead 462) is separate from the approved budgets of the BIs. During the course of the year, the contingency may be allocated to BIs and/or woreda governments, the additional expenditure being one reason for actual expenditures of BIs being different from their original approved budgets. For transparency, the contingency item should be allocated to BIs rather than to the contingency item itself.

The contingency item in the SRG budget has two components: (1) to provide for the distribution across BIs of an agreed wage increase that had not been allocated to individual BIs at the time of the budget approval; and (2) to provide for unforeseen and unavoidable circumstances; the latter is by far the largest component. Distribution of a wage increase does not have any implications for credibility, as it makes no difference to the volume of public services to be delivered as per the approved budget. The contingency provides for woreda governments as well as the Regional Government.

As shown in Appendix A, the budgeted contingencies were ETB 120 million, ETB 127.4 million, and ETB 150 million for the FY 2010/11, 2011/12, and 2012/13 budgets respectively, and comprised 10.1 percent, 8.3 percent, and 9.1 percent of the approved budgets, respectively. More than 99.5 percent of the contingencies were allocated to specific BIs.

The measurement of PI-2 is shown in Table 3.4, extracted from Appendix A.

Table 3.4 PI-2: Expenditure Composition Variance and Average Contingency

FY	Expenditure composition variance	Average contingency (% of budget)
2010/11	13.5%	0
2011/12	14.8%	0
2012/13	26.2%	0

The actual expenditures of some BIs appear to be more than implied by the amount of overall resource envelope positive or negative deviation, as measured under PI-1. This is the case in all three years for Bureau of Works and Urban Development, BoFED, and the Office of Disaster Preparation and Preparedness. The situation is the other way round for some BIs, with the Health Bureau, Education Bureau, Police Commission, Rural Roads Authority and the Supreme Court spending substantially less than implied by the amount of resource envelope positive/negative deviation in all three years. The usual reason is slower progress than anticipated in implementing projects and programs.

The rating is C+, indicating that credibility is less than what it should be, reflecting a combination of issues in preparing the annual budget in the first place (e.g., overestimating the rate of project implementation) and financial resource outcome uncertainty. In fact the authorities appear to regard the original budget as temporary, anticipating the need for adjustments to the budget after it has been approved. The monthly Joint Budget and Aid Reviews (JBARs) prepared by BoFED and circulated to stakeholders do not show the originally approved budget, performance being evaluated against the adjusted budget.

Table 3.5 PI-2 Results: Variance in the Composition of Expenditure

Score PI-2 (M1)	Justification
C+	
(i) C	The variance in expenditure composition exceeded 15% in no more than one of the last three years.
(ii) A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget over the last three years. More than 99% of the contingency item is allocated to BIs during the year, the related expenditure being reflected in the actual annual expenditure of the BIs.

Source: Annual budget execution reports prepared in IBEX by BoFED (detailed tables in Appendix A).

PI-3 Aggregate revenue outturn compared to original approved budget

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based on that forecast. A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting.

The Planning and Budget Department in BoFED, in collaboration with the Somali Revenue Authority (SRA), is responsible for revenue forecasting, using top-down and bottom-up methods. The top-down approach is based on SRS's version of the Growth and Transformation Plan (GTP), "Plan for Enhanced Pastoral and Agro-Pastoralist Livelihood and Reversing Poverty," covering 2010/11–2014/15," which contains the Federal Government's projections of inflation and real GDP growth. The bottom-up approach is based on information provided by SRA, such as the level of construction activity and the numbers of livestock.

Revenue forecasting in recent years, never straightforward due to the climate sensitive agriculture-based economy, has become even less straightforward in recent years due to structural changes in the economy, the establishment of the four city administrations, and the beneficial impact of the tax education programs (PI-13).

Performance of revenue for the past three years is shown in Table 3.6

Table 3.6 Domestic Revenue Performance: FYs 2010/11–2012/13 (EFYs 2003–2005) (ETB millions)

Code		2010/11			2011/12			2012/13		
		Budget	Actual	Diff.	Budget	Actual	Diff.	Budget	Actual	Diff.
1000-1399	**Tax revenue**	**217**	**191**	**12%**	**400**	**276**	**-31%**	**502**	**534**	**6%**
1100–1119	Direct taxes on incomes	164	133	-19%	275	215	-22%	330	427	29%
1120–1399	Indirect taxes: VAT, excise, and turnover	53	58	9%	125	62	-51%	172	107	-38%
1400–1502	**Non-tax revenue**	**33**	**55**	**65%**	**0**	**105**		**0**	**303**	
1700–1799	**Municipality revenue**	**0**	**22**	**5%**	**0**	**11**		**0**	**23**	

Code		2010/11			2011/12			2012/13		
		Budget	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**	**Budget**	**Actual**	**Diff.**
	Total revenue	**250**	**267**	**7%**	**400**	**393**	**-2%**	**502**	**859**	**71%**

Source: Accounts and Finance Department, BoFED) (IBEX data)

The 100 percent increase in budgeted revenues between FYs 2010/11 and 2012/13 shown in table 3.6 at first sight seems overly optimistic, but, according to the head of SRA, it is partly due to the establishment of the four city administrations by proclamation, which formally enhanced their non-tax revenue-raising powers, as in other regions. Providing the city administrations with strengthened non-tax revenue raising powers has greatly increased the incentive to raise revenues.

Actual total revenues exceeded budgeted amounts by 7 percent in FY 2010/11, fell short by 2 percent in 2011/12 and exceeded budgeted amounts by 71 percent in 2012/13. The decomposition of revenue performance by revenue type is tricky, as the budgeted amounts for tax revenue seem to include non-tax revenue and municipality revenue; the Budget Proclamations show zero budgeted municipal revenues in all three years, and zero budgeted non-tax revenue (NTR) in FYs 2011/12 and 2012/13 (and a possible understatement in 2010/11). Thus, tax revenue performance appears to be understated. The head of the accounts department in BoFED acknowledged that the composition of budgeted revenue may have been misclassified.

Revenue performance has generally been positive (only a small shortfall in FY 2011/12). The main reason for the large over-performance in 2012/13 is the very large amount of "other miscellaneous revenue" (code 1489), which is by far the largest component of non-tax revenue and which was not budgeted for. Actual amounts were ETB 36 million in 2010/11 (72 percent of total NTR), ETB 94 million in 2011/12 (89 percent of total NTR), and ETB 247 million in 2012/13, representing 91 percent of total NTR and 29 percent of total revenue. According to SRA, large increases in livestock numbers, the establishment of city administrations, and the positive impact of tax education programs are factors.

Table 3.7 PI-3 Results

Score PI-3	Minimum requirement	Justification
B	Actual domestic revenue collection was between 94% and 112 % of budgeted domestic revenue in at least two of the last three years.	Actual revenues exceeded forecast revenues by 7% and 71% in FYs 2010/11 and 2012/13 respectively and fell short by 2 % in 2011/12.

Source: Accounts and Finance Department, BoFED (IBEX data).

PI-4 Stock and monitoring of expenditure payment arrears

This indicator is concerned with measuring the extent to which there is a stock of arrears, and the extent to which the systemic problem is being brought under control and addressed.

(*i*) *Stock of arrears*

As noted in Chapter 1, this indicator is assessed at the level of SRS. SRG expenditure comprises about 30 percent of SRS expenditure

There is no official definition for arrears in the Financial Administration Proclamation and regulations of the SRS. Salaries and wages are paid on the 20th of each month, and all goods and services are generally purchased on a cash-on-delivery basis. For the procurement of construction services, 20 percent advance is paid against bank guarantee, and in certain cases up to a 30 percent advance may be paid for the purchase of goods (e.g., advances paid to contractors implementing projects funded by MDG grants). According to BoFED, it is unlikely goods and services would be purchased on credit, and hence the likelihood of arrears is very low.

A grace period of 30 days is provided for the payment of capital-expenditure-related goods and services received before the end of the fiscal year but too late to process payments (account no. 5001 in the Chart of Accounts). Grace period payables (GPPs) constituted 0.25 percent of total SRS expenditures at the end of EFY 2003 and were zero a month later. There is no GPP provided in 2004. The GPP balance in 2005 was just ETB 10,000. (table 3.8).[4] The outstanding GPP one month after the end of the fiscal year (August 6) was ETB 1.61 from the GPP provided in EFY 2003 and zero for EFY 2004 and EFY 2005.

In addition, trial balances at the end of FY 2012/13 contained recurrent expenditure payables including sundry creditors, pension contributions payables, salary payables, other payroll deductions, and withholding tax payables amounting to ETB 35 million, which constituted 0.95 percent of total SRS government expenditure (ETB 48.0 million and ETB 27.8 million at the end of EFY 2004 and ETB 2003, respectively). Most such payables are paid in the following month out of the end-year net assets balance (also during the year on a month-to-month basis). For example, delays in the transfer of pension payables to National Bank of Ethiopia are subject to 2 percent charges on the unpaid balance, thus providing an incentive to pay on time.

Table 3.8 End-year Expenditure Arrears in Relation to Total SRS Expenditure (ETB millions)

	EFY 2003	EFY 2004	EFY 2005
Grace period payables (GPP) at end of year (July 7)	5.86	0	0.01
Balance as of August 6 (1 month after year end)	Nil	Nil	Nil
% of SRS expenditure	0%	0%	0%
Total SRS expenditure	**2,361**	**2,946**	**3,775**

Sources: Trial balances as of July 7 of EFY 2003, July 7 of EFY 2004, and August 6 of EFY 2005 (FYs 2010/11–2012/13)

(ii) System for monitoring arrears

The GPPs are recorded at the end of the fiscal year in IBEX, as shown in the trial balance sheets, and then for each month after that for as long they remain outstanding. Recurrent expenditure payables are shown in the trial balance sheets on a month-to-month basis. There is no age profile of these, so their age at the end of the fiscal year and the end of the first month of the following year are not known.

Table 3.9 PI-4 Results

[4] The trial balance statements are for SRS as a whole and not for SRG.

Score PI-4 (M1)	Minimum Requirements	Justification
B+		
(i) A	The stock of arrears is low (i.e., is below 2% of total expenditure)	GPPs were zero at the end of EFY 2004 and EFY 2005. Purchases of goods and services are mainly on a cash-on-delivery basis.
(ii) B	Data on the stock of arrears are generated annually but may not be complete for a few identified expenditure categories or specified budget institutions.	Data are available to monitor GPPs each month they remain outstanding, and to monitor other payables on a monthly basis, but for which there is no age profile.

Source: Trial balance sheets for EFYs 2003–2005; and head, Accounts Department, BoFED

3.3 Comprehensiveness and Transparency

The indicators in the comprehensiveness and transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The matrix in table 3.10 summarizes the assessment of indicators under this dimension.

Table 3.10 Comprehensiveness and Transparency Performance Indicators

PI		Score
PI-5	Classification of the budget	B
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	D+↑
PI-8	Transparency of intergovernmental fiscal relations	A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	A
PI-10	Public access to key fiscal information	**C**

PI-5 Classification of budget

A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, and functional or program.

The budget classification system at the Regional Government level (and also woreda level) is the same as the one at federal level, as described in the 2007 *Federal Budget Manual* and Chart of Accounts manuals, May 2007, prepared under the Decentralization Support Activity (DSA) project, and in the Federal Government PEFA assessments.[5] Top down, the classification is organized on the basis of three functions or sectors: administrative and general service, economy, and social. Under each function fall a number of sub-functions (totaling 12). Under

[5] The budget classification system is described in the *Federal Budget Manual* (2007). This was prepared with the support of technical assistance provided by Harvard University through the donor-supported Decentralization Support Activity project.

each sub function fall a number of administrative heads, each head implying the purpose of expenditure. For example, under the Economic Services Sector (Code 200) falls the Agricultural and Natural Resources sub function (Code 210) and under this fall the Bureau of Livestock and Agricultural Development (Code 211) and the Agriculture and Pastoral Development Research Institute of Agricultural Research (code 213). The functions and sub functions differ from COFOG, but they clearly reflect the intent of expenditure and the sub functions can be matched to a large extent to the 10 COFOG functions.

The economic classification system (e.g., personnel emoluments) is shown under each BI (and by sub agency within each BI, where relevant).

The system broadly meets the Government Financial Statistics (GFS) standards: personnel emoluments (Codes 6000–6199); purchases of goods and services (Codes 6200–6299); acquisition of fixed assets, i.e., capital expenditure (Codes 6300–6399); and other payments, which are mainly subsidies, transfers, and grants (Codes 6400–6499). The main departure from GFS is the classification of domestic debt repayment as an expenditure rather than as a financing item.

The budget classification system includes program codes, but at present these are not being used, as program budgeting has not yet been formally adopted at regional level.

Table 3.11 PI-5 Results

Score PI-4	Minimum requirements	Justification
B	Budget formulation and execution is based on an administrative, economic, and functional classification that can produce consistent documentation according to COFOG and GFS standards.	The budget classification system (as described in the Federal Government's budget manual and Chart of Accounts manual. 2007) is on a hierarchical functional, sub functional, administrative and economic classification basis. The sub functions match the COFOG functions to an extent, the codes clearly reflecting the intent of public expenditure. The economic classification codes are broadly consistent with GFS.

Sources: *Federal Budget Manual* and Accounting System Manual, January and May 2007; 2010 and 2014 Federal Government PEFA assessments.

PI-6 Comprehensiveness of information included in budget

Annual budget documentation (annual budget and budget supporting documents) should inform the executive, the legislative, and the general public and assist in informed budget decision making and transparency and accountability. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the elements in table 3.12.

Table 3.12 Elements Underlying the Assessment of PI-6

Item	Available	Source
1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	No	The budget document doesn't contain any assumptions concerning the macroeconomic and fiscal framework.
2. Fiscal balance, defined according to GFS or other internationally recognized standard	No	Funds carried over from the previous FY are classified as revenue, contrary to GFS. The fiscal balance is therefore overstated. The correctly stated fiscal balance may be negative (fiscal deficit), which is then financed by use of cash balances.
3. Deficit financing, describing anticipated composition	No	SRG does not borrow, but may use retained earnings to finance a deficit.
4. Debt stock, including details at least for the beginning of the current year	NA	SRS does not borrow.
5. Financial assets, including details at least for the beginning of the current year in a timely manner	Yes	Financial assets consist of cash on hand and in the bank (CoA codes 4101, 4103, and 4105), and accounts receivables (CoA codes 4200–4299). These are included in end-of-month trial balance statements, which are available to Regional Council members. Financial assets are not included in draft Budget Proclamations, but members can refer to the trial balance statements when reviewing the proclamations.
6. Prior year's budget outturn, presented in the same format as the budget proposal	Yes	The prior year's outcome is not shown in the draft Budget Proclamation, but it is shown in the background documentation presented to Parliament with the draft proclamation.
7. Current year's budget (either the revised budget or the estimated outturn) presented in the same format as the budget proposal	Yes	As per element 6.
8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications	No	A separate report is issued as a background document for the draft budget. It shows

Item	Available	Source
used, including data for the current and previous year		macroeconomic performance and major directions for EFY 2006, total capital expenditures for previous years and a summary of expenditures by sector, but only for pro-poor sectors.
9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	This is contained in a budget policy document that accompanies the submission of the draft Budget Proclamation to the Regional Council.

Note: NA = not applicable.

Table 3.13 PI-6 Results

Score PI-6	Minimum requirements	Justification
C	The most recent budget documentation fulfils three to four of the eight information benchmarks	The draft Budget Proclamation for the FY 2013/14 (EFY 2006) budget itself met none of the information benchmarks, but the accompanying background documentation met three of the eight applicable benchmarks.

Source: Budget Proclamation for EFY 2006 (2013/14)

PI-7 Extent of unreported government operations

Annual budget estimates, in-year execution reports, year-end financial statements, and other fiscal reports for the public should cover all budgetary and extra-budgetary activities of central government, to allow a complete picture of central government revenue, expenditures across all categories, and financing. This will be the case if: (1) extra-budgetary operations (Regional Government activities not included in the annual budget law, such as those funded through extra-budgetary funds) are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports; and if (2) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor-funded projects) are insignificant or included in government fiscal reporting.

(i) Level of extra-budgetary expenditure (other than donor-funded projects) which is unreported, i.e., not included in fiscal reports)

The budgets of autonomous bodies are included in the proclaimed budget of SRG, and their in-year and end-year actual expenditures are reported through IBEX. The spending of non-tax revenues collected and retained by BIs (permissible in the case of health sector–related BIs) has to be included in the proclaimed budget. Revenues collected in excess of the approved spending thereof must be surrendered to SRG's Consolidated Treasury Account (CTA). If BIs want to spend some or all excess revenues they need to request for a supplementary budget.

Some external resources are channeled to SRG through MoFED and sector ministries and thus, in effect, are domestic resources from SRG's point of view. Analytically though, it is easier to consider these under dimension (ii).

(ii) Income/expenditure information on DP-funded projects which is included in fiscal reports

Channel 1a funding (MoFED to BoFED): As noted in Chapter 2, considerable DP funding is provided to Somali Region through so-called Channel 1a programs, the spending under which is captured in the Federal Government's Budget Proclamation and budget execution reports, and are thus not relevant to this dimension. The exception is the partially World Bank–funded General Education Quality Improvement Program (GEQIP), which is proclaimed in the SRG budget, partly because of its close relationship with UNICEF through the school feeding component of GEQIP.

Channel 1b (DPs direct to BoFED): The spending of these funds is included in the proclaimed budgets of SRG. In relation to the total SRG budget, the funding is small: 3.3 percent, 5.8 percent, and 2.9 percent for FYs 2010/11, 2011/12, and 2012/13, respectively (budgeted amounts of ETB 40 million, ETB 89 million, and ETB 52 million, respectively, for 2010/11-2012/13 and ETB 43 million for 2013/14).[6] Much of the funding is provided by the UNEXCOM agencies (UNICEF, UNDP, UNFPA), of which the bulk is from UNICEF. These figures include the GEQIP component of Channel 1a funding referred to previously.

MoFED is fully aware of the funding, and may reflect this in estimating the size of the block grant it makes to BoFED. The transparency of the use of Channel 1b funds should be at least the same as if the funding had been provided entirely through the block grant. This is not the case, however, as the actual spending was not reflected in the budget execution reports generated through IBEX, as the respective projects and programs were not using IBEX codes in EFY 2005.

The reports are prepared by the Aid Coordination Unit in BoFED, being mainly for internal use only and not available to the public. Actual expenditures therefore constitute unreported EBOs. If IBEX codes were used, some of the expenditure might turn out to be recurrent expenditure rather than capital expenditure. Reporting on actual expenditure using IBEX codes started under the 2013/14 budget, but only for UNICEF funded projects under the Health Bureau.

Channel 2 funding (DPs to sector bureaus via sector ministries (2a) or directly to sector bureaus (2b). The planned and actual spending of the funds channeled through sector ministries at the federal level is included in their proclaimed budgets and budget performance reports. The planned and actual spending of sector bureaus financed directly by DPs is not included in SRG proclaimed budgets and budget performance reports and therefore represent unreported EBOs.

Information provided by the Bureau of Health on all the DP funding it had received during FYs 2011/12 and 2012/13 indicates that a substantial component represents Channel 2b-type funding: ETB 60 million out of ETB 132 million. The largest DPs in this category are World Health Organization (WHO) and Global Alliance for Vaccines Initiative (GAVI), which account for about 80 percent of the funding.[7]

Channel 2b and Channel 3-type operations take place in the education sector, the main example being the USAID-funded Integrated Quality Primary Education Program (Channel 3).

[6] The relevant CoA codes are 2000–2999 for External Assistance and 3000–3999 for External Loans (which are not loans to SRG but loans to the Federal Government, the proceeds then being disbursed to Regional Governments).

[7] The other DPs are TB Glaxo (associated with a large multinational pharmaceutical company), EOS, IUCD, Blood Bank, Center for Disease Control (a U.S. Government agency), Implanon, Imperial College of London, and Children Investment Fund Foundation (Canada).

Expenditures are more than ETB 3 million a year, the main feature being the construction of a teacher's training college. USAID-funded projects are well-known for the non-transparency of their operations in terms of annual planned and actual expenditures. The bilateral unit in MoFED that deals with USAID-funded projects indicated to the team (by phone) that it has no idea of how much USAID plans to spend and actually spends in each region per year. USAID is one of the largest DPs operating in Ethiopia, with a planned budget of US$1.5 billion over five years.

As of January 2014, 89 NGOs (of which 35 are international) were implementing 153 projects in Somali Region, with a total project budget of Br 2.7 billion. Some NGOs are funded by USAID through an agreement with MoFED. Global Fund operations are now mainly implemented by NGOs. NGOs operate in the same sectors that SRG is operating in, particularly health, education, and water, so it is important the NGOs and SRG coordinate with each other in order to avoid duplication of effort and waste of resources, the coordination needing to improve between NGOs and sector bureaus on the one hand, and between sector bureaus and BoFED on the other.[8] NGO projects do not need to be reflected in the proclaimed budgets of SRG, unless they are in the form of contractual service delivery agreements with government, but their operations should be sufficiently transparent so that they inform the planning and budgeting efforts of the government.

BoFED has recognized this and has taken steps to strengthen the transparency of NGO operations. Since FY 2011/12, NGOs have been required by NGO Coordination Guidelines issued by SRG that year to register with BoFED, sign memorandums of understanding (MOUs) with the relevant sector bureaus, and to report on their annual operations to BoFED. The NGO Coordination Unit in the President's office was shifted to BoFED in FY 2012/13. BoFED provided the team with a report on NGO operations during 2013. A government-NGO review held in Jijiga on February 25–26 2013 identified that there was still some way to go in terms of making the new arrangements work effectively.

The unreported EBOs that BoFED is aware of, namely the ones funded through Channel 1b, are only a small component of total government expenditure, less than 5 percent. But, as indicated by the Bureau of Health (BoH) and the Bureau of Education (BoE), there are unreported EBOs that BoFED is not aware of, as they are funded through Channel 3 and sector bureaus are not required to report to BoFED on them (and, in any case, may have less than full information on them). The table provided by BoH to the team indicate that such unreported EBOs may be substantial, and they may be present in other bureaus.

Ongoing and planned operations:

- In effect from the beginning of FY 2013/14, some Channel 1b DPs (mainly UNEXCOM agencies) operations are being captured in IBEX through the use of conversion codes, though only at a very broad level of economic classification.
- BoFED has taken steps to strengthen the reporting by NGOs on their operations.

[8] A presentation made by the External Resource Mobilization Core Process to stakeholders in January 2012 outlined the disadvantages of the status quo with regard to NGOs and the benefits to be gained by strengthening NGO reporting requirements. The presentation was made in the context of the governmentwide BPR exercise.

- The BoE recently signed MoUs with two foreign NGOs (Save the Children Fund and DVV International) for two new projects.

Table 3.14 PI-7 Results

Score PI-7 (M1)	Minimum Requirements	Justification
D+ ↑		
(i) A	The level of unreported extra-budgetary spending (other than donor-financed projects) is insignificant (<1% of total expenditure).	The expenditures of autonomous agencies are covered in the SRS Budget Proclamations. The spending of non-tax revenues collected and retained by BIs has to be covered in Budget Proclamations.
(ii) D↑	Information on DP-funded projects and programs included in fiscal reports is seriously deficient.	Channel 1b funding (DPs to BoFED) is captured in SRS Budget Proclamations but not in SRS budget execution reports; the unreported expenditure was 2.9% of total SRS budgeted expenditure in 2012/13. Channel 2b funding (DPs to sector bureaus) is not captured in SRS Budget Proclamations and budget execution reports, the amount not being known with certainty. NGOs are now reporting to BoFED, though incompletely and the reports are not available to the public. The extent of Channel 3 funding (DPs straight to projects) is not known.

Sources: Information provided by External Resource Mobilization, Co-ordination and Management Core Process in BoFED, and BoH at meetings; table from BoH on amount of funding being provided by DPs directly to it; general ledger trial balance on expenditures and advances under UNICEF program in Somali Region; summary of UNEXCOM program for FYs 2011/12–2013/14; summary of NGO ongoing projects in Somali Region; and trial balance sheets and expenditure reports generated by IBEX in relation to expenditures financed by external assistance and loans.

PI-8 Transparency of intergovernmental fiscal relations

(i) Transparency and objectivity in the horizontal allocation of transfers to woreda governments

Based on the principles of fiscal federalism, subsidy transfers are made from the Federal Government to SRG and from SRG to the rural woreda and city administration governments through a system of nonearmarked block grants and earmarked grants for approved capital projects. The SRG allocated block grants of ETB 0.96 billion, ETB 1.15 billion, and ETB 1.27 billion to the 68 rural woredas in FYs 2010/11, 2011/12, and 2012/13 (EFYs 2003–05), respectively. It allocated ETB 61.5 million to the four city administrations in 2011/12 (information not available for the other two years).

The SRG allocated earmarked special grants to the rural woredas and city administrations over the same period. This amounted to ETB 15 million and ETB 60 million to rural woredas and city administrations, respectively, in FY 2011/12 under the Urban Development Special Grant.[9]

[9] The MDG Fund, which was established by MoFED in EFY 2004, is distributed to basic services, as delivered by the relevant sector bureaus: education, technical and vocational education, health, rural roads, water resources, and agriculture. The funds may be used only for capital expenditures. These take place in woredas

The block grants are distributed using formulae that have been operational in the region since FY 2002/03 (EFY 1996). The first formula used was based on a "development gap" approach and was in effect up to FY 2010/11 (EFY 2003). The variables used in the formula and the weights assigned to each variable were: (1) population index, weighted 50 percent; (2) development index, weighted 40 percent; and (3) revenue index, weighted 10 percent. The nature of the variables used and the weights assigned were somewhat subjective and did not take into sufficient consideration the strategic sectoral needs of the region.

A new formula was therefore introduced in FY 2011/12 (EFY 2004) and was used to estimate the size of the block grant to each woreda in conjunction with the EFY 2004–2006 (FYs 2011/12, 2012/13, and 2013/14) budgets. The formula uses a needs-based or unit-cost based approach, as used in some other regions of Ethiopia, including Amhara. The formula emphasizes the minimum basic needs of the population and allows local governments to decide on how best to spend their financial resources on basic service provision. Unit cost is simply a ratio that expresses the relation of service beneficiary and financial input, such as recurrent cost per student or per patient. Multiplying the unit cost by the number of beneficiaries by type of service (e.g., primary education) results in the estimation of total recurrent expenditure for each type of service. Projections in the future mainly involve projections of service beneficiaries (e.g., primary school students) and of the unit costs of providing the service (e.g., text book prices), thus enabling calculation of the future recurrent expenditure components of block grants. The new formula will be in place for three years and then updated.

The capital budget component of the block grant is based on the estimated sectoral infrastructure deficit of the strategic sectors using various indices that include the following:

- Education: number of schools, class rooms, and school age population;
- Agriculture: number of farming households, number of farmer training centers, number of veterinary clinics, and number of livestock served in the post;
- Health: population, number of health centers, and number of health posts;
- Water: Potable water supply, water coverage percentage, uncovered people percentage;
- Road: population, area (square kilometers), road length (kilometers), road density, an distance from the center;
- Revenue index: the percentage of revenue collected in each woreda from the total sum of revenue collected from all woredas.

Based on these six indices, the capital budget need of each woreda is estimated and allocated; the larger the deficit, the larger the capital budget component of the block grant.

Any formula for the horizontal allocation of fiscal transfers to lower levels of government requires accurate and transparent underlying data in order for it to be credible. In the case of the formula used by SRG, the numbers of service beneficiaries (e.g., primary school students) need to be accurate. The accuracy of the data was an issue at the time of the regional PEFA assessments conducted in 2007. BoFED, in conjunction with woreda governments, is trying to ensure the data are accurate, including through the use of a global positioning system (GPS).

(ii) Timeliness of reliable information to woreda governments on their allocations

on the basis of needs and priorities. There are no separate criteria for allocating the resources according to woreda, and thus the allocation of the MDG Fund is not relevant to PI-8.

Almost 80 percent of the SRG budget is funded through the Federal Government block grant. Prior to the beginning of the budget preparation cycle in February, MoFED provides initial indications of the amount of the block grant to each Regional Government. Based on this, SRG provides to rural and city administration woredas initial indications of the amount of block grant funding to each. The woredas and city administrations then start preparing their budgets in line with the budget preparation directive sent to them by BoFED.

According to the Plan and Budget Core Process Owner of BoFED, the initial and actual final ceilings dispatched to woredas are virtually the same (any difference reflecting decimal point rounding, the amount of which, if a shortfall, is taken out of the contingency). Woreda councils approve the draft budgets at the beginning of July on the basis of the initial indications of block grant funding provided by BoFED (as evidenced by tables of initial and final block grants provided by BoFED to the team for the EFY 2005 budget).

(iii) Extent of consolidation of fiscal data

Budget preparations and reporting systems are the same in rural and city administration woredas as at the Regional Government level and are based on sectoral and functional categories. BoFED produces a consolidated regional and rural woreda government and city administration report (i.e., SRS report) through IBEX based on the estimated (unaudited) budget outturn within 10 months of the end of the fiscal year, usually well within 10 months. At the time of the PEFA assessment, the consolidated report for FY 2012/13 (EFY 2005) had been finalized by BoFED and was being audited.

Table 3.15 PI-8 Results

Score PI-8 (M2)	Minimum requirement	Justification
A		
(i) A	The horizontal allocation of at least 90% of transfers from Regional Governments to woreda governments is determined by transparent and rules based systems.	Starting with the EFY 2004 (FY 2011/12), block grants have been allocated to woredas on the basis of a new and more transparent unit-cost-based formula. Block grants comprised 92% and 95% of total transfers to woredas in the EFY 2004 and EFY 2005 budgets, respectively, the remainder being the Urban Development Special Grant, the allocation of which is nontransparent.
(ii) A	Woreda governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budget preparation process.	MoFED provides initial allocations of the block grant to SRG for the next FY prior to the beginning of SRG's budget preparation process (EFY 2005 in terms of this assessment). In turn, SRG provides woredas initial allocations of its block grant to them at the beginning of their budget preparation process. The information is reliable, based on past experience, and woreda councils approve the draft budgets of the woreda governments on the basis of the initial allocations.

Score PI-8 (M2)	Minimum requirement	Justification
(iii) A	Fiscal information (ex-ante and ex-post) that is consistent with Regional Government fiscal reporting is collected for at least 90% of woreda government expenditures and consolidated into annual reports within 10 months of the end of the fiscal year.	Fiscal data is collected through IBEX from all woredas and city administrations and consolidated by BoFED into annual reports within 10 months of the end of the FY. By the time of the team's visit in May, 2014 the consolidated report for FY 2012/13 (EFY 2005) had been finalized by BoFED.

Sources: Planning and Budgeting Department and Accounts and Finance Department of BoFED, including tables showing initial and actual allocations of the block grants between woredas.

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

This indicator assesses the extent to which the central government monitors the fiscal position of autonomous government agencies (AGAs) public entities (PEs) and sub-national governments.

(i) Extent of central government monitoring of financial position of public enterprises

SRG has four public enterprises:

1. Somali Water Works Construction Enterprise
2. Construction Design and Supervision Enterprise
3. Somali Road Construction Enterprise
4. Somali Seed Enterprise

Most of the enterprises are new. The enterprises generate their own revenue, can borrow from banks, and do not receive any government subsidy. The only government financial contribution is in the form of initial capital. They do not pay dividends to SRG but pay taxes.

In terms of governance, the enterprises are accountable to governing boards, consisting of senior SRG officials. Each board approves annual work plans and evaluates quarterly and annual performance reports and audited annual financial statements submitted to it. The board of directors is accountable to the head of the SRS (the regional president).

The enterprises submit annual financial reports to BoFED. There is no loan or guarantee provided by the Regional Government for the public enterprises.

(ii) Extent of monitoring of the fiscal position of sub-national governments

Woredas and city administrations have balanced budgets and cannot borrow. Their payables and financial positions are monitored by BoFED through the receipt of quarterly financial reports. Monitoring is facilitated by the single pool system at the woreda government level, whereby WoFEDs conduct all financial operations on behalf of the woreda sector offices. BoFED may provide temporary advances to woreda governments against their next year budgets if they are falling short of their revenue targets (account codes 4205 and 4207; ETB 5.2 million was provided in such advances in FY 2012/13, as indicated in the trial balance sheet).The contingency budget can also be used to address revenue shortfalls of sub-national government (the contingency budget for FY 2012/13 was ETB 153.2 million).

Table 3.16 PI-9 Results

Score PI-9 (M1)	Minimum requirements	Justification
A		
(i) A	All major AGAs and PEs submit fiscal reports to the Regional Governments at least six months financial report, as well as annual audited accounts, and the Regional Government consolidates fiscal risk issues into a report at least annually.	There is no consolidation of fiscal information of public enterprises, but with so few of these, formal consolidation is perhaps not necessary. BoFED receives the annual audited financial statements from these enterprises.
(ii) A	The net fiscal position of woreda governments is monitored at least annually for all governments and the Regional Government consolidates overall fiscal risk into annual reports.	Woredas may incur unexpected resource shortfalls, which the Regional Government may try to offset, for example through use of its contingency fund and/or temporary advances from BoFED for repayment next year. The in-year reporting system combined with the single pool system enables zone administrations (that fall under regional bureaus) to keep track of the financial position of all woreda governments.

Sources: BoFED, Trial Balances EFY 2005.

PI-10 Public access to key fiscal information

Transparency will depend on whether information on fiscal plans, positions, and performance of the government is easily accessible to the general public or at least interested groups.

Extraordinary creativity has been demonstrated in disseminating budget information to communities and transparency is good, much higher than a few years previously. Some of the six benchmarks listed below are not met as Internet connectivity is a major constraint, though this is beyond the control of BoFED.

Table 3.17 Status of Public Access for P-10

Elements of information for public access	Availability and means
Annual budget documentation made available when submitted to legislature	*Not met.* The budget documentation is not available until the draft Budget Proclamation has been approved by the Regional Council, at which point it is published. The main elements are aired on radio. The budget speech is publicized on radio and TV but not in document form, and details on the proposed budget are not provided. After the budget is passed by the Regional Council, information on the budget is posted on big billboards in major towns, as witnessed by the team in Jijiga.
In-year budget execution reports made available within one month of their completion	*Not met*. Budget execution reports are not available to the public. BoFED's website does not contain budget execution reports.
Year-end financial statements made available within six months of completed audit	*Not met*. The audited year-end financial statements are not available to the general public.
Availability of external audit reports to the public	*Not met*. The audit reports prepared by ORAG are not available to the public. ORAG does not have a website.
Contract awards with value above US$100,000 (approx.) published at least quarterly	*Met*. Contract awards are publicized via notice boards.
Availability to public of information on resources for primary service units	*Met*. Woredas disclose the allocated budget as well as actual expenditures through posters to woreda sector offices and the public at large. Budgets are posted at accessible facilities including schools, health centers, and farmers' training centers. Some woredas have applied innovative information dissemination techniques by writing the budget figures on livestock skins (camels, goats, and others).

Table 3.18 PI-10 Results

Score PI-10	Minimum requirements	Justification
C	The government makes available to the public one of the six listed types of information.	Two of the six information types are met.

3.4 Policy-Based Budgeting

The indicators in this group assess to what extent the central budget is prepared with due regard to government policy. Table 3.19 summarizes the assessment.

Table 3.19 Policy-Based Budgeting Performance Indicators

No.	C (i) Policy-based budgeting	Score
PI-11	Orderliness and participation in the annual budget preparation process	A
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	D+

PI-11 Orderliness and participation in the annual budget process

This indicator reflects the organization, clarity, and comprehensiveness of the annual budget process. Dimensions to be assessed are: (i) existence and adherence to a fixed budget calendar; (ii) clarity and comprehensiveness of and political involvement in the guidance on the preparation of submissions (budget circular or equivalent); and (iii) timely budget approval by the legislature or similarly mandated body (within the past three years).

(i) Existence of and adherence to a fixed budget calendar

As with other regions, SRG follows the Federal Government guidelines with regard to budget preparation, as described in the *Federal Budget Manual* (January 2007) and consistent with the Financial Administration Proclamation of 2003, as amended in 2009. A directive issued in 2011 on the basis of the amendment provides for the following:

- *February 8*: Notification by BoFED to woreda administrations of their provisional ceiling for the block grant from BoFED, based on the provisional ceiling provided by MoFED on its block grant to SRS. The actual ceiling is not known until the Federal Government budget is approved by the national Parliament at the end of June.
- *February 8:* Issue by BoFED of the first Budget Call circular to BIs on the basis of which BIs prepare their budget request (first stage of budget preparation, as explained in dimension (ii). The deadline for submission to BoFED of budget requests is March 22, allowing six weeks for submission. Most bureaus submit their requests on time.
- *March 23–May 22*: Discussions between BoFED and BIs on the budget request, resulting in agreement on the baseline estimates and proposals for “new spending” (see dimension (ii)) and approval by Cabinet of these. Approval thus constitutes spending ceilings for each BI within which they then prepare their detailed estimates according to a second circular issued by BoFED at the end of the process.

- *May 23–June 8:* The BIs then prepare detailed estimates to fit within these ceilings and submit to BoFED. Much of the estimation work has already been conducted during the initial phase of budget preparation. BoFED then prepares the draft Budget Proclamation. The Cabinet discusses and approves this and submits it to the RC by June 8. The RC is supposed to approve by July 7 (end of the FY). The Federal Government Budget Proclamation is approved by the Federal Parliament by the end of June. Any change in the block grant allocation to BoFED from the provisional one allocated in February requires BIs to adjust their draft budgets accordingly. Usually any such changes are minor, so BIs can make the adjustments quickly in time for RC approval by July 7.

The Bureau of Health Planning and the Budgeting Department have few issues with the timetable, the budget preparation system having been in place for several years.

(ii) Guidance on the preparation of budget submissions

BIs follow the "Guidelines for Public Bodies Preparing Budget Requests" contained in the *Federal Budget Manual* (2007). Budget preparation is a two-stage process, as indicated in the budget calendar. First, bureaus are required to prepare their budget requests by filling out standard format budget preparation forms (annex H of the *Federal Budget Manual*). The forms provide for the detailed estimation of recurrent and capital expenditures for the coming year on the basis of the expected outturn for the current year; in other words, on the basis of the existing levels of services. They also provide for prioritized and well-justified proposals for new capital projects.

Following the submission of budget requests to BoFED and subsequent discussion of these, the regional cabinet decides on the proposals by BIs for new spending, as perhaps amended during the earlier discussions between BoFED and the BIs. Considerations include the identifying of matching savings and the availability of other fiscal space. BoFED then sets firm ceilings for preparation of the detailed budget estimates (second stage of budget preparation).

The BoH met by the team had no problem with the clarity of the budget preparation guidelines.

(iii) Timely budget approval by the legislature

In the past three years, the RC has approved the Budget Proclamation prior to the start of the next Ethiopian financial year (July 7), according to information provided to the team at a meeting with the chairperson of the Budget and Finance Committee.

Table 3.20 PI-11 Results

Score PI-11 (M2)	Minimum Requirements	Justification
A		
(i) A	A clear annual budget calendar exists, is generally adhered to, and allows regional bureaus enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.	Sector bureaus met say the calendar, well-established after several years, provides sufficient time for them to prepare their budgets.
(ii) A	A comprehensive and clear budget circular is issued to regional bureaus, which reflects ceilings approved by	The budget is prepared in two stages. First is preparation of budget requests using standard formats for projecting spending next year under

Score PI-11 (M2)	Minimum Requirements	Justification
	cabinet (or equivalent) prior to the circular's distribution to MDAs.	existing service levels and for proposing "new" spending. The cabinet reviews the proposals and agrees to the ceilings to be adhered to for the second stage, the detailed preparation of budget estimates (second stage).
(iii) A	The legislature has, during the past three years, approved the budget before the start of the fiscal year.	This is required by the Financial Administration Law. The RC approved the draft Budget Proclamation before the end of each of the past three fiscal years.

Source: BoFED Planning and Budget Department; copy of Financial Calendar Directive, FYI 2010/11; Budget Proclamations for FYs 2011/12 and 2013/14; , meetings with planning and budgeting staff in Bureaus of Education and Health; *Federal Budget Manual*; Committee for Budget and Finance (Regional Council).

PI-12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting

This indicator looks at the link between budgeting and policy priorities from the medium-term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process.

(i) Multiyear fiscal forecasts and functional allocations

Section 6 of the Financial Calendar Directive (2010), based on the *Federal Budget Manual*, indicates that Regional Governments, as with the Federal Government, should prepare a medium-term macroeconomic and fiscal framework (MEFF), which would show realistic projections of the resource envelope (regional revenues and transfers) available to finance expenditure. This is not yet being done. Reliable revenue forecasts are a prerequisite for a meaningful MEFF, but, though three-year revenue forecasts are prepared by BoFED in consultation with the revenue bureau, accurate forecasting remains a challenge, due to capacity constraints and the mainly agricultural economic base.

A medium-term expenditure framework (MTEF), showing projections of functional allocations, is also not yet in place. This is because of the following reasons:

- The MEFF, which would provide the aggregate spending ceiling for the MTEF, is not yet in place;
- Sector bureaus are not yet preparing rigorous forward expenditure estimates (FEEs), a prerequisite for an MTEF. The FEEs (also known as baseline estimates) are projections of expenditures under existing service delivery levels and include the recurrent costs implied by committed capital expenditures;
- Sector bureaus are not yet preparing fiscally realistic, costed, and well-prioritized and sequenced strategic plans, which would form the basis for introducing "new" spending each year as part of the budget preparation process (i.e., expanded levels of existing services and/or introduction of new services);
- A program budgeting framework is still being rolled out at federal level within the Federal Government's MTEF and it is better to wait until this exercise has been completed before rolling out to regions. Nevertheless, a program budgeting framework

is being piloted in some regions (e.g., Southern Nations and Nationalities Peoples' Region, SNNPR);

- Capacity constraints exist. As with all aspects of PFM systems, good institutional and human resource capacity are prerequisites for the development and operation of robust MEFFs and MTEFs. SRG has many capable staff members, but it is questionable whether there are enough of them to spare for MEFF and MTEF development.

(ii) Scope and frequency of debt sustainability analysis

This dimension is not applicable, as Somali region does not borrow on formal terms (apart from temporary overdrafts) and has no formal debt obligations.

(iii) Existence of costed sector strategies

Sector strategies are prepared at the Federal Government level consistent with the Federal Government's GTP, covering FYs 2010/11–2014/15. The GTP follows on from the previous plan, covering 2006–2010. SRS's version of the GTP is a "Plan for Enhanced Pastoral and Agro-pastoralist Livelihood and Reversing Poverty." Sector strategic plans are derived from this. Regional strategies cover woreda governments as well as Regional Governments, as most public services are delivered at woreda level. This dimension is therefore evaluated at regional state level.

The BoE provided the team with a copy of its Education Sector Strategic Plan, consistent with the GTP for Somali region and covering the same time period. Education sector spending comprised 16 percent of total SRS expenditure in FY 2012/13 (EFY 2005). The strategic plan is costed, but explicitly for capital expenditure only, for the most part. A recurrent expenditure estimate is provided but is not disaggregated by economic classification and does not include wages and salaries, except in aggregate. The plan contains no analysis of prioritization and sequencing and capacity constraints; personnel requirements are mentioned, but it is not stated how these will be met. The future recurrent costs implied by the envisaged capital projects contained in the plan are not explicitly identified.

In practice, the strategic plan is a broad framework, under which there are sub-sector plans that are being implemented through projects such as GEQIP, the full costing of the overall strategic plan being developed during the course of implementation of such projects. There are merits to this, given the uncertainties attached to a full multiyear costing exercise, but nevertheless a fully costed overall plan provides a more robust framework for the development of the more detailed sub-sector plans.

The BoH operates through a five year Health Sector Strategic Plan (2010/11-2014/157) consistent with the GTP, and succeeding the previous five-year plan. The team was not able to see a copy of this. Health sector spending comprised 11 percent of total SRS expenditure in 2012/13.

(iv) Linkages between investment budgets and forward expenditure estimates

Capital projects included in the proclaimed budget are selected on the basis of sector strategies, themselves based on the GTP. The "Guidelines for Preparing the Capital Budget" (contained in the 2007 *Federal Budget Manual*) stipulate that a public body should assess the recurrent budget implications of new capital projects before it includes them in its Budget request; the templates in the Budget Call include a form for this purpose. The establishment in FY 2011/12 of the MDG grant for funding capital projects in regions has reinforced this through the influence of the DPs helping to fund the grants. In the education sector, the linkage between investments and recurrent costs is implicit, as the investments are mainly driven by enrollment projections, which imply associated recurrent costs based on norms such as pupil-teacher ratios and pupil-textbook ratios.

Forward spending estimates are not yet formally prepared by SRG, as budget preparation does not yet have a medium-term perspective. But projections of the recurrent cost implications of capital projects help to inform annual budget preparation.

Table 3.21 PI-12 Results

Score PI-12 (M2)	Minimum Requirements	Justification
D+		
(i) D	No forward estimates of fiscal aggregates are undertaken.	The Federal Government's MEFF and MTEF have not yet been established in SRG.
(ii) NA	Scope and frequency of debt sustainability analysis	The Regional Government does not borrow and has no debt liabilities.
(iii) C	Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure.	Education and health sector strategies are in place, consistent with GTP. The education sector strategy is partially costed and may be fiscally unrealistic. The team was unable to see the health sector strategy, but the same story probably applies. Education and health sector expenditure comprise 26% of total SRS expenditure.
(iv) C	Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.	Investment decisions are based on sector strategies. Recurrent cost implications are partly taken into account during annual budget preparation, but a system of forward budget estimates is not yet in place.

Sources: BoFED Budget and Planning Department; Bureaus of Education and Health; GTP; *Federal Budget Manual*; Education Sector Strategic Plan, 2010/11-2014/15 (EFYs 2003-07); BoE Operating Plan for 2012/13 (EFY 2005).

3.5 Predictability and Control in Budget Execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

Table 3.22 Predictability and Control in Budget Execution Performance Indicators

No.	C (ii) Predictability, Control, and Budget Execution	Score
PI-13	Transparency of tax payer obligations and liabilities	B+
PI-14	Effectiveness of measures for tax payer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for the commitment of expenditures	A

No.	C (ii) Predictability, Control, and Budget Execution	Score
PI-17	Recording and management of cash balances, debt, and guarantees	B
PI-18	Effectiveness of payroll controls	C+
PI-19	Competition, value for money, and controls in procurement	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	B
PI-21	Effectiveness of internal audit	B

PI-13 Transparency of taxpayer obligations and liabilities

The constitution of the Federal Democratic Republic of Ethiopia (FDRE) clearly defines the power and distribution of taxation responsibilities of the Federal Government and regional state governments (Articles 96–98). The SRA, which was established by Proclamation no. 34/2002 (EFY 1994) was reestablished by Proclamation no. 210/2012 (EFY 2004). Initially it was established as an authority with limited power and responsibility, but it now has a wider scope of responsibilities, including investigating tax offenses, organizing its own prosecution and investigation units, and participation of the General Manager in the Regional Executive Council. It is accountable to the President.

The SRA is responsible for administering the tax and non-tax revenues of the region. It has three core processes: (1) collection and data measurement; (2) education and customer handling; and (3) enforcement. The SRA has 137 employees at regional level and 940 staff in 68 woreda and 4 city administration branches. The number of staff has increased significantly in recent years in recognition that understaffing was inhibiting effective revenue administration.

The tax assignments between the Federal Government and SRG are summarized in table 3.23.

Table 3.23 SRG Revenue Assignments

SRG revenues (Article 97)	• Taxes on incomes of regional and private sector employees • Fees for self-rectory land rights (land-use tax, both urban and rural) • Taxes on the incomes of private and unincorporated farmers • Taxes on the profits of resident merchants • Sales tax or turnover tax • Water transport fees within the region • Rental incomes on Regional Government houses and properties • Taxes on Regional Government enterprises (including excise tax) • Regional license fees • Royalties on the use of forest resources
Revenues shared between the Federal Government and SRG (Article 98)	• Taxes on jointly owned enterprises • Taxes on corporation profits and shareholder dividends • Taxes on large scale mining, petroleum, and gas operations

The Value Added Tax (VAT), which was introduced after the Constitution was written, is shared between the Federal Government and the regions as follows:

- VAT assessed on incorporated bodies with a head office in Addis Ababa is assigned to the Federal Government;
- VAT assessed on incorporated bodies with a head office in Somali Region is split 70:30 between the Federal Government and SRG;
- VAT assessed on sole traders is assigned wholly to SRG;
- Recently, excise tax on Chatt was assigned to SRG.

There are no revenue-sharing arrangements between SRG and woreda governments. Revenues collected by woreda offices belong to SRG. In the interests of efficiency, such revenues may be retained by the woreda offices with the full understanding that the block grant from SRG will be adjusted accordingly.

(i) Clarity and comprehensiveness of tax liabilities

The existing tax laws implemented by the SRG[10] are: (1) Income Tax Proclamation no. 286/2002 (EFY1994) for all taxes on income, salaries, capital gain, and profits, and Income Tax Regulation no. 78/2002, as amended by Regulation no. 164/2009; (2) Proclamations no. 47/2004 (EFY 1996.) for Agricultural Income Tax and Rural Land Use Fee; (3) Stamp Duty and Sales Proclamation 110/1998, as amended by Proclamation no. 612/2009; (4) Proclamation no. 285/2002 (EFY 1994) for VAT on goods and services, as amended by Proclamations no. 609/2008 (EFY 2001), and Regulation no. 79/2003 (EFY1995); (5) Excise Tax Proclamation no. 307/2002, as amended by Proclamation no. 610/2009; (6) Livestock Sales Tax Proclamation no. 126/2013 (EFY2005); and (7) the Chatt Sales Tax Proclamation no. 125/2013(EFY2005)

The legislation is reasonably comprehensive and clear, with clearly stated discretionary powers for specified officials within or above clearly stated thresholds, though the criteria for exercising of those powers leave room for interpretation. Under the Income Tax Proclamation, the general manager of SRA has the discretionary power, in consultation with the regional executive committee, to waive tax liabilities less than ETB 50,000 in cases of “grave and unavoidable hardships,” the definition of these not being explicitly specified. Similarly, the head of BoFED can waive tax liabilities up to ETB 100,000. The approval of the regional cabinet is required for waivers of tax liabilities greater than ETB 100,000.

Similar discretionary powers are provided in the case of the turnover tax (section 39) and the land-use fee and agricultural income tax (e.g., because of drought). Presumptive taxation (businesses with less than ETB 100,000 turnover a year) implies discretionary powers by definition, as, in the absence of books of account, the SRA has to make an estimate of turnover and reach agreement with the business on this.

The team visited the Deputy Secretary of the Chamber of Commerce and Sector Associations (CoCSA) of the region, established only in October 2013, and discussed tax administration issues related to the tax system in the region. The Deputy Secretary considered that the tax laws were clear.

[10] Except for agricultural income tax, livestock sales tax, and Chatt sales tax, the region uses federal tax laws and regulations including directives for penalty waiver.

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

In order to enhance awareness of the regional taxpayers and improve relations with taxpayers, the SRA runs television and radio programs and uses explanatory brochures, pamphlets, flyers, and monthly bulletins in Amharic and Somali that are made available to businesses and the general public, via the SRA branches. In addition to posting all tax rules and regulations on the srs.revenue.et website, billboards are used to create awareness among the public at large and the taxpayers in particular. Suggestion boxes are also used to collect feedback information regarding service delivery. A command post has been established to respond to taxpayer requests through telephone calls. Quarterly meetings with CoCSA have been arranged to resolve differences and create a conducive atmosphere for taxpayers. A block (blocks of residences) management system has also been introduced to help SRA increase taxpayer registration, improve taxpayer participation and partnership, and thereby encourage voluntary compliance. The CoCSA confirmed that SRA's education program is improving taxpayer relations and compliance.

(iii) Existence and functioning of tax appeals mechanism

As in the other regions, the SRG tax proclamations provide for appeals related to the four major taxes (Income tax, VAT, Turnover Tax, and Excise Tax) and the mechanism of appeal is the same for each type of tax (details are in the Income Tax Proclamation and summaries in the other tax proclamations). The appellate procedure was put in place only in September 2013 (EFY 2006).

The appellate processes have three tiers:

- *Review Committee (RVC)*: The RVC is an ad-hoc committee within SRA and may be formed at branch level. An RVC has five members, appointed by the respective branch head and approved by the General Manager of SRA. The Chairman of an RVC is the deputy branch head. An RVC's responsibility is to examine taxpayer queries over tax assessments and, where appropriate, recommend waivers of assessed tax liabilities and any associated penalties and interest charges. Any taxpayer has 10 days to appeal to the RVC against an assessment. As in the other regional states, many queries relate to presumptive taxation,[11] since by definition, queries are likely to be higher under this tax scheme than other taxes. Other queries emanate from inadequate understanding of the tax laws and regulations, such queries being resolved by the RVCs. Decisions by the RVC should be passed within 10 days.

  What is unique in Somali Region is that elders in every residential block are asked to intervene whenever taxpayers of that block complain about their tax assessments. During 2013/14 (EFY 2006) to date, out of the 95 complaints received by the RVCs, 55 were withdrawn on the advice of these elders.

- *Tax Appeals Commission (TAC)*: If a taxpayer is not satisfied with the way the RVC has addressed his or her request or complaint, he or she can go to the second tier, the TAC. The TAC is established at regional, rural woreda, and city administration level by guidelines introduced by BoFED and is institutionally separate from SRA. Members are from bureaus (BoFED, Trade, Industry, Justice, Police, Court, General Auditor, Women's Association, Youth Association) as well as from CoCSA (representing

[11] Presumptive Tax is based on estimations of the daily sales of category C taxpayers, (those who do not keep books of account).

taxpayers) and two members from institutions such as the university. The SRA serves as secretary to TAC and is also a member of TAC. The TAC is chaired by BoFED, but chairmanship is currently delegated to SRA. Submission of an appeal requires: (1) lodging within 30 days of receipt of the tax assessment notice or the date of the decision of the RVC concerning the tax assessment; and (2) deposit of 50 percent of the disputed amount with SRA. The TAC has the authority to uphold, reduce, or cancel the tax assessment. Complaints are supposed to be dealt within 10 days after the submission of the complaint, but sometimes it takes longer. A set of guidelines provide for the *modus operandi* of TAC.

- *Court of Appeal:* A taxpayer dissatisfied with the decision of the TAC may appeal to the Court of Appeal within 30 days of the decision on the grounds that the decision is erroneous in terms of the law. However, he or she must first deposit 100 percent of the assessed tax liability.

In practice, nearly all queries and complaints have been resolved at the RVC stage. The extensive taxpayer education campaign has helped reduce the number of queries, especially in FY 2012/13 (EFY 2005) during which the survey for the estimation of annual turnover of C category taxpayers was conducted.

According to the Tax Assessment Core Process Owner (department) in SRA, the 40 appellants to RVCs who were not persuaded by block elders to withdraw their complaints failed to convince the RVC of the validity of their complaints. They decided to settle their liabilities without further appealing to the TAC.

The TAC so far has received only two cases, and these are related to royalties.

Table 3.24 PI-13 Results

Score PI-13 (M2)	Minimum requirement	Justification
B+		
(i) B	Legislation and procedures for all taxes are comprehensive and clear, with fairly limited discretionary powers for the government entities involved.	The legislation and procedures for all taxes (listed in text) are clear and comprehensive, as confirmed by CoCSA. The limits of discretionary power are defined, but the criteria (extent of grave and unavoidable hardships) are open to interpretation.
(ii) A	Taxpayers have easy access to comprehensive, user friendly, and up-to-date information on tax liabilities and administrative procedures for all of the major taxes, and the SRA supplements this with active taxpayer education campaigns.	The SRA has prepared explanatory Multilanguage brochures, used mass media to educate taxpayers, conducted training programs, established a website (www.srs.revenue.net), and established a command post to respond to taxpayers requests.
(iii) B	A tax appeals system of transparent administrative procedures is completely	A tax appeals mechanism was established in September 2013, consisting of RCs

Score PI-13 (M2)	Minimum requirement	Justification
	set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness, or effective follow-up on its decisions need to be addressed.	established within SRA and TACs established outside SRA. Members of TAC include people outside SRG (e.g., CoCSA). The chairman of TAC is BoFED, so TAC is not completely independent of Government. All of the 95 complaints levied so far have been resolved at the community block level (55) or at RC level (40).

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

Effectiveness in tax assessment is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Effectiveness is determined by reviewing: (i) controls in the taxpayer registration system; (ii) effectiveness of penalties for non-compliance with registration and declaration obligations; and (iii) planning and monitoring of tax audit and fraud investigation programs.

(i) Controls in the taxpayer registration system

Under the current taxpayer registration system, every taxpayer in the country should have a taxpayer identification number (TIN). Somali Region is no exception to this rule, and in accordance to Article 44 of the Income Tax Proclamation, all people with potential tax obligations are required to obtain a TIN. An automated TIN registration system has been developed, deployed, and supported by a biometric finger printing–based system at the national level.

The challenge confronting the SRA now is to ensure that everyone (individuals and businesses) who should have a TIN does have a TIN. The associated checkpoints are as below.

- A business or a tradesman needs to have a TIN in order to obtain a business license from the Trade Bureau. The business licensing system is not electronically linked to the Standard Integrated Tax Administration System (SIGTAS), so SRA has to rely on Trade Bureau making sure that all business applicants have TINs.
- People and businesses opening bank accounts are required to have TINs and that prospective borrowers from banks have tax clearance certificates, which themselves require TINs. SRA has to check that banks are observing these requirements.
- Businesses registering for VAT must have TINs, which enables the SRA to check if businesses are compliant and check if employees of the business have TINs as well. The SIGTAS is used for VAT registration, so attempts to register for VAT without having a TIN would be blocked.
- Since September 2009), all taxpayers (current and potential—students for example) are required to have biometric fingerprints taken, which are then electronically converted into TINs through SIGTAS.

According to the General Manager (GM) of SRA, out of the region’s almost 30,000 tax payers

1,613 are category A and B taxpayers (subject to keeping books of records), the rest being category C taxpayers (presumptive tax taxpayers). Nearly 25,000 people are now registered for TIN, implying most of the category C taxpayers. According to the TIN register center, 15,208 fingerprints, including those of students, government employees, and business enterprises, have been collected and converted into TINs since September 2009. There are now eight online finger print services in SRA branches (three woredas, four city administrations, and one in the head office) where fingerprints are converted to TINs, which are then registered in SIGTAS. The bulk of the population live in the eight areas where SIGTAS is operational. Once a taxpayer is registered, a card containing the TIN and bearing a photo of the taxpayer is produced and issued as soon as possible. In the 56 woredas where SIGTAS is not operational mobile TIN registration boxes have been used to collect TIN applications. Soft copies of the registrations are later being inserted into SIGTAS.

(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations

Penalties are set out in the tax proclamations (based on those of the Federal Government) and appear to be high enough to have potential significant impact in the form of fines and prosecution. Section 7 of the Income Tax Proclamation provides for seizure of property in the event of default. Section 8 provides for administrative penalties. Section 9 provides for criminal penalties.[12] The Turnover, VAT, and Excise Tax Proclamations have penalties of similar scale and also levy interest charges on late payments. The penalty for late payment under the Agriculture Income Tax is 2 percent of the amount of tax due for each month the payment is in default, and criminal penalties are according to the penal code.

Penalties may be waived in whole or part by SRA on the basis of the penalty directive issued by the Ethiopian Revenue and Customs Authority (ERCA) and adopted by almost all regions. The penalty directive introduced through the Income Tax Proclamation no. 286/2010 (EFY 2003) permits penalties to be waived if taxpayers pay past tax due and associated interest and if they can provide sufficient justification for a waiver (e.g., a disaster causing loss of income). The incentive for complying with the Directive is the avoidance of heavier (due to accrued interest) penalties at a later date; the quicker people pay, the greater the proportion of waiver.[13] The government's revenue ends up being higher than in the absence of such a penalty waiver scheme. In general it appears that the Directive provides a sufficient incentive for payment and that revenue would be lower without it.

---

[12] (1) Penalties for late filing or nonfiling of tax declarations: ETB 1,000 for first 30 days, ETB 2,000 for next 30 days, and ETB 1,500 for each 30 days thereafter; (2) Penalties for understatement of tax in tax declaration: 10 percent of understated amount, or 50 percent if the understatement exceeds 25 percent of the tax required to be declared or exceeds ETB 20,000, whichever is smaller; (3) Penalty for late payment: 5 percent of unpaid tax on the first day after the due date, an additional 2 percent for each following month; (4) Penalty for failure to keep proper records: 20 percent of tax assessed and loss of business license if the failure continues for two years; (5) Penalty for failure to withhold tax: ETB 1,000 on manager/senior accountant for each instance of failure; (6) Failure to meet TIN requirements: a withholding agent who makes a payment to a person who has not supplied a TIN is required to withhold 30 percent of the payment and the person to pay a fine of ETB 5,000.

[13] Payments are made on a monthly basis for up to six months. The sooner the payment is made the higher the rate of the penalties waiver (from 20 percent up to 100 percent). If tax liabilities are paid within one month, the probability of a penalty waiver is 100 percent, if within two months up to 80 percent waiver, depending on the reasons forwarded by the taxpayer for not complying. SIGTAS is programmed to administer these waivers.

The Deputy Secretary of CoCSA had no issues with the penalties system, except that it was not effective in deterring foreign traders from crossing the border and selling their goods in the domestic market (i.e., smuggling). The very long and porous border makes it difficult to guard against this.

(iii) Planning and monitoring of tax audit programs

Out of the estimated 30,000 taxpayers in Somali Region only 5 percent are in the A and B categories (560 in category A, 1,053 in category B). About 28,400 fall into category C, and most of these are small taxpayers who do not maintain books of accounts and pay presumptive tax.

This dimension applies, therefore, only to taxpayers in the A and B categories, who pay the bulk (80 percent) of the regional taxes. The tax audit function was established in FY 2010/11 (EFY 2003). SRA has 122 auditors. Under the direction of the Audit Case Team within the Tax Assessment, Audit and Law Enforcement Core Process at SRA-HQ, audit plans are prepared at regional, woreda, and city administration levels and then compiled centrally. According to the Core Process Owner, out of the 1,613 category A and B taxpayers expected to submit books of accounts to SRA, only 126 delivered as required and these taxpayers are found in the eight tax centers, which have the finger-printing services referred to earlier and where most category A and B taxpayers reside. This suggests that not all auditors are engaged in auditing books of accounts but are rather assessing category C taxpayer liabilities. In fact, only 27 auditors were found to be auditing self-assessments.

According to the audit plan document shown to the team, only one type of audit (comprehensive audit) is to be conducted, focusing on taxpayers who pose relatively significant risk, namely, in the hotel services, contractors, import-export, and building materials trade sectors. This approach implicitly assumes that all taxpayers in each sector pose the same extent of risk, which is probably not the case. A risk-based approach would focus on individual taxpayers who have been identified to pose relatively high risk, whatever the sector.

Based on the audit plan implemented during FY 2012/13, in the eight tax centers 27 auditors audited the 126 self-assessed files that declared ETB 0.38 million. These auditors managed to generate ETB 0.16 million additional revenue, indicating a return on investment of audit time of ETB 58,000 per auditor, which is perhaps less than if a more selective risk-based approach had been adopted. Almost all of those audited in 2012/13 were contractors, when there might have been high-risk taxpayers in other sectors.

The Deputy Secretary of CoCSA indicated to the team that he and his members were generally happy with the way in which the tax audit function was working. It provided an incentive for companies to comply with the tax laws, as identification of non-compliance might impact unfavorably on business.

Table 3.25 PI-14 Results

Score PI-14 (M2)	Minimum requirement	Justification
B		
(i) B	Taxpayers are registered in a complete database system with some linkages to other relevant	All potential and actual tax registrants are required to have a unique TIN for all tax types, the TIN being registered in SIGTAS. Checkpoints and controls are (1) requirement for a TIN to obtain a

Score PI-14 (M2)	Minimum requirement	Justification
	government registration systems and financial sector regulations.	trade license and to open a bank account—the linkage for checking this is not yet direct; and (2) introduction of a SIGTAS-linked biometric fingerprint system in eight SRA branches. Most, but not yet all, potential and actual taxpayers have now been finger printed and have TINs.
(ii) B	Penalties for non-compliance exist for most relevant areas but are not always effective due to insufficient scale and/or inconsistent administration.	Penalties for non-compliance are set out in the tax proclamations and appear to be high enough to provide an incentive for compliance. But non-compliance still exists, hence the introduction of the penalty waiver directive.
(iii) C	There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.	Tax audits are managed and reported according to annual audit plans for comprehensive audits on category A and B taxpayers operating in sectors considered to be relatively high risk (even this is not fully applied), rather than for selective risk-based audits according to tax area.

Sources: Tax proclamations; meetings held with the GM of SRA and his staff; and meetings held with the CoCSA.

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for tax arrears

SIGTAS is only operational for TIN and VAT registration, and only in the eight tax centers out of the 72 SRA branches in the SRS. The bulk of the population of Somali Region lives, however, in the areas where these tax centers are located. Power and connectivity problems are the main constraints. Manual ledger cards are maintained for tracking arrears. Table 3.26 summarizes arrears of the region in 2010/11- 1013/14, based on ledger cards.

Table 3.26 SRA Arrears Data, FYs 2010/11–2012/13 (EFYs 2003–2005) (ETB millions)

	2010/11	2011/12	2012/13
1. Tax revenue collections	191	276	534
2. End-year tax debts	0.21	0.83	0.09
3. As % of tax revenue collections (item 2/item 1)	0.11	0.30	0.02
4. Average of 2011/12 of 2012/13 (%)		0.16	

Source: SRA Tax Assessment, Audit and Law Enforcement Core Process.

.

Table 3.26 indicates that the stock of taxes due at the end of 2010/11–2012/13 was a very low percentage of revenue collections; 0.11 percent, 0.30 percent, and 0.02 percent, respectively.

These were all collected the following year. According to the GM of SRA, maximum effort is made to collect revenue in time. It is possible, because of the manual methods being used, that not all tax arrears data are captured, but the introduction of the block management system, referred to under PI-13, has made it possible to assign staff to every taxpayer in the block and a specific date to be set for the payment of tax liabilities, thereby contributing to the maximization of collections and the minimization of arrears.

(ii) Effectiveness of transfer of revenue collections to BoFED

Most of the taxes collected by SRA head office and branches in woredas and town and city administrations are deposited daily, as per the financial regulations, into bank accounts held by rural and urban Woreda Offices of Finance and Economic Development (WoFEDs) in the Commercial Bank OF Ethiopia (CBE) (or in a microfinance bank in the case of the four relatively new city administrations). The SRA can also deposit payments straight into the BoFED bank accounts found in local branches of CBE. Taxpayers can also do this. Like the Amhara and Tigray revenue authorities, the SRA branch cashiers attach copies of daily deposit receipts to taxpayer files. Bank advices and third copies of the receipts are finally registered and enumerated in Me – Hi – 65 (revenue summarizing work sheet) and delivered to the WoFED, which issues a receipt to the SRA branch cashier. For revenues collected by SRA head office, a staff member from BoFED is permanently assigned an office at SRA to check and reconcile whether daily collections are being deposited daily into BoFED's bank account.

The process is different for the transfer to BoFED of fees and charges collected by sector bureaus (a component of the non-tax revenues listed in table 3.6 under PI-3). Somali Region is one of the two regions (the other is SNNPR) where the revenue authority collects fees and charges levied by bureaus. These bureaus transfer their collections to SRA daily. SRA keeps this money in its bank account as petty cash and transfers it to BoFED at the end of the month. According to the financial regulations, revenue collected by SRA branches that is not deposited daily into WoFED-held bank accounts but held to meet petty cash requirements, should not exceed ETB 5,000 and should be kept by cashiers in a safe. This poses some risk of leakage, if the systems for guarding against unauthorized withdrawals from the safe and for checking that the limit is not being exceeded are not being complied with. According to ORAG, reasons provided to it for the petty cash limit being exceeded is that the bank is too far away. A related risk is receipts not being provided to taxpayers by SRA branches. The risk is larger once the budgeted target for revenue collection has been reached.

The ORAG identifies revenue collection as a risk area. The risk is greater at woreda level (and so outside the scope of this PEFA assessment) than at Regional Government level, as woredas and city administrations are now permitted to spend surplus revenue and then receive retro-active approval from woreda councils through a supplementary budget (PI-16).

(iii) Frequency of reconciliations between tax assessments and amounts received by the Treasury

Revenue collected by SRA is reconciled every month with the amounts credited to BoFED's bank account, within 15 days of the end of the month. This is not necessarily straightforward when taxpayers deposit their payments directly into WoFED or BoFED bank accounts (required for payments of ETB 2,000 and above) and do not inform SRA branches accordingly. A manual process is involved whereby the bank provides the depositor with a credit advice voucher indicating that the tax payment has been deposited into a WoFED or BoFED bank account. The depositor is supposed to take the voucher to the SRA branch but may not do so, resulting in SRA records of revenue collections differing from WoFED and BoFED records.

Reconciliation of collections with assessments would be feasible if SIGTAS were configured to track arrears, but it is not yet configured to do this, and, even if it was, connectivity problems would mean this functionality would not be available. In the meantime, reconciliation means checking collections per taxpayer with the original assessments per taxpayer. In principle this is possible, as the ledgers capture the tax arrears of each taxpayer. But manual ledgers number in the thousands (one ledger per taxpayer) and are maintained in 72 SRA branch offices throughout the region, making routine and timely reconciliation virtually impossible.

Ongoing and planned activities: The SRA is planning to expand the functionalities of SIGTAS.

Table 3.27 PI-15 Results

Score PI-15 (M1)	Minimum requirement	Justification
D+		
(i) A	The total amount of end-year tax arrears is insignificant (less than 2% of total annual collections).	The score is based on the average of the end-year tax arrears for EFY 2004 and EFY 2005. The manual ledgers appear to capture data on most taxes due and overdue. The block management system appears to be effective in ensuring that block residents pay their taxes on time.
(ii) B	Revenue collections are transferred to the treasury at least weekly.	Most tax revenues collected by SRA branches in rural and urban woredas are deposited daily into rural and urban WoFED bank accounts, or directly into BoFED's bank account. Non-tax revenues collected by sector bureaus and transferred daily to SRA branches may not be transferred to BoFED until the end of the month. SRA branches can hold up to ETB 5,000 in cash in their safes for use for petty cash.
(iii) D	Complete reconciliation of tax assessments, collections, arrears, and transfers to treasury does not take place annually .	Manual ledgers track arrears, but the thousands of taxpayer files and their distribution across 72 rural and urban woredas preclude at least annual reconciliation between taxes assessed and taxes collected.

Source: Meetings held with BoFED Treasury and Accounts Department, and the GM. of SRA and department heads.

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

Effective execution of the budget in accordance with work plans requires that spending ministries and agencies receive reliable information on the availability of funds within which they can commit expenditure.

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

The revised Financial Administration Proclamation that came into effect in 2011, supported by financial regulations and directives, placed greater emphasis on the need for good cash flow forecasting. The directives were issued in July 2012.

As part of the budget preparation process, sector bureaus prepare monthly cash flow projections for the new budget year, taking into account disaggregated revenue and expenditure projections, the latter taking work plans and procurement plans into account. The bureaus send the projections to the Planning and Budgeting Department in BoFED for review. BoFED generally accepts the forecasts with few modifications. At the same time, BoFED makes monthly revenue projections.

The draft Budget Proclamation is approved by the RC in early July. Immediately all the BIs make their detailed budget allocations and submit their annual monthly cash flow forecast (prepared during the budget preparation process) no later than July 27. The first quarter cash flow is also submitted at this time and is later updated monthly, based on actual cash inflows and outflows. In addition to this the cash flows of the remaining quarters are submitted to BoFED 10 days before the beginning of the quarter, the cash flow being usually updated on a monthly basis. The BoFED holds meetings with BIs to discuss their forecasts. BoFED monitors the cash flow situation of the BIs and its own revenue situation, thus setting a solid basis for discussion. It considers that the quality of the forecasts is improving over time. The assessment team was shown some examples of cash flow forecasts and procurement plans by the sector bureaus visited.

(ii) Reliability and horizon of periodic in-year information to regional bureaus on ceilings for expenditure commitment

On the basis of the cash flow forecasts, as updated each quarter and monthly within the quarter, the Accounts Department in BoFED sets quarterly expenditure ceilings and monthly limits on the amount of cash to be to be made available to BIs through their “virtual” zero balance accounts (Z accounts) in CBE. BIs can delay making expenditure commitments if funding is not going to be enough to make the payments when they become due. Or they can request BoFED to make an adjustment by providing funding through the reserve or contingency or reallocating funds from other BIs, with their agreement (e.g., particularly if they are underperforming in terms budget execution) or through rephasing of the BI’s cash flow forecast.

According to the Accounts Department, BIs can commit expenditure with unlimited time horizons up to the end of the fiscal year for eventual payments, the indicative date of payments having already been provided in the cash flow forecasts. For example, the BoH can commit at the beginning of the year to purchasing a year’s supply of drugs and then paying from its Z account during the year against delivery. BoFED then puts money into the bureau’s Z account according to the cash flow forecast. Contractors implementing construction projects over a multi-month implementation period may require advance payments, which are permissible under the financial regulations up to 20 percent of the cost of the project. For the contracted supply of goods the advance limit is 30 percent. The timing of advance payments is built into the cash flow forecasts.

The size and predictability of the block grant from MoFED and favorable domestic revenue performance imply a high probability of sufficient resource availability for budget execution, thus enabling BIs to make expenditure commitments with a multi-month payments horizon. The block grant comprises 80 to 85 percent of SRG’s financial resources and is disbursed each year in full according to a monthly schedule (HLG-1 indicator), based on the cash flow plans submitted by BoFED to MoFED for recurrent and capital expenditure and quarterly reports against those plans. The actual monthly disbursement of the capital expenditure component of the block grant may differ from the schedule according to the progress of project implementation. Domestic revenue outturns have generally exceeded budget amounts over the three previous fiscal years. As indicated under PI-4, suppliers are paid on time. The BoE and BoH indicated to the team that they had 100 percent confidence of having sufficient financial resources to pay their suppliers on time once BoFED had approved their cash flow forecasts.

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of regional bureaus

As indicated in the Financial Administration Proclamation and annual Budget Proclamations BoFED can make adjustments to budget allocations in a transparent way:

- *Transfers between bureaus that leave total spending unchanged:* Prior Cabinet approval is required. Transfers are not allowed if expenditure is already committed.
- *A change in allocations that results in an increase in total spending:* Prior Regional council (RC) approval is required via a supplementary budget. In recent years, woreda and city administrations that collect revenues larger than budgeted for can spend the excess, woreda and city administration councils approving the excess through a supplementary appropriation after the fact (which poses the risk of wasteful spending).

In the case of the first bullet above, some BIs may request reallocations if they need extra funding for some reason. BIs with unutilized budget (e.g., due to capital project implementation being slower than planned, which is often the case due to capacity constraints) may notify BoFED through their updated quarterly cash flow forecasts, which can then be reallocated to other BIs. Reallocations from capital budgets to recurrent budgets are not allowed. BoFED must consult with BIs about the possibility of reallocating away from their approved budgets (except in the case of BIs underperforming on their wages and salaries budget). The reserve and contingency item in the Budget Proclamations (about 10 percent of the proclaimed budget) may be used to supplement BI budgets during the year.

According to BoFED, all proposed adjustments are taken into account at the time of the mid-year review of the budget, which results in the "adjusted" budget, as shown in budget performance reports.

Supplementary appropriations are very infrequent, with just one over the last three FYs.

The requirements mentioned do not apply to DP-funded projects and programs.

Table 3.28 PI-16 Results

Score PI-16 (M1)	Minimum requirements	Justification
A		
(i) A	A cash flow forecast is prepared for the fiscal year and is updated monthly on the basis of actual cash inflows and outflows.	Information provided by Accounts Department in BoFED and sector bureaus met.

Score PI-16 (M1)	Minimum requirements	Justification
(ii) A	Bureaus are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations.	The Accounts Department in BoFED sets monthly cash expenditure limits based on the cash flow forecasts prepared by BIs. BIs can commit expenditures according to the as-yet uncommitted approved budget. The size and predictability of the block grant from MoFED, favorable revenue performance, and the budget execution controls based on cash flow forecasts enable BIs to commit expenditures according to their uncommitted approved budget and multi-month payments horizons.
(iii) A	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.	Adjustments to the budget take place following a mid-year review of the budget, resulting in the "adjusted" budget. BoFED makes the adjustments on the basis of a consultative process and does not impose adjustments on BIs. Supplementary budgets through supplementary Budget Proclamations are very infrequent.

Sources: Meetings with BoFED Planning and Budgeting and Accounts Departments; Financial Administration Proclamation (2009); annual Budget Proclamations; planned and actual monthly disbursements of the block grant from MoFED; revenue cash flow forecast and cash flow forecasts shown to the team by sector bureaus; and BoFED's comments on the first draft report submitted to the assessment team at the PEFA workshop held on October 21, 2014.

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

(i) Quality of debt recording and management

The SRG may borrow from domestic sources with the authorization of the RC as per Article 40 of the Financial Administration Proclamation (110/2012), but has not done so.

(ii) Extent of consolidation of the government's cash balances

BoFED is responsible for the opening of bank accounts. There are four categories of bank accounts, namely the Z account, B account, MDG account, and DP accounts (Channel 1 and 2 accounts). Z accounts are referred as "zero balance accounts," which are virtual bank accounts opened for 48 sector bureaus by BoFED; the Z account system replaced the cash transfer system in EFY 2001 (FY 2008/09). A monthly cash withdrawal ceiling is set by BoFED to each BI based on the latter's monthly cash requirement forecasts. BIs effect payments from the Z account to the extent of the ceiling. On a daily basis, CBE clears the balance from Z accounts against BoFED's CTA at CBE. This arrangement represents the Treasury Single Account (TSA), which has been operational since FY 2007/08. The 26 regional sector offices that are located outside Jijiga do not use Z accounts because of the lack of connectivity required for networking. Their accounts are, therefore, not part of the CTA.

BoFED knows the consolidated CTA cash balance position on a daily basis and prepares a daily year-to-date cash position report accordingly (the team saw a copy, dated April 30, 2014). The CTA constitutes more than 90 percent of the cash balances of the SRG.

There are 72 bank accounts at woreda level (one bank account per woreda) which are not Z accounts. The accounts are used to collect transfers from BoFED and collect woreda revenues and to spend the funds according to the approved budget. The single pool system at the woreda level means that each woreda only needs one bank account, as the WoFED in each woreda serves all woreda level offices in all areas of PFM. Similarly, there are 19 bank accounts used by the 19 colleges and zones and hospitals.

B accounts are deposit accounts (revenue accounts) into which revenues collected by the BIs are being deposited.

The MDG Fund account, established in 2011/12 (EFY 2004) is not part of the TSA. Hence, the relevant BIs have separate MDG accounts into which BoFED is depositing funds when required, following the transfer of these funds by MoFED.

The DP accounts are maintained under both BoFED and BI levels. Each Channel 1a and Channel 1b project has a separate account. The Channel 1a projects fall under the Federal Government's budget, as noted in Chapter 2, so the balances on Channel 1a accounts are not part of SRG's balances. The Channel 1b (DPs provide funds directly to BoFED) projects fall under SRG's budget and so balances on their bank accounts are in principal part of SRG's bank account balances. Some of the BIs, including BoE and BoH, hold more than six DP-fund bank accounts. The balance on each account is known at the level of BIs and reconciled periodically but is not consolidated into the overall SRG cash balance position.

(iii) Systems for contracting loans and issuance of guarantees

Articles 40 to 45 of the Financial Administration Proclamation outline the manner in which public debt is to be managed and recorded. According to Financial Administration Regulation 11/2012 (Article 42), BoFED is required by law to develop a debt management strategy. The SRG has not borrowed or issued guarantees.

Table 3.29 PI-17 Results

Score PI-17 (M2)	Minimum Requirements	Justification
B		
(i) NA	Quality of debt data recording and reporting	SRS does not borrow.
(ii) B	Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	Most cash balances are calculated and consolidated at least weekly through the CTA/Z account system. About 10% (excluding woreda level cash balances) of cash balances fall outside the system.
(iii) NA	Systems for contracting loans and issuing guarantees.	SRS does not contract loans and issue guarantees.

PI-18 Effectiveness of payroll controls

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. This indicator is concerned with the payroll of public servants only; wages for casual labor and discretionary allowances are included in the assessment of general internal controls (PI-20).

Payroll and personnel management are decentralized to public body level in Ethiopia. Given the decentralized nature of personnel and payroll management, the assessment team met officials from BoE, BoH, and the IT department at BoFED.

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

Human resource departments (HRDs) in the respective BIs are responsible for maintenance of HR-related documentation (e.g., promotion, termination) and communication of changes in this to the Finance Department (FD) of the BI. An in-house-developed HR management software package is used by 38 regional bureaus to record HR data and any monthly changes in these. These changes are then exported into an Excel file, which is provided manually to FD, which uses Excel to prepare the payroll. The Excel file includes a signature column for employees to sign for receipt of salary in cash. For reconciliation purposes, the HRDs and FDs exchange records in order to check that the payroll run equals the previous payroll plus the changes communicated by the HRDs to FDs. The records are exchanged in hard copy form.

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

Changes made each month by HRDs to paper-based personnel files are entered into the HR software system for export into an Excel file, as noted in dimension (i). The payroll preparation cycle is the 19th of the previous month to the 18th of the current month. Payroll changes received after the 18th of the month will be updated in the payroll in the subsequent month. Retroactive adjustments to payroll records are rare. If a staff member resigns after receiving a full month's payroll on the 18th of the month, the excess payment will be taken out of the staff member's termination related benefits fees.

(iii) Internal controls of changes to personnel records and the payroll

The documentation for changes in personnel data is copied by letter to FD, the relevant operational department, and the Internal Audit (IA) unit. Hard copies are available at HRDs and FD and serve as an audit trail for any changes to payroll and HR records. Payroll preparation is conducted by one or two staff members, using Excel. The Excel files used for payroll are password protected. Changes to the Excel payroll sheet should be supported by copies of HRD letters that indicate the changes, the letters having being documented and filed for review.

Some BIs have introduced automated attendance control systems through a biometric fingerprinting system. According to BoFED's Inspection Department, most of the BIs use the system in order to determine if changes to personnel records are necessary. The Inspection Department indicated that attendance control tends to be weak in some of the BIs that do not use the system.

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

A comprehensive audit of the payroll system has yet to be conducted. Personnel records are audited separately and payroll payments are audited by internal auditors as part of the monthly financial audit. Internal auditors check monthly payrolls against the previous month's payroll and also review supporting documents for changes. ORAG reviews payroll controls as part of its financial compliance audits. The last audit report it prepared indicated ghost workers in six woreda governments (and thus outside the scope of this PEFA assessment).

Table 3.30 PI-18 Results

Score PI-18 (M1)	Minimum Requirements	Justification
C+		
(i) B	Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes to personnel records each month and checked against the previous month's payroll data.	The HR managers in BIs have an IT-based HR database system. This is not electronically linked to the Excel-based payroll system. After the payroll is run, the HRDs and FDs cross-check (reconcile) with each other through the exchange of HR and payroll records.
(ii) A	Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.	Monthly updates of personnel records are entered into the IT-based HRM system and must be done prior to the 19th of the month. This is usually the case and so retroactive adjustments are rare.
(iii) A	Authority to change records and payroll is restricted and results in an audit trail.	The control system for payroll is strong. It provides an audit trail that enables review of changes to personnel and payroll records. The audit trail consists of signed supporting documents prepared by the HR manager and FD within a BI.
(iv) C	Partial payroll audits have been undertaken within the last 3 years.	A comprehensive payroll audit has not yet been conducted. Payroll and personnel records audits are conducted separately but regularly by IA departments. These constitute partial audits only and do not look at the interface between the two systems.

PI-19 Competition, value for money, and controls in procurement

Table 2.1 in Chapter 2 indicates that about 50 percent of expenditure is for the purchase of goods and services and capital assets, thus indicating the importance of the procurement system in providing value for money.

Procurement legislation at the Regional Government level is based on the Federal Government Proclamation 649/2009. The SRS Public Procurement and Property Administration Proclamation (PPPAP) was gazetted in 2010 (no. 82), the associated directive being issued the same year. The main differences between this proclamation and the previous one (2005) is the unification of procurement and property administration under one law and the separation of procurement and property administration from the previous Financial Management and Property Administration Core Process. Procurement has since been regulated and monitored by the Public Procurement and Property Administration Core Process (hereinafter denoted as PPPAD, for its function as a *department*) in BoFED, the Process continuing also to play a standard setting, technical advisory, inspection, and monitoring role. Procurement operations in BIs have since been carried out by the Procurement and Property Administration Core Process in those BIs, rather than the Financial Administration and Property Management Core Process as previously.

DP procurement procedures continue to be used for DP-funded projects and programs if they prefer to do this, even for programs and projects contained in the proclaimed budgets.

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

The requirements for the scoring of this dimension and whether they were met in 2012/13 are listed in Table 3.31.

Table 3.31 Transparency in Procurement

Requirement	SRG practice
1. The legal framework is organized hierarchically and precedence clearly established.	**Yes,** as indicated in the SRS Public Procurement and Property Administration Proclamation (no. 179/2011, EFY 2003), gazetted on July 5, 2011. The BoFED remains the regulatory body and has sole authority for preparing procurement directives under the Proclamation.
2. It is freely and easily accessible to the public through appropriate means.	**Yes,** as provided for by Article 7 of Chapter 1 of the Proclamation, which states that the Proclamation and associated directives "shall be made accessible to the public and be systematically maintained for use."
3. It is applied to all procurement undertaken using government funds.	**Yes,** as provided for in Chapter 1, Article 3 of the Proclamation, which is applicable to all procurement in the region funded wholly or partly by the Regional Government budget.
4. Open competitive procurement is the default method of procurement and the framework defines clearly the situations in which other methods can be used and how this is to be justified.	**Yes,** as elaborated on under PI-13.
5. It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	**No**. The Proclamation provides only for public access to bidding opportunities, although, in practice, contract awards are also publicized.
6. It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	**No.** The Proclamation provides for a complaints review process in BoFED but does not explicitly state that it is independent of the procurement process. The location of the Complaints Hearing Board in BoFED would appear to compromise any independence.

(ii) Use of competitive procurement methods

As noted in section (i), open competition is the default method for procurements above the threshold for public procurement. The PPPAP outlines the conditions under which restricted competitive procurement methods can be used (see Amhara PEFA assessment for details). A key requirement is that BIs must apply to PPPAD for permission to use such methods. The PPPAP provides for penalties to be levied on BIs if they use such methods without permission.

Many of the procurements above the threshold for use of open competition appear to be carried out through open competition, based on a sample of evidence provided to the assessment team. The BoE provided evidence in its procurement performance reports for FYs 2011/12 and 2012/13 that all procurements above the threshold were conducted through national competitive bidding: 24 in 2011/12, with a value of ETB 120 million, and 7 in 2011/12 with a contract value of ETB 43 million.

The Finance Logistics Planning And Monitoring And Evaluation Support Process, under the Financial Administration Core Process in BoFED, which is in charge of procurement operations for BoFED itself (as its own BI), provided a table to the team indicating that 75 percent in value terms and 67 percent in volume terms of the six contracts awarded in FY 2012/13 (EFY 2005) were awarded through open bidding. Two contracts were awarded to a Federal Government agency (Artistic Printing Press) through direct procurement (sole source), the justification being that the contract was for the printing of government receipts books, and so open competition could not be used for security reasons.

BoH indicated that it had used direct procurement methods to construct a health facility, partly because the facility included a system for generating solar powered electricity. UNICEF was financing this system and maintained that this could be procured through only restrictive procurement methods, which meant using such methods to construct the facility (also because it was in a rush to spend its budget by the end of its financial year).

According to the head of the Inspection Department in BoFED, IA units in BIs check that the procurement regulations and associated directive are being followed. The analysis under PI-21 indicates that the IA function is functioning. ORAG checks the validity of the use of non-competitive procurement procedures as part of its audit process. It has found that procurement procedures may not always be followed, allowing for the possibility of unjustified use of non-competitive procurement procedures. The invitations to bid may not provide sufficient time for preparing bids, and the justification for using restrictive procurement methods may not be sufficient. But ORAG can only identify specific instances of insufficient justification among the much less than 100 percent sample of BIs that it audits.

The PPPAD has, for the past three years, received information on a quarterly basis on the procurement operations of bureaus and has prepared reports on their aggregated operations. It provided the team with a *Public Procurement Performance Summary Report* covering EFYs 2003–05, including a table indicating procurement by value for each type of procurement. Open tendering comprised 95 percent, 91.3 percent, and 99.8 percent of all procurement in these three years. With regard to the use of restrictive procurement methods, the head of PPPAD indicated that the information provided by the bureaus includes the minutes of the meetings of the Bid Endorsement Committees, the minutes including justifying the use of restrictive procurement methods. The justifications appear to be valid most of the time, but only formal procurement audits would determine whether they were really valid and PPPAD has yet to establish a procurement audit function. The Federal Public Procurement Authority may provide training in procurement audit.

The way in which the scoring criterion for this dimension is worded makes it difficult to score, as precise information on justifications (or lack of) for use of restrictive procurement methods is required. A 100 percent sample is required. Anomalously, a D rating would apply if, for example, only 1 contract out of 100 was awarded by a BI through non-competitive methods and was awarded without sufficient justification.

The draft revision of the framework, issued on August 7, 2014, appears to have recognized this, and has adjusted the scoring criterion, making it much easier to score. The greater the percentage of contracts above the threshold awarded through open competition, the higher the score; an A rating requires that at least 80 percent of contracts by value are awarded through open competition. The assessment team has accordingly decided to use this scoring criterion.

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

Four information elements are required: procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. Open tenders are required by the Proclamation to be advertised. BoE posts the results of its bid evaluations on notice boards and on its website, though this had been down for a while due to connectivity problems beyond its control. It does not publicize procurement plans, the Proclamation not requiring them to do so. Information on complaints resolution is not publicized and also is not a legal requirement.

(iv) Existence of an independent administrative procurement complaints system

The Public Procurement and Property Administration Proclamation establishes the complaints process. Following the communicating of tender results to bidders, the procuring entity waits five days before awarding the contract in order to allow time for unsuccessful bidders to appeal. The first stage of the complaints process is the submission of a complaint to the head of the Procurement and Property Administration Department (PPAD) in the BI (not to the Bidding Endorsement Committee). The award of the contract is then suspended for 10 days. If the PPAD decides that the complaint is not justified, the unsuccessful bidder can take the matter further to the Complaints Hearing Board (CHB), which is located in BoFED, as defined in the Procurement Directive. BoE indicated that it has not received any complaints.

The CHB was established in 2011/12 (EFY 2004). It has five members, two of whom are from BoFED itself, including the Chairman. The other three are from CoCSA, a sector bureau, and a public enterprise. Each member has a three-year term. The independence of the Compliant Review Committee (CRC) is not explicitly provided for in the Procurement Proclamation, and, in any case, its location in BoFED and the fact that the chairman is from BoFED would seem to compromise any de facto independence it might have. The number of complaints received is very few. Only one complaint had been received during FY 2013/14 (EFY 2006) as of the time of the assessment, and none in 2012/13, the complaint being resolved in the end. The complainant had not first addressed his complaint to the procuring entity.

If the CHB were in practice, independent of the procurements process, the score would be A, as it meets the five other criteria listed in the PEFA Framework.

Table 3.32 PI-19 Results

Score PI-19 (M2)	Minimum requirement	Justification
C+		
(i) B	The legal framework meets four to five of the listed requirements	The fifth and sixth requirements are not met.
(ii) A	The total value of contracts awarded through competitive methods in the most recent fiscal year represents over 90% of the total value of contracts.	BIs are routinely providing the PPPAD with information on their procurement operations. Information provided by PPPAD in BoFED indicated that almost 100% of procurement by value carried out by SRG bureaus in EFY 2005 used open competition.

(iii) C	At least two of the key procurement information elements are publicized.	Bidding opportunities and results of bid evaluations awards are routinely made available. The legal framework does not require the publicizing of the other two procurement information elements.
(iv) D	There is no independent procurement complaints body.	The CHB is located in BoFED and two of the members, including the chairman, are from BoFED. Thus the CHB appears not to be independent from the procurement process. The PPPAP provides for a complaints review body but does not explicitly stipulate that it should be independent of the procurement process.

Sources: (i) Meetings with BoFED (including head of PPPAD, which is the procurement regulatory body), Inspection Department in BoFED, IA Department in BoFED, ORAG, BoE and BoH senior staff; and Acting Chairman, CoCSA; (ii) Procurement operations tables provided by BoE (for 2011/12) and Procurement Department of BoFED (2013/14 to date), procurement plan for BoE (2010/11); (iii) list of SRG procurements planned for 2013/14 and a table showing procurement thresholds; and (v) a summary procurement operations table prepared by PPPAD showing procurement by value and method for EFYs 2003–2005.

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

This evaluation refers to the internal controls for non-salary expenditures as at the time of assessment (March 2014).

The financial control systems are embedded in the Financial Administration Regulations (themselves derived from the Financial Administration Proclamation) and associated internal directives. Other control systems, such as those related to personnel management, are embedded in the Civil Service Regulations. The following directives and guidelines have been adapted from the federal directives and guidelines and distributed to all BIs. The adaptation is mainly a matter of translation into Somali language and adjustment to the regional context (the years shown below correspond to EFYs 2003–05):

- Proclamations and regulations
  - Financial Administration Proclamation no. (110/2012)
  - Financial Administration Regulation no. (11/2012)
  - Procurement and Property Administration Proclamation no. (82/2010)

- Guidelines and directives
  - Procurement Manual (2011)
  - Procurement Directive (2010)
  - Prices for Goods and Services (2/2004)
  - Property Administration Manual (9/2004)
  - Government Fixed Asset Manual (2011)
  - Stock Management Manual (2011)
  - Financial Administration Directive (2/2004)
  - Cash Disbursement Manual (3/2004)

- Accounting Procedure (5/2004)
- Financial Accountability (6/2004)
- Internal Audit Guidelines (7/2004) and IA Manual
- Guideline for Guarantor for Employment (11/2004)
- Transfer between public bodies directive (10/2004)

(i) Effectiveness of expenditure commitment controls

According to the SRS Financial Administration Regulations no.110/2012 (Article 32[2]), a BI cannot enter into an expenditure commitment without an approved budget, without the approval of the head of the BI and unless there is "sufficient unencumbered balance from the budget to discharge any debt." In other words, approval of proposed expenditure commitments depends on whether the proposed expenditures are included in the approved budget, and, if so, if there is sufficient remaining uncommitted balance in the approved budget. Approval is not explicitly tied to projected cash availability.

IBEX has a so-called commitment control module, but, in practice, it is a commitment reporting module. It is more widely used in Somali Region than other regions. Approved purchase requisitions and contracts are posted by BIs to the commitment control ledger. The module updates commitment per entry and generates reports, showing the remaining uncommitted expenditure balance. It does not control commitments themselves, control being governed by a manual process as outlined in the Financial Administration Regulations. Financial administration departments in BIs, through their manual control processes, block commitments that would result in payables that would cause monthly cash limits being exceeded during the following quarter; thus cash availability is taken into consideration as well as unencumbered budget availability.

Also through their manual control processes, BIs can commit expenditures for payments in later quarters on the basis of their cash plans, which are themselves based on their cash flow forecasts, as approved by BoFED. Monthly cash expenditure limits eventually set by BoFED for later quarters take into account the projected payables arising from the earlier commitments. Most purchases are on a cash-on-delivery basis, the main exceptions being long-term construction projects and the provision of consultancy services

As indicated under PI-16, cash flow forecasts have an element of uncertainty, the due date for payables perhaps differing from the date projected in the cash flow forecast. BIs can then request BoFED for some adjustments in monthly ceilings, through re-phasing or re-allocations from other bureaus.

(ii) Comprehensiveness, relevance and understanding of other internal controls and processes

As indicated earlier, a number of guidelines/directives were issued in FYs 2011/12 and 2012/13 with the objective of strengthening the internal control systems. The Proclamation, regulations and guidelines are available for staff use. The PFM Steering Committee, comprising the BoFED head, heads of BoFED process owners, and WoFED heads, is responsible for implementation of PFM reforms. Implementation includes the training of staff at all levels on the new proclamations, regulations, etc. The PFM Technical Support Team also provides technical assistance to BIs on demand and through scheduled trainings.[14] These capacity-building activities have enhanced the understanding of the internal controls and processes.

The internal control systems include segregation of duties for preparing, checking, certifying, and approval in the movement of resources, including through cash and check disbursement, as well as receipt, issuance and disposal of stock items and properties. The segregation of roles applies to all processes, including payroll preparation (PI-18), procurement (PI-19), staff advances, use of real assets, and personnel administration. The processes are both financial (e.g., bank reconciliation) and physical (e.g., stock counts) and so involve most of the personnel within an organization, not just those in the financial management area. The IA function (PI-21) ensures the compliance of the manuals and guidelines.

The implementation of Business Process Reengineering (BPR) over the past few years has significantly increased the speed of implementation of financial processes. Further streamlining is possible.

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

In addition to administrative penalties for non-compliance, a series of evaluation procedures and frequent performance measurement procedures have, in the opinion of BoFED, improved the level of compliance.

Common areas of non-compliance reported by ORAG and the Inspection Department (ID) of BoFED are not maintaining cash book, not conducting periodic surprise cash count, not establishing a petty cash system, not reconciling bank accounts monthly, not issuing the appropriate cash receipts for revenue collection, not maintaining fixed asset registers, and not providing fixed asset identification codes. Non-compliance is more due to capacity constraints and the associated insufficient understanding of the rules and regulations than to deliberate attempts to circumvent these.

Table 3.33 PI-20 Results

Score PI-20 (M1)	Minimum requirements	Justification
B		
(i) B	Expenditure commitment controls are in place and effectively limit commitments to projected cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.	The Financial Administration Proclamation (2011)—which prohibits entering into commitments without availability of unencumbered balance—the cash flow forecasts and cash plans prepared by BIs on the basis of these forecasts, and the TSA-Z account system all help to guard against cash unavailability at the time of payment. Cash flow forecasts naturally have an element of uncertainty, but this does not compromise the score.
(ii) B	Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood,	Financial and non-financial control systems are comprehensive, well documented, and generally understood. The revised manuals are available to staff in all BIs. Training programs have enhanced the understanding and awareness of staff and managers, and

[14] The team consists of 12 BoFED staff members from all PFM concerned departments headed by the Bureau Head. The Channel 1 coordinator is the Secretary.

	but may in some areas be excessive	continue to do so. The BPR process has streamlined many, but not all, procedures
(iii) B	Compliance with rules is fairly high, but simplified and emergency procedures are used occasionally without adequate justification.	Rules are generally respected and complied with. As indicated in the ORAG and internal auditors' reports, non-compliance exists in certain areas in some of the BIs.

Sources: Financial Administration Proclamation, regulations, and directives; BoFED Accounts Department staff; ORAG annual reports; IA units in BoE and BoH, and ID reports.

PI-21 Effectiveness of Internal Audit (IA)

Regular and adequate feedback to management is required on the performance of the internal control systems, through an IA function (or equivalent systems monitoring function).

The IA function is provided for in the Financial Administration Proclamation (Article 5, sub Articles 5–6) and the Financial Administration Regulations, and its development is one of the components of the EMCP. The pre-audit function was phased out during FY 2006/07 in tandem with the phasing in of the post-audit function.

BoFED has a duty to oversee the IA functions of BIs and to help them develop. The Inspection Department (ID) at BoFED is discharging this responsibility. To strengthen IA, the regional cabinet has passed a new law concerning the suspension and dismissal of internal auditors. The law states that an auditor cannot be suspended and fired without a collective decision of four bureau heads such as Monitoring and Evaluation Head of President Bureau, Civil Service Bureau, BoFED, and ORAG.

(i) Coverage and quality of the internal audit function

ID has 20 internal auditors. All sector bureaus and woredas have internal auditors. There is no IA unit at the level of zone. Sector bureaus and woredas have a minimum of two internal auditors. Internal auditors at woreda level must have a minimum of a diploma in accounting. Auditors at bureau level must have a BA in accounting. IA department heads are also members of the management committee of the respective BIs. Membership makes it easier for IA departments (IADs) to follow up on audit findings and influence their recommendations.

ID (also ORAG) provides training to internal auditors. In addition to supervisory and support roles it also conducts IAs, mainly special (investigative). It also conducts financial audit when there is capacity limitation in Internal Audit Departments (IADs) in BIs. The ID and IADs in each BI prepare annual audit plans to be approved by the respective heads of BIs. Annual audit plans prepared by BIs are not reported to ID (unlike the practice in other regions). Annual audit plans are prepared based on the experience of the IA heads and are not based on a comprehensive risk assessment. The IADs keep audit files (both permanent and temporary files), audit manuals, proclamations, guides, and procedures in good order.

The IA manual used by the IADs (in Somali language, issued in 2012) is customized from the 2006 *Internal Audit Manual* developed by MoFED, which is in line with the IA standards prepared by the Institute of International Auditors. An IA training module was also prepared in 2012 (also in Somali). Both manuals were distributed to IADs.

The IA function covers Treasury, MDG, and all DP accounts except for those related to Channel 2 funding. Because the DPs perform internal audits on this funding themselves, they are not priorities for IADs, as indicated to the team by the IADs in BoFED, BoH, and BoE.

Financial and compliance audits are the main types of audits routinely conducted by IADs. Procurement and payroll audit are conducted as part of the financial audit. IT auditing and performance auditing are not yet practiced. MoFED provided training on performance audit in February 2014. Other audits include special (investigative) audits conducted by ID. It has conducted eight special audits in 8 woredas.

(ii) Frequency and distribution of reports

Financial and compliance audits are conducted and reported on quarterly. Every quarter, IADs issue one internal control review report and one IA report. The ID issues quarterly and annual audit reports. The IADs submit their reports to the head of their respective BIs and to the ID. IA reports are not submitted to ORAG, as this is not a legal requirement. ORAG, however, has access to them on demand and may use the reports when conducting its own audits.

(iii) Extent of management response to internal audit findings

Audit reports are discussed every quarter as part of exit conferences in the presence of the management committee of the respective BIs (as indicated by the IADs of BoFED, BoE, and BoH). According to ID, BIs are required to respond to the audit findings and recommendations and to prepare an action plan within 10 days of the exit conference. ID also writes letters to BIs, following its receipt of audit reports to remind them to submit their action plan or report on the actions they have already taken.

According to ID and IAD heads, managers respond to almost all IA findings. Despite the high response rate, audit findings tend to be similar year after year.

IA committees have been established as of 2014 in 30 pilot woredas with the objective of strengthening the follow-up on audit findings. Each audit committee has three members, and the ID provides three days of training. At the time of the PEFA assessment, ID had received performance reports from four IA committees.

Common IA findings include weak attendance management, incomplete supporting documents for payments, not providing job descriptions (especially for newly recruited staff), incomplete per diem payment documentation, incomplete personnel databases, not settling advances on time, not reconciling bank accounts on time, not maintaining cash books, and not maintaining fixed asset registers

Table 3.34 PI-2 Results

Score PI-21 (M1)	Minimum requirements	Justification
B		
(i) B	IA is operational for the majority of Regional Government entities, substantially meets professional standards,	IA is operational for the majority of BIs and substantially meets professional standards, with focus on systemic issues. Audit plans are not yet risk based and focus mainly on routine financial audits.

Score PI-21 (M1)	Minimum requirements	Justification
	and is focused on systemic issues.	
(ii) B	Reports are issued regularly for most audited entities and distributed to the audited entity, the BoFED and the SAI.	Audit reports are distributed to BI heads and to BoFED. IA reports are not submitted to ORAG, but ORAG has access to them and regularly uses them when it audits BIs.
(iii) B	Prompt and comprehensive action is taken by many (but not all) managers.	All IA findings and recommendations are acted upon by managers. However, the repetitive audit findings on non-compliance indicate that action plans may not be fully implemented.

Sources: Meetings with ID and with IADs in BoFED, BoE, and BoH.

3.6 Accounting, Recording, and Reporting

This set of indicators assesses the timeliness of accounting, recording, and reporting. A summary of the scores is tabulated below.

Table 3.35 Accounting, Recording, and Reporting Performance Indicators

No.	Accounting, Recording and Reporting	Score
PI-22	Timeliness and regularity of accounts reconciliation	B
PI-23	Availability of information on resources received by services delivery units	C
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+

PI-22 Timeliness and regularity of accounts reconciliation

(i) *Regularity of bank reconciliations*

There are different bank accounts maintained by BoFED and BIs, including the Z account (zero balance account), deposit account, MDG account, and DP project and program accounts. The purpose of these accounts is explained under PI-17.

BoFED’s Central Treasury Account (CTA) held at CBE is reviewed every day and reconciled monthly. Other bank accounts are reconciled monthly within seven days from the end of the month (according to BoH, BoE, and BoFED staff). DP-funded project and program accounts are reconciled by BoFED and the BIs monthly. The PEFA team noted that the reconciliation of one of BoFED’s accounts was prepared incorrectly; those of BoE and BoH were prepared correctly. According to reports prepared by ID and ORAG, some of the BIs at woreda level (thus beyond the scope of this assessment) were not reconciling their accounts monthly and on time, although the reports did not show the magnitude of the problem.

Reconciliation statements show deposits in transit that are related to transfers and deposits made near the end of the month and outstanding checks where payees have yet to claim from the bank. The correctly prepared statements shown to the team by BoH, BoE, and BoFED showed no significant unreconciled differences. The reconciliation items mainly consist of unpresented checks, deposits, and transfers made on the closing date, uncleared bank deposits, and late recording by some BIs. Unlike other regions, reconciliation statements are not attached to the monthly financial reports prepared by BIs.

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

The balance on suspense account (4201) was ETB 93.1 million, ETB 86.87 million, and ETB 76.1 million as of July 7, 2011, 2012, and 2013, respectively. The purpose of the account is to record unknown debits until they are cleared against documents. A balance of ETB 50,000 on a suspense account held by BoE represents a long outstanding balance brought forward from the single entry system 10 years ago. The EFY 2003 (FY 2010/11) audit report prepared by ORAG reported long outstanding suspense advances amounting to ETB 25 million in 14 out of 15 BIs that were audited.

As of July 7, 2013 (end of EFY 2005), receivables balances included staff advances (4203) of ETB 15.5 million; advances to staff from next year budget (4205) of ETB 0.67 million; advances for capital expenditures from next year's budget (4207) of ETB 4.5 million; other staff advances (4211) of ETB 95.5 million; prepayments to contractors and suppliers (4250–4269) of ETB 95.5 million; and other advances (4270–4299) of ETB 123.78 million. The trial balances do not include age profiles, so it is not possible just by looking at the balance sheets to determine when advances are cleared.

Suspense payments that are part of the petty cash system are reconciled periodically and subject to the scrutiny of monthly IAs. As per the guideline, suspense items not cleared within 30 days are to be transferred to staff advance and deducted from salary. Delay in settlement of advances is indicated by the IADs of BoFED, BoE, and BoH as a frequent non-compliance issue.

Table 3.36 PI-22 Results

Score PI-22 (M2)	Minimum requirements	Justification
B		
(i) A	Bank reconciliation for all Regional Government-managed bank accounts takes place at least monthly at aggregate and detailed levels, usually within four weeks of end of period.	Two of the three BIs visited by the team generally reconcile bank accounts of government and DP-funded projects and programs accounts monthly within seven days from the end of the month.
(ii) C	Reconciliation and clearance of suspense accounts and advances take place at least	Suspense items from the petty cash fund are generally cleared within seven days. Uncleared accounts shown in the bank statements are cleared within two months from the end of the month. Other

Score PI-22 (M2)	Minimum requirements	Justification
	annually, in general within two months of end-of-year, but a significant number of accounts have uncleared balances are brought forward.	advances are cleared normally within two months from the end of the year. IA reports shown to the team indicated delays in the settlement of advances.

PI-23 Availability of information on resources received by service delivery units

Woreda governments have the main responsibility for primary education and health care service delivery units (SDUs). Primary schools are not cost centers; they do not have individual recurrent budget classification codes assigned to them, although capital expenditures on primary schools, funded by the Regional Government, are captured in the project codes in the budget classification system. Thus, budget execution reports cannot explicitly report on the financial resources they receive relative to their approved budgets, except in aggregate terms. The woreda education offices (which are cost centers) are responsible for allocating the physical resources purchased under their budgets to the primary schools under their jurisdiction, according to an internal allocation system maintained in standardized manual ledgers. In this way they can track the flow of resources to primary schools.

Prior to the advent of GEQIP in FY 2009/10, Woreda Education Offices were supposed to prepare activity reports on the basis of the manual ledgers and send them to their respective Zonal Education Offices, which would then compile them into a consolidated report and send this to the Regional Education Bureau. In turn, the bureau would prepare a consolidated report covering all primary schools in the region and send this to the Regional Cabinet. The reports would show the physical resources received by primary schools relative to what they should be receiving. In practice this was not happening due to capacity and financial constraints.

The GEQIP, which is financed by Federal Government, World Bank, and UNICEF, has helped to improve the transparency of the operations of primary schools. GEQIP has the following components: (1) curriculum, textbook, and assessment; (2) quality improvement; (3) capacity development; (4) management information system; (5) monitoring and evaluation; and (6) school grants. Use of the school grants is based on Ministry of Education's "School Grant Guidelines." Parent-Teachers Associations are involved in the planning for the use of the funds, and, in general, play a strong role in the project. Notice boards at the schools show the planned and actual use of the funds.

The funds are channeled through BoFED, at the request of BoE, which then releases the funds to WoFEDs, which, in cooperation with Woreda Education Offices, release the funds directly into the bank accounts of primary schools, established under the project. The bank account mechanism facilitates the tracking of resource use. The schools maintain cash books and send these quarterly to their respective WoFEDs and education offices for review. Funds utilization reports are prepared monthly through the BoE and the Channel 1 Unit in BoFED. Quarterly progress reports are prepared under the project. Zonal education offices play a general monitoring role. A financial review of 10 percent of the schools is conducted annually.

The routine generation of the information needed for BoE to prepare formal primary education service delivery reports for Regional Cabinet review appears to be in place. Such reports are not yet being prepared, however.

Health service delivery takes place, at woreda government level, through hospitals, health centers (covering both in-patients and out-patients), and health posts (smaller client base, out-patients only). Hospitals (numbering 10) are classified individually in the detailed budget estimates of Somali Region and, therefore, their actual expenditures can be tracked in IBEX-generated budget execution reports and compared with their originally approved budgets. Health centers and health posts are not captured individually in the budget estimates; only aggregate amounts are shown. Woreda health offices allocate these amounts to health centers and health posts through an internal manual system and keep track of the use of these resources. The offices report weekly to their respective zonal health office and are required to submit a standardized quarterly report form to it. A GEQIP-type project is not in place.

The BoH maintains a health management information system (HMIS), which, inter alia, tracks resources distributed to health centers and health posts, using the information routinely provided in the reports submitted to the zonal health offices. The information therefore appears to be sufficient for BoH to compile formal service delivery reports for review by the Regional Cabinet. It does not do this yet, however. The team requested a copy of HMIS, but did not receive it.

Information on resources being provided to service delivery units is increasingly being disseminated through the media. In addition, a system for recording on notice boards posted outside SDUs the resources received, by type of resource (e.g., teachers, books) relative to minimum standards established at the federal level (and adapted to regional level), was developed during 2007–9 under the Financial Transparency and Accountability Program (FTAP). The system has been rolled out across the region. Reports are not yet being compiled, however, that would summarize actual resources received by SDUs relative to what they should be receiving according to the minimum standards.

Table 3.37 PI-23 Results

Score PI-23	Minimum requirements	Justification
C	Routine data collection or accounting systems provide reliable information on all types resources received in cash and in kind by primary schools and health posts. Formal annual reports are not yet prepared.	Primary schools and health posts are not cost centers, but manual ledgers capturing the flow of resources are maintained by woreda education and health offices. GEQIP and FTAP have greatly contributed to tracking of resources. The information is routinely generated, but formal annual reports on resource flows to primary education and health care units are not yet prepared for the regional cabinet.

Sources: Meetings with BoE and BoH; GEQIP Funds Utilization Reports; School Grant Guidelines, Ministry of Education, FY 2008/09 (EFY 2001).

PI-24 Quality and timeliness of in year budget reports

This indicator assesses the scope of reports, their timeliness, and the quality of information on actual budget implementation.

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

BoFED, sector bureaus and woredas have been using IBEX for accounting and reporting since EFY 2003 (FY 2010/11).

Monthly reports prepared in IBEX by sector bureaus and woreda offices contain detailed comparison of budget and outturns, expenditure by program, detailed trial balances, ledger card, and payables and receivable reports. BoFED used to consolidate monthly records of sector bureaus and woredas by reentering transactions manually into its server. Beginning in FY 2013/14 (EFY 2006), all reporting entities have been submitting IBEX transaction data in soft copy to BoFED every month. BoFED imports the data into its server for consolidation. Connectivity problems have prevented electronic IBEX linkages between BoFED and sector bureaus and woredas.

BoFED does not prepare consolidated monthly budget execution reports, even though bureaus and woreda offices submit monthly reports to it. It prepares quarterly consolidated in-year financial reports for submission to the Cabinet, RC (on a demand basis), and MoFED. The reports submitted to MoFED are the JBARs, noted under PI-2. The JBAR reports contain information about transfers to woredas, disbursements to sectors and year-to-date revenue and expenditures, but not commitments to date and the remaining uncommitted balance. Their usefulness for assessing expenditure performance is also constrained by actual expenditure being compared with the "adjusted" budget (taking into account reallocations between BIs and use of the contingency) and not the original approved budget.

The reports prepared by BoFED do not include commitment information even though BIs are using IBEX's budget control module (actually a reporting module rather than a control module), which manages commitments (e.g., BoH, BoE) and reports at BI level. The module registers new commitments and estimates the uncommitted remaining budget balance, and thereby helps to avoid over spending. The IBEX does not consolidate and generate commitments as part of BoFED's financial reports, although it is not obvious why it should not do this, as the information is in the system through the budget control module. The rollout of Integrated Financial Management Information System (IFMIS) may resolve this gap as it generates reports that include information on commitments.

The financial reports for Channels 1a and 1b are prepared in separate books of accounts managed mainly by Peachtree , which is a separate accounting software package, or through Excel spreadsheets. Starting from the beginning of EFY 2006, IBEX is being used to generate financial reports for all Channel 1 programs using a separate database. Channel 1a programs and projects fall under the Federal Government's budget, and so this improvement is not relevant to this PEFA assessment. IBEX is not yet being used to generate financial reports for Channel 1b projects and programs, which use different codes. If this was possible, then budget execution reports would cover both SRG directly funded expenditure and DP directly funded expenditure.

(ii) Timeliness of the issue of the reports

BIs submit monthly reports to BoFED between the 20th and 30th of the following month, within the deadline of four weeks from the end of the month. Some BIs do not always report on time; e.g., six BIs did not submit on time for the month ending March 9, 2014. When BIs are unable to submit reports on time, particularly for the months when quarterly reports are to be compiled, BoFED sends staff to help them. In most cases, the reason for delays is, according to BoFED, data corruption in the BIs in connection with computer viruses. The quarterly financial reports that BoFED prepares for MoFED are sent within four weeks from the end of the quarter. The required periodicity of financial reports for Channel 1 projects is based on the agreements reached between SRG and DPs.

(iii) Quality of information

Data accuracy is of limited concern. The quality of monthly and quarterly reports has improved due to IBEX being used by all BIs. BoFED reviews the data sent by BIs before importing it into its server, to minimize errors. In certain cases data may not be updated if banks do not issue debit and credit advices on time. Delays in clearing suspense items and advances (PI-22) may result in a not completely accurate picture of revenues and expenditures. The exclusion of reports on Channel 1b operations from the IBEX-generated reports also gives a misleading picture, but the proportion of these expenditures relative to total SRG expenditures is very small.

The ratio of unqualified and qualified opinions issued by ORAG to the total number of opinions it issues provides some perspective on the quality of information. According to ORAG's latest report (covering EFY 2004), out of the 65 audited entities, 63 had qualified audit opinion and the remaining 2 audit entities (which are at woreda level) had disclaimers of opinion, which is the worst type of opinion. Opinions may be qualified for reasons other than data quality. A high proportion of adverse opinions and disclaimers of opinion would indicate serious problems with the quality of data, but this is not the situation in Somali region.

Ongoing and planned activities: The Woredanet wide area network infrastructure project, which is intended to connect the regional sector bureaus and woredas, is expected to begin during 2014. In addition, IFMIS is expected to be rolled out to Regional Governments under the EMCP program.

Table 3.38 PI-24 Results

Score PI-24 (M1)	Minimum Requirements	Justification
C+		
(i) C	Expenditure is captured either at commitment or at payments stage.	Detailed comparison is possible for revenues, recurrent expenditures, and domestically financed capital expenditure for each BI and by economic classification. Reports do not cover expenditure at commitment stage, nor do they cover expenditures funded by DPs through Channel 1b. .
(ii) A	Reports are prepared quarterly or more frequently and issued within four weeks of end of period.	The rollout of IBEX and exchange of data using soft copies minimize the duplication of effort and provide for the timely preparation of quarterly reports. BoFED helps some BIs complete them in time.
(iii) B	There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency and usefulness.	Generally there is no material concern for the quality of financial reports prepared by most of the BIs, but some of them need to improve their quality.

Sources: Accounts Department staffs of BoFED, BoH, and BoE; IBEX budget execution reports.

PI-25 Quality and timeliness of annual financial statements

The Financial Administration Proclamation lists the required content of the annual financial report, which includes: consolidated fund, debt, and contingent liabilities; budget outturn; budget subsidy transfer; special funds; and the opinion of the Auditor General.

BoFED's annual consolidated report includes financial reports from the 48 regional sector offices, 9 zonal offices, and 72 woredas (including 4 city administrations). All sector offices use IBEX on a stand-alone basis. A local area network is used at BoFED for IBEX.

(i) Completeness of the financial statements

The annual financial report that BoFED prepares contains information on the accounting policies that it uses, revenue outturn, recurrent and capital expenditure outturns by BIs and by sources of funds, statement of cash flows, statement of financial position, financial assets and liabilities. and detailed trial balances. (The latest report at the time of the field work covered EFY 2005, FY 2012/13.) The report does not include revenue arrears. Neither does it include the Channel 1b DP-funded projects and programs (PI-7), as these do not use the IBEX codes. The Aid Coordination Unit in BoFED prepares separate financial reports on these projects and programs for submission to the respective DPs and to MoFED.

(ii) Timeliness of the submission of the financial statements

The Financial Administration Proclamation and Financial Administration Regulations (no. 69 EFY 2003) require BIs to submit their annual financial report to ORAG within three months from the end of the fiscal year. No specific deadline is provided as to when BoFED should submit the consolidated annual financial report to ORAG.

The timeliness of reporting has improved significantly since EFY 2003. The EFY 2005 consolidated financial statement was submitted to ORAG in less than four months from the end of the fiscal year.

Table 3.39 Timeliness of Submission of Financial Statements to ORAG

Financial statements	EFY2003 (2010/11)	EFY2004 (2011/12)	EFY2005 (2012/13)
Statements received by ORAG	December 2, 2011	January 22, 2013	October 24, 2013
Timeliness of submission (from end of FY)	4 months + 22 days	6 months +14 days	3 months + 14 days

Source: BoFED Accounts Department.

(iii) Accounting standards used

The annual financial statements are prepared on a historical cost basis, using a modified cash basis of accounting. Revenue is recognized on receipt, except for aid in kind (which should be valued before being brought to account),[15] employee income tax and fines (recognized on processing of payroll), and deduction of withholding tax from payments to suppliers (on payment of invoices). Advance payments are recognized as an asset. External assistance is also

[15] This was not always the case. Aid in kind received by BIs in the form of assets and consultancy services was not recorded.

recognized on receipt. The Financial Administration Proclamation requires the recognition of contingent liabilities, though BoFED does not estimate these.

Expenditure, including expenditures on fixed assets and property, is recognized on a cash basis during the year, but capital expenditures are accrued at the end of the year for the annual statements. The accounts are kept open for a grace period of one month after the end of the financial year so that outstanding liabilities are paid and cash payments catch up with recorded expenditure. Salary and pension payments are recognized on processing of the payroll (monthly). Investments in public enterprises are recorded as expenditure (account codes 6412 and 6413) in the year of payment. Subsequent year commitments for additional investment are not disclosed. Intergovernmental transfers are recognized without actual cash movement (5020–5039 and 4208–4210).

Financial statements are not in line with International Public Sector Accounting Standards (IPSAS). The financial statements for EFYs 2003, 2004, and 2005 contain detailed analysis of financial performance, which includes comparative analysis with the previous year. Financial assets and liabilities are presented separately. The financial statements contain cash flow statements, statements of financial position, and statements of financial performance. Disclosures to the financial reports are provided.

Ongoing and planned activities: BoFED has a plan to implement Woredanet, which is a wide area network that will be available to all woredas for the use of IBEX.

Table 3.40 PI-25 Results

Score PI-25 (M1)	Minimum requirements	Justification
C+		
(i) B	A consolidated government statement is prepared annually. It includes, with few exceptions, full information on revenue, expenditure, and financial assets/liabilities	Annual consolidated financial reports are prepared and contain all expenditures—except for those being funded by DPs—revenues, assets, and liabilities. Disclosures are not provided for revenue arrears and Channel 1b funded projects and programs.
(ii) A	The statement is submitted for external audit within six months of the end of the fiscal year.	The statements for FYs 2010/11, 2011/12, and 20012/13 were submitted to ORAG within five, seven, and four months, respectively, from the end of the financial year.
(iii) C	Statements are presented in consistent format over time with some disclosure of accounting standards.	Financial statements are prepared on a modified cash basis of accounting but financial statements are not fully in line with IPSAS

Sources: Accounts Department, Somali BoFED; annual financial statements; trial balances

3.7 External Oversight and Legislative Scrutiny

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates, as well as the public accounts.

Table 3.41 External Scrutiny and Audit Performance Indicators

No.		Score
PI-26	Scope, nature and follow-up of external audit	C+
PI-27	Legislative scrutiny of the annual budget law	C+
PI-28	Legislative scrutiny of external audit reports.	B+

PI-26: The scope, nature, and follow-up of external audit

ORAG was established in FY 1999 (EFY 1991) under Proclamation no. 6/1991, in accordance with Article 107 of the Constitution of Somali Regional State. This law has been used since then without amendment, while many of the Regional Governments, including the Federal Government, revised theirs in 2011 and 2012. Key provisions include the following:

- The Auditor General and Deputy Auditor-General shall be appointed by RC upon nomination by the head of government and will be accountable to the RC. The Auditor General will be accountable to the President of the Council between sessions. The Proclamation does not state the term of office of the Auditor General.
- ORAG carries out financial and performance audits of the accounts of public bodies, public enterprises, and associations and submits reports to the RC once a year. The Auditor General submits a copy of the audit report to the audited entities and may notify the Bureau of Justice if a report indicates the commission of a crime.

- The Auditor General may submit audit reports earlier than the six month reporting schedule if a report contains findings which require the immediate attention of the RC.
- ORAG issues audit certificates to the employer of the regional offices, organizations, or association after he/she has certified their competency.

ORAG has 69 staff members, of whom 37 are auditors.

To enhance the quality of auditing, ORAG recently conducted a peer review on audit quality assurance at a seminar with Harari and Dire Dawa ORAGs

(*i*) *Scope and nature of audit*

(a) Extent of audit coverage of Regional Government bureaus

There are 131 audit entities, including 9 zones, 72 woredas (including towns), and 48 Regional Government bureaus. ORAG audited 68 of these in EFY 2005 in relation to activities in EFY 2004 (FY 2011/12). ORAG categorizes the BIs according to their perceived level of risk: high, medium, and low. Audit entities with large budgets are classified as high risk. BIs in the basic service sectors, including BoH, BoE, and Bureau of Water Resources, fall under the high risk category. Entities classified as high risk are audited every year and entities with moderate and low risk are audited every other year. According to ORAG, its audit coverage in EFY 2005 was 61 percent and 52 percent in terms of total expenditure and number of audit entities respectively. The audit coverage in EFY 2004 in terms of expenditure was 51 percent. The proportion of regional bureaus audited to all regional bureaus was 57.6 percent in EFY 2005 (34 bureaus out of 59).

OFAG covers Channel 1 DP projects, as they fall under the Federal Government's budget. ORAG also audits these, resulting in what appears to be unnecessary duplication of scarce resources. ORAG also audits three of the five public enterprises.

(b) Nature of audit

The emphasis is on financial audits, covering revenue, expenditure, and financial assets and liabilities, and compliance audits, covering internal controls, including those for payroll, procurement, and property administration. ORAG conducted 65 financial and compliance audits and 3 special (investigative) audits during EFY 2005 (FY 2012/13). Table 3.42 summarizes the audits.

Table 3.42 Scope and Nature of Audits Carried Out in EFY 2005 on EFY 2004

Elements covered	% of expenditure audited	Audits carried out	Audit standards applied
Expenditure Assets Liabilities (debt)	61%	Financial audits focusing on systemic problems: disbursement, cash management, property, procurement, recording, reporting, etc.) Special audits	INTOSAI

(c) Adherence to auditing standards

Publication of audit reports (INTOSAI standard): ORAG does not have a website. Audit reports are available to the public on a demand basis, and the annual audit speech of the Auditor General is broadcast on TV.

Independence of ORAG from the executive (INTOSAI Standard): ORAG follows the INTOSAI audit standards. Currently it uses the 2012 *Regulatory Audit Manual*. ORAG is accountable to the RC and, independently of BoFED, submits its annual budget to it for review and approval (Article 7f of the Audit Proclamation).

Cooperation and public relations: The Audit Proclamation provides ORAG the right of access to all the information required for it to fulfill its responsibilities (Article 10 of the Proclamation), thus meeting another International Organization of Supreme Audit Institutions (INTOSAI) standard.

Audit methodology: The audit focuses mainly on internal control systems using a risk-based sample approach. ORAG looks at IA department reports (PI-21) as part of its work. One of the checklists of ORAG is the IA checklist. IA departments also follow-up on the findings of ORAG.

(ii) Timeliness of submission of audit reports to legislature

The Audit Proclamation does not specify the date of submission of audit reports to the RC.

ORAG completed and submitted the audit reports for EFY 2004 and 2005 within less than two months, as shown in Table 3.43. ORAG presents its audit reports to auditees. Only audit reports with adverse and disclaimer audit opinions are submitted to RC. Qualified audit reports with an indication of commission of a crime are submitted also to the Bureau of Justice and Parliament.

Table 3.43 Timeliness of Financial Audits

Financial statements	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Date received by ORAG	Not available	October 12, 2012	October 21, 2013
Dates of submission of audited financial statements to RC	Not available	November 26, 2012	December 17, 2013
Duration of audit	Not applicable.	1 month, 14 days	1 month, 27 days

(iii) Evidence of follow up on audit recommendations

ORAG discusses its audit findings with the relevant staff of the audited organization at the time of the exit conference. Auditees are required to respond within 20 days from the receipt of the audit report. In practice, many of the auditees take more than two months to respond. ORAG follows up on the extent of implementation of its recommendations when it conducts the next audit. Unlike the situation in Oromia, Tigray, and SNNPR, there is no separate department within ORAG that is dedicated to follow up. The focus of ORAG is more on coverage. The ORAG has no organized system of recording and monitoring of actions taken as per the audit findings and recommendations.

Ongoing and planned activities: As noted under PI-28, the Public Accounts Committee (PAC) started to follow-up in 2013 on progress being made by BIs in implementing audit recommendations.

Table 3.44 PI-26 Results

Score PI-26 (M1)	Minimum Requirements	Justification
C+		
(i) C	Regional Government entities representing at least 50% of total expenditures are audited annually.	One hundred thirty-one audit entities, which represent 61% of the regional budget, were audited during EFY 2005. This is the limiting factor in rating this dimension. Financial and compliance audits are conducted with focus on systemic issues and are broadly in compliance with INTOSAI standards, except for the publishing standard.
(ii) A	Audit reports are submitted to the legislature within eight months of the end of the period covered and in the case of financial statements from their receipt by the audit office.	The audit report on the consolidated accounts prepared by BoFED was completed within six months from the end of the FY and in less than two months from its receipt from BoFED. Individual audit reports are submitted to RC when completed. In addition, ORAG submits a six month report to RC
(iii) C	Formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.	Many auditees respond to ORAG's audit findings only after a delay. ORAG does not have a systematic follow-up process. This is beginning to develop due to PAC commencing its own follow-up in 2013.

Sources: Auditor general; ORAG reports; ORAG Proclamation.

PI-27 Legislative scrutiny of the annual budget law

The power to give the Government authority to spend rests with the Legislature and is exercised through the passing of the budget law.

(i) Scope of the legislature's scrutiny

The Committee for Budget and Finance (CBF) is the Standing Committee in the Regional Council (RC) that scrutinizes the annual draft Budget Proclamation submitted to it by the SRG. The Proclamation is submitted close to the end of the fiscal year. The draft proclamation contains revenue and expenditure estimates plus details of budget subsidies to woredas and a summary table of financial resources (subsidies from the Federal Government, domestic revenues, and external assistance) and expenditures (recurrent and capital) by BI, including sub agencies and projects falling under sector bureaus (e.g., Jijiga Hospital under the Health Bureau). As noted under PI-6, a certain amount of supporting documentation accompanies the draft Budget Proclamation.

The limiting factor, however, is that the draft proclamation and supporting documentation is submitted to the RC close to the end of the fiscal year, thus providing the RC with no time to look at the policy aspects of the Budget Proclamation. The PEFA Field Guide (issued February 2012) states that, *"It is of very limited, if any, use to review the fiscal policies and aggregates at a time when the detailed budget proposals have been finalized, with little scope for timely revision."*

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

The procedures for the Budget and Finance Committee (BFC) procedures and for RC as a whole are governed by the Rules and Regulations of Parliament. The CBF has five full-time members, including the Chairman and Secretary. The BFC meets after receiving the draft Budget Proclamation from the Regional Cabinet. It reviews the draft in depth. It can call in bureau heads to answer queries, calling in seven bureaus in relation to the draft proclamation *for FY 2012/13 (EFY 2005). It has the power to recommend changes, as long as these do not* lead to total expenditure being exceeded. (For example, in relation to the FY 2012/13 draft budget, it recommended the construction of a primary school in a certain woreda, the additional expenditure to be offset by savings to be identified). The BFC then submits the draft budget to the RC with recommendations for adjustments attached. The RC then has two to three days to review the draft budget and the recommendations suggested by BFC. Minutes are kept of the BFC and RC meetings.

(iii) Adequacy of the time for the legislature to provide a response to budget proposals

The review process in the RC lasts about five weeks, with most of the review time being at the BFC level of review. The draft Budget Proclamation is submitted to the RC at the end of May and is approved by July 6 at the latest.

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

The Financial Administration Proclamation and the annual Budget Proclamations specify the rules for in-year amendments to the budget. Reallocations between BIs can be made without the requirement for ex-ante approval by the RC, except that reallocations to recurrent expenditure from capital expenditure are not allowed. As noted under PI-2 and PI-16, the extent of reallocations is significant.

Increased spending relative to the originally approved budget requires a supplementary proclamation to be approved by the RC *ex-ante*, regardless of the source of the additional resources (including DPs), unless the resources are to be used to finance an increase in personnel emoluments. The chairman of CBF emphasized that this requirement is strictly adhered to. *Ex-post* approval would be a criminal offence. One supplementary budget at most is presented to the RC each year. (At the woreda level, however, woreda governments or city administrations have been allowed, starting in FY 2012/2013, to retain revenues earned in excess of budgeted amounts and spend this without obtaining prior Woreda Council approval, through a supplementary appropriation).

Table 3.45 PI-27 Results

Score PI-27 (M1)	Minimum requirements	Justification
C+		
(i) C	The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.	The documentation submitted to BFC near the end of the fiscal year consists of the draft Budget Proclamation and supporting documentation (noted under PI-6). However, the documentation is submitted at a state where detailed proposals have been finalized.
(ii) B	Simple procedures exist for the legislature's budget review and are respected.	The committee's procedures are governed by the Rules and Regulations of Parliament. They are generally respected. They do not provide for specialized review committees and negotiation procedures.
(iii) C	The legislature has at least one month to review the budget proposals.	The time available for review is about five weeks (the score would have been B if dimension (i) had been B)
(iv) B	Clear rules exist for in-year budget amendments by the executive and are usually respected, but they allow extensive administrative reallocations.	The rules are contained in the Financial Administrative Proclamation and the annual Budget Proclamations. As indicated in PI-16 (iii), in-year reallocations between budget institutions that do not require *ex-ante* approval by the RC are extensive. The requirement of *ex-ante* approval by the RC of supplementary budgets (spending of additional resources) is met.

Source: Chairman, CBF; Rules and Regulations of Parliament; Financial Administration Proclamation; Budget Proclamations.

PI-28 Legislative scrutiny of external audit reports

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. In Somali Region, the PAC in the RC is responsible for scrutinizing the audit reports prepared by ORAG.

(i) Timeliness of examination of audit reports

The PAC receives the consolidated audit report prepared by ORAG in the first or second week of May of the FY that follows the FY for which ORAG has prepared its report. The PAC starts its review upon submission of the report and generally finishes by the end of the FY in early July, thus taking about two months to review the report. The review may include field visits; pictorial evidence was shown to the assessment team of a newly constructed bridge that was in bad shape, due perhaps to diversion of maintenance funds. The consolidated report comprises the audited annual financial statements and a summary of the audit reports on individual BIs.

The PAC also reviews the individual reports on BIs, including those on woreda governments. Each review takes about 15 days. PAC has a backlog of reports to review.

(ii) Extent of hearings on key findings

Hearings are conducted for audit reports with qualified opinions or worse. The ORAG report for FY 2011/12 (EFT 2004) shows that, out of 68 completed audits, 64 had qualified opinions and 2 had disclaimers of opinions (i.e., only 2 were "clean"). The PAC may hold hearings through visits to BIs. The Justice Bureau may be asked to attend meetings. The meetings in the RC are televised. Thirty hearings were held in FY 2012/13 (EFY 2005) with regard to audit reports for 2011/12 (EFY 2004), and 20 had been held to date (mid-May) in 2013/14, (EFY 2006) with regard to audit reports for 2012/13 (EFY 2005).

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

Following each hearing, the PAC prepares a list of recommendations for the BIs for which hearings were held to implement. The team was able to look at one of these lists. If BIs do not show evidence of action within 15 days, the PAC will raise the same issues again.

The PAC does not maintain a formal checklist of whether its recommendations have been implemented or not, but monitors implementation on an ad-hoc basis.

Table 3.46 PI-28 Results

Score PI-28 (M1)	Minimum Requirements	Justification
B+		
(i) A	Scrutiny of audit reports is usually completed by the legislature within three months from receipt of the reports.	Review of the annual consolidated audit report prepared by ORAG takes about two months following their receipt. The review time for individual audit reports is much shorter, but the large number of them means that the review is not completed until several months after their submission. The consolidated report summarizes the main audit findings of the individual reports, and so the A rating is based on the consolidated report.
(ii) B	In-depth hearings on key findings take place with responsible officers from the audited entities a routine basis, but they may cover only some of the entities, which received a qualified or adverse audit opinion	In-depth hearings are held for those BIs that received a qualified opinion or worse. The hearings do not cover all the BIs that fit into this category. Out of the 66 BIs that received a qualified opinion or worse in relation to FY 2011/12, hearings were held for 30 of these.
(iii) B	Actions are recommended to the auditee, some of which are implemented according to the existing evidence.	The PAC prepares recommendations for actions to be taken by BIs to address the findings of audit reports. It follows up on whether these are being implemented, and some of them are.

Source: Chairman, BFC; Somali Regional Council.

3.8 Donor Practices

Table 3.47 Donor Practices Performance Indicators

No.	Donor Practices	Score
D-1	Predictability of direct budget support	Not applicable
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C
D-3	Proportion of aid managed by use of national procedures	At least C

D-1 Predictability of Direct Budget Support

This indicator is not applicable as Somali Region does not receive direct budget support (i.e., unearmarked funds that are deposited by donors into the Central Treasury Account and co-mingled with domestic revenues). Budget support is provided to the Federal Government and helps to finance the block grant from the Federal Government to the Regional Governments, one of the conditions being adequate funding of the Protection for Basic Services (PBS) program.

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

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

SRG's Budget Proclamations contain information on DP operations. The DP operations that represent the so-called Channel 1b types, whereby the DPs channel their funds directly through BoFED (as described in Chapter 2 and PI-7 in Chapter 3), are included in the proclaimed capital budgets under the external assistance and external loans categories, even though some of the expenditures are likely to be recurrent in nature. The names of the DPs are not shown, but they are not many and include the largest, World Bank, and the four UNEXCOM agencies: UNICEF, UNDP, UNFPA, and WFP. The budgeted expenditure is highly summarized and not disaggregated according to SRG's budget classification system. The information on planned spending is provided in time for the budget preparation season (the exact date of submission not known).

(ii) Frequency and coverage of reporting by DPs on actual donor flow for project support

The budget execution reports, as reflected in the expenditure and trial balance statements, do not cover the DP projects and programs that are included in the proclaimed budgets. This is because they do not use SRG's budget classification system and therefore cannot be captured in the IBEX-generated reports.

Nevertheless, the execution of the DP-funded projects and programs that are included in the proclaimed budgets is reported on routinely through the project implementing units in sector BIs and the Channel 2 Unit in BoFED, but not using IBEX codes. In Amhara and, in particular, Tigray, a bridging system enables conversion of DP codes to IBEX codes, so that execution of DP-funded projects and programs can be reported on in IBEX, but this has not been the case in Somali Region. A start was made at the beginning of FY 2013/14 to address this issue for some projects (mainly UNICEF's) through the use of bridging codes at broad economic classification level.

Table 3.48 D-2 Results

Score D-2 (M1)	Minimum requirements	Justification
C		
(i) C	At least the five largest DPs provide estimates of planned disbursements next year in time for incorporation SRG's budgets, but they use their own budget classification systems.	Some DPs provide their assistance though Channel 1b (DPs straight to BoFED). Their assistance is reflected in the proclaimed budgets, but it is not broken down according to SRG's budget classification codes.
(ii) C	DPs provide timely quarterly reports on actual flows for project support.	The Channel 1b DPs provide timely reports on operations through the Channel 1 unit in BoFED. The reports are not reflected in IBEX reports, as the DPs do not use SRG's budget classification system. The IBEX generated budget execution reports show zero for actual expenditures.

Sources: BoFED Planning and Budgeting Department; BoE; BoH; budget performance reports; trial balance sheets.

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

The dimension to be assessed is the overall proportion of aid funds to central government that are managed through national procedures (banking, authorization, procurement, accounting, audit, disbursement and reporting).

BoFED approval is required for externally financed project implementing units (PIUs) to open bank accounts, but these are not yet part of the TSA/zero balance budget execution system (as noted under PI-17), partly because DP-funded projects and programs do not use IBEX to control budget execution. This creates inefficiencies in liquidity management if surplus cash is sitting in PIU bank accounts, which cannot be accessed for funding execution of the proclaimed budget.

Expenditure commitment and payment controls through IBEX do not apply to DP-funded projects and programs (as noted under PI-20).

Budget execution reports and accounts generated through IBEX do not cover DP-funded projects (as noted under PIs 24 and 25).

Government procurement systems are coming closer to international best practice standards, but DPs still mainly use their own procurement systems, with the exception of the UN executing agencies (as noted under PI-19).

ORAG and internal auditors have the mandate to audit DP-funded projects/programs, but DPs tend to recruit their own auditors, resulting sometimes in multiple auditing of the same project.

Human resource management systems also tend to be different, with staff of PIUs recruited outside the Civil Service, under conditions different from those of civil servants.

The relevant amounts of aid are those delivered through Channel 1b (DPs direct to BoFED), Channel 2b (aid delivered directly to sector bureaus by DPs), and Channel 3 aid directly to projects, which have a service delivery agreement with sector bureaus. The amount delivered through Channel 1b was about ETB 50 million in FY 2012/13, and most of this was delivered using DP procedures. The total amount delivered through Channel 2b is known (PI-7 ii), about ETB 30 million in FY 2012/13, but none of it uses country procedures. The total amount of aid delivered through Channel 3 is not known (PI-7 ii) and none of it uses country procedures.

According to MoFED, 8.14 percent of the block grants to BoFED from MoFED in FY 2012/13 consisted of the budget support provided by DPs on the basis of the 8.14 percent of SRG's share of MoFED's allocation of block grants to regions (Table 10 of Federal Government PEFA). The total block grant to BoFED in FY 2012/13 was ETB 3 billion (indicated in the Budget Proclamation), so the DP share of this was ETB 244 million. By definition, country procedures are used in spending this. With Channel 1b and Channel 2b aid amounting to about ETB 80 million in FY 2012/13, mainly using DP systems, Channel 3 aid would have had to exceed ETB 164 million in FY 2012/13 in order for D-3 to be scored as D (less than 50 percent of DP aid uses SRG systems). This is very unlikely.

Table 3.49 D-3 Results

Score D-3	Minimum Requirements	Justification
At least C	More than 50% of aid is managed through Regional Government systems.	SRG PFM systems are used for the spending of the DP component of the block grant to SRG from MoFED, and to some extent for the spending of the Channel 1b funds. SRG systems are not used for the spending of Channel 2b and Channel 3 funds. The total magnitude of these is not known, but it is unlikely that it exceeds the amount of aid provided through PBS and Channel 1b.

Sources: BoFED; BoE; BoH.

3.9 Predictability of Transfers from the Federal Government

This indicator is assessed in terms of the predictability of the receipt of the block grant, the amount of which is specified in the Budget Proclamation, and which is unconditional in its use. BoFED submits a cash flow forecast to MoFED for the year that indicates its financing requirements for the year. Predictability is generally very good; for recurrent expenditure, both end-year and in-year, the amounts are being disbursed on time in 12 installments. In EFY 2003, however, the block grant was 8.5 percent higher than budgeted for, due to Federal Government-mandated salary increases at all levels of government. This had no bearing on predictability, however, as the money was allocated to already specifically identified expenditures. Disbursement of the capital expenditure component of the block grant depends on performance to an extent, so assessment of predictability lacks meaning.

The other main transfer from MoFED is the MDG Fund grant, which was established FY 2011/12. The proposed use of the grant is included in the proclaimed budget on sector bureau basis (for the water, education, health, agriculture, and rural roads bureaus). Payment is on a reimbursement basis, conditional on demonstration that the proposed projects have/are being implemented. Predictability cannot be measured, therefore.

As indicated under PI-13, profits taxes VAT, and excise duties are shared between GoE and SRG. ERCA directly collects its share of profits taxes through its Regional Government branches. It collects SRG's share of VAT and excise duties and deposits this into BoFED's account. Transfers depend on actual collections, which cannot be determined *ex-ante.*

(i) Annual deviation of actual total High Level Government (HLG) transfers from the original total estimated amount provided by HLG to the SN entity for inclusion in the latter's budget

Annual deviation of actual block grant transfers to BoFED from the original total estimated amounts is very small.

(ii) Annual variance between actual and estimated transfers of earmarked grants

The MDG grant is disbursed on a performance basis. This dimension is therefore not applicable.

(iii) In-year timeliness of transfers from HLG (compliance with timetables for in-year distribution of disbursements agreed within one month of the start of the SN fiscal year

Predictability is very good, the amounts disbursed on time in 12 monthly installments for recurrent expenditure, according to a schedule agreed with MoFED. The capital expenditure component is disbursed mainly on an as-required basis, so this dimension does not apply to it.

Table 3.50 HLG-1 Results

Indicator	Score 2014	Justification
HLG-1 (M-1)	A	
(i)	A	In no more than one of the last three years have HLG transfers fallen short of the estimate by more than 5%.
(ii)	NA	
(iii)	A	Actual transfers have been distributed evenly across the year in all of the past three years, in accordance to a schedule agreed at the time of budget approval.

4. Government Reform Process

4.1 Recent and Ongoing Reforms

PFM reforms are based on the Federal Government–led Expenditure Management and Control Program (EMCP) that started in the early 2000s. Until 2013, it was also based on the Public Sector Capacity Building Program (PSCAP).

- A five-year Growth and Transformation Plan (GTP) was issued in line with the national GTP. Sector bureaus have also developed respective sector strategies based on the regional GTP.
- The Regional legal frame work for PFM is based on the Federal Government legal framework for PFM, with the exception of the customization of legal documents to the local context. The Financial Administration Proclamation, accompanying regulations and 13 directives has been issued (PI-20). The Public Procurement and Property Administration Proclamation and its accompanying directives and manuals have been updated and customized. Fixed Asset and Stock Management Manuals have been legalized, translated into regional languages and put into practice at all levels.
- In 2010, the accounting system was changed from the single entry to the modified cash base of accounting and double entry bookkeeping system. Training has been given at regional and sub regional levels on the new system. The integrated budget and expenditure (IBEX) training center within the Bureau of Finance and Economic Development (BoFED) supports the implementation of IBEX, provides training on IBEX 1.3 to all levels of government, and is organizing the rollout of IBEX to all levels of government.
- The internal audit system has been reorganized to conduct post audit functions in order to strengthen control on the use of resources and safeguard assets. A law has been enacted to prevent the dismissal and suspension of internal auditors by heads of departments.
- Community-wide mobilization and taxpayer education training has been conducted throughout the region. Taxpayers have had access to information on taxpayer obligations and liabilities through the Somali Revenue Service website (www.srsrevenue.net), published brochures, radio and TV broadcasts, guidelines, posters, and pamphlets. The PSCAP project has provided assistance.
- Budget reform has been implemented in the region since 2006. Training on budget preparation and management has been given to the staff of all budget institutions (BIs). A intergovernmental fiscal transfers formula was developed in 2012.
- In the interests of efficient cash management, the payments component of the budget execution system was changed in 2009, from the system of cash transfers to the Single Treasury Account/ Zero balance system. Under this system, BIs are allocated monthly cash expenditure limits based on their cash flow forecasts and BoFED authorizes the daily release of funds up to the limit into virtual bank accounts held by BIs so that they can pay suppliers.

4.2 Institutional Factors Supporting Reform Planning and Implementation

- PFM reforms have been ongoing for several years, led by the Federal Government under the auspices of the EMCP and PSCAP.[16] The EMCP covers the following components: legal framework reform, procurement reform, budget reform, accounts reform, internal audit reform, cash and disbursement reform, government property administration reform and information system reform.
- The Protection of Basic Services (PBS) project is helping to strengthen the decentralized PFM system and supports local civil society organizations that improve opportunities for citizens to provide feedback on service delivery to local administrators and service providers.
- At the regional level, there is a PFM steering committee composed of heads of departments of BoFED and also a woreda-level steering committee composed of Woreda Office of Finance and Economic Development (WoFED) section department heads. In addition, there is a technical support team at the BoFED level that provides support to the implementation of the various reforms at the regional and woreda levels.
- Decentralization was implemented in 2004. The structure of government is similar at all levels of government. Zonal institutions are sub-agencies at the Regional Government level. The Revenue Bureau was converted to authority level with higher staffing. The Procurement and Property Administration was established recently.
- The internal audit units of sector bureaus were structurally organized into departments reporting to the head of BIs and to the Inspection department at BoFED.
- An External Resource Mobilization, Coordination And Management Core Process was established in BoFED for the coordination of Channel 1 programs (DP-funded programs, the funds being channeled to BoFED through MoFED).
- A Public Accounts Committee and the Budget and Finance Standing Committee were established at the Regional Council and are currently functional.
- IFMIS is expected to be rolled out at regional level in the coming few years to replace the existing IBEX. IFMIS is expected to address the limitations of IBEX through integrating the payroll and human resource management databases and the property administration, procurement, commitment and budgetary controls, accounting and reporting functions.

[16] The Public Sector Capacity Building Program (PSCAP) started in 2005 under the Ministry of Capacity Development. The project was phased out in 2014

Appendix A. Calculation of Performance Indicator Two on Budget Variance

Table A1 Budgeted and Actual Expenditure by Budget Institution, 2010/11

Code	Budget Institution	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
133	Security Coordination Office	215,000,000	270,017,119	253,959,649	16,057,469	16,057,469	7.5
221	Water Bureau	163,618,200	166,129,399	193,267,073	-27,137,674	27,137,674	16.6
341	Health Bureau	128,736,400	140,711,319	152,064,423	-11,353,104	11,353,104	8.8
311	Education Bureau	95,924,200	1087,65,830	113,306,401	-4,540,571	4,540,571	4.7
115	Office of Regional Administration	76,698,700	88,579,609	90,597,093	-2,017,484	2,017,484	2.6
272	Works and Urban Development	62,637,900	82,452,868	73,988,368	8,464,500	8,464,500	13.5
127	Police	62,190,200	719,96,752	73,459,541	-1,462,789	1,462,789	2.4
273	Rural Roads Authority	64,557,800	53,977,487	76,256,169	-22,278,682	22,278,682	34.5
211	Agriculture	23083,100	37,747,205	27,265,935	10,481,270	10,481,270	45.4
153	Mass Media	12,706,300	35,010,263	15,008,779	20,001,484	20,001,484	157.4
213	Agro-Research Institute.	29,457,300	31,459,398	34,795,189	-3,335,791	3,335,791	11.3
129	Prison Commission	16,628,900	20,742,787	19,642,184	1,100,603	1,100,603	6.6
361	Sport Commission	4,727,200	17,166,334	5,583,805	11,582,529	11,582,529	245.0
152	Finance	11,469,000	16,518,564	13,547,271	2,971,293	2,971,293	25.9
318	Capacity Building	14,313,400	14,705,843	16,907,098	-2,201,255	2,201,255	15.4
122	Supreme Court	11,336,600	13,362,410	13,390,879	-28469	28,469	0.3
231	Trade and Transport	12,728,700	12,856,529	15,035,238	-2,1787,09	2,178,709	17.1
123	Sharia Court	6,389,500	11,367,081	7,547,326	3,819,754	3,819,754	59.8
111	Parliament	8,292,300	10,274,301	9,794,928	479,372	479,372	5.8
121	Justice Bureau	10,938,100	7,033,988	12,920,168	-5,886,180	5,886,180	53.8
	All other votes (residual)	34,432,200	48,134,013	40,671,579	7,462,434	7,462,434	21.7
	Approved total budget expenditure	1,065,866,000	1,259,009,096	1,259,009,096	0	164,841,417	
	Contingency	120,000,000	0				
	Total expenditure	1,185,866,000	1,259,009,096				
	Overall (PI-1) variance						6.2
	Composition (PI-2) variance						13.1
	Actual cont. % budget						0.0

Table A2 Budgeted and Actual Expenditure by Budget Institution, FY 2011/12

Code	Budget Institution	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
221	Water Bureau	147,445,158	169,541,408	158,219,310	11,322,098	11,322,098	7.2%
133	Security Justice Coordination	396,000,000	435,038,439	424,936,618	101,018,20	10,101,820	2.4%
341	Health Bureau	147,469,153	142,664,362	158,245,059	-15,580,697	15,580,697	9.8%
311	Education Bureau	125,129,635	113,585,648	134,273,141	-20,687,493	20,687,493	15.4%
115	Office of Regional Administration	65,598,197	993,419,44	70,391,606	28,950,338	28,950,338	41.1%
273	Rural Roads Authority	91,001,207	96,322,759	97,650,872	-1,328,112	1,328,112	1.4%
127	Police Commission	80,264,843	76,182,420	86,129,977	-9,947,558	9,947,558	11.5%
211	Bureau of Livestock and Agriculture Development	54,337,233	46,523,321	58,307,778	-11,784,457	11,784,457	20.2%
272	Bureau of Works and Urban Development	22,003,991	30,239,363	23,611,873	6,627,491	6,627,491	28.1%
129	Prison Administration	28,538,349	29,696,124	30,623,711	-927,587	927,587	3.0%
152	BoFED	1,6014,812	27,685,112	17,185,051	10,500,061	10,500,061	61.1%
213	Agro-Pastoral Research Institute	27,452,190	25,697,149	29,458,184	-3,761,035	3,761,035	12.8%
155	Civil Service Bureau	4,324,270	2,4734,054	4,640,254	20,093,800	20,093,800	433.0%
231	Bureau of Trade, Transport, Industry and Communications	28,553,400	23,189,683	30,639,862	-7,450,179	7,450,179	24.3%
361	Disaster Prevention and Preparedness Office	3,855,200	19,440,138	4,136,908	15,303,230	15,303,230	369.9%
122	Supreme Court	17,088,223	17,747,068	18,336,898	-589,830	589,830	3.2%
153	Information Office	15,286,349	17,058,760	16,403,357	655403	655,403	4.0%
121	Bureau of Justice	14,110,470	17,017,400	15,141,554	1,875,846	1,875,846	12.4%
123	Sharia Court	13,946,756	14,512,997	14,965,877	-452,880	452,880	3.0%
154	Mass Media Agency	5,532,206	12,696,431	5,936,457	6,759,974	6,759,974	113.9%
	All other votes (residual)	106,992,952	75,130,939	114,811,170	-39,680,231	39,680,231	34.6%
	Approved total budget expenditure	1,4109,44,594	1,514,045,516	1,514,045,516	0	224380121	
	Contingency	127,370,192					
	Total expenditure	153,8314,786	1,514,045,516				
	Overall (PI-1) variance						1.6%
	Composition (PI-2) variance						14.8%
	Actual contingency expenditure % share of budget						0.0%

Table A3 Budgeted and Actual Expenditure by Budget Institution, FY 2012/13

Code	Budget Institution	Budget	Actual	Adjusted budget	Deviation	Absolute deviation	%
133	Administration, Justice, and Security Affairs Coordination Office	470,000,000	604,042,130	612,313,667	-8,271,537	8,271,537	1.4
272	Bureau of Works and Urban Development	30,240,169	208,764,804	39,396,742	169,368,062	169,368,062	429.9
115	Office of Regional Administration	100,489,597	195,757,933	130,917,348	64,840,585	64,840,585	49.5
221	Water Bureau	160,073,626	179,532,740	208,543,126	-29,010,386	29,010,386	13.9
311	Education Bureau	127,590,387	161,331,778	166,224,123	-4892,345	4,892,345	2.9
341	Health Bureau	160,363,802	156,035,846	208,921,165	-52,885,320	52,885,320	25.3
273	Rural Roads Authority	138,000,970	129,276,405	179,786,979	-50,510,574	50,510,574	28.1
127	Police Commission	75,680,526	74,693,224	98,596,214	-23,902,990	23,902,990	24.2
211	Bureau of Livestock and Agriculture Development	54,297,395	51,259,866	70,738,377	-19,478,511	19,478,511	27.5
152	BoFED	22,088,098	50,556,478	28,776,264	21,780,214	21,780,214	75.7
154	Mass Media Agency	29,238,504	33,838,781	38,091,778	-4,252,997	4,252,997	11.2
129	Prison Administration	31,096,776	30,343,917	40,512,725	-10,168,809	10,168,809	25.1
312	TVET Agency	15,868,994	28,547,385	20,674,047	7,873,338	7,873,338	38.1
213	Agro-Pastoral Research Institute	28,626,155	26,015,740	37,294,013	-11,278,272	11,278,272	30.2
156	Revenue Administration	6,865,317	24,479,151	8,944,101	15,535,050	15,535,050	173.7
155	Civil Service Bureau	14,609,091	21,014,102	19,032,651	1,981,451	1,981,451	10.4
122	Supreme Court	18,491,916	18,243,567	24,091,176	-5,847,609	5,847,609	24.3
232	Micro and Small Enterprise Development Agency	35,374,322	17,692,768	46,085,491	-28,392,723	28,392,723	61.6
111	Regional Council	13,123,056	17,326,712	17,096,652	230,060	230,060	1.3
153	Information Office	16,558,013	15,590,121	21,571,697	-5,981,576	5,981,576	27.7
	All other votes (residual)	101,606,886	105,637,837	132,372,947	-26,735,110	26,735,110	20.2
	Approved total budget expenditure	1,650,283,600	214,9981,284	214,9981,284	0	56,3217,518	
	Contingency	150,000,000	0				
	Total expenditure	1,800,283,600	2,149,981,284				
	Overall (PI-1) variance						19.4
	Composition (PI-2) variance						26.2
	Actual contingency % budget						0.0

Appendix B. List of People Met

PERSONS SEEN

SN	Name	Office	Position
1	Mohammod Ibrahim	BOFED	Bureau Head
2	Mubashir Dibad	BOFED	Deputy head
3	Abdullahi Weirah Karie	BOFED	External Resource Core Process Owner
4	Jamal Farah	BOFED	Account And Treasury
5	Mohamud Hussein	BOFED	
6	Kedir Ahmed	BOFED	Finance & Procurement
7	Nur Amid Muhad	BOFED	Planning
8	Abdurhman Abud Meten	BOFED	M&E Budget & Planning
9	Adem Ali	BOFED	
10	Abderahuman sh Hassen	BOFED	Ispection
11	Fardan lech Qoger	BOFED	HRM Supporting
12	Kehij Adem	BOFED	COPCU Coordinator
13	Hussein Kadar Mohamed	BOFED	Internal Audit Process Owner
14	Bdikadar Abdilehi	BOFED	Procurement, Finance And Property Admin. Unit Head
15	Ugas Fuad	BOE	Planning Head
16	Aiderous Mahamed	BOE	Budget Coordinator
17	Ahmed Mohamed	BOE	Deputy Head
18	Kedir Mohamed	BOE	Planning Officer
19	Abdi Bashir	BOE	HRM Head
20	Abdikadir Jama Abdi	BOE	Internal Audit Head
21	Reshid Hassen	BOE	Finance Head
22	Mustafi Arab Husseen	BOE	M&E
23	Abdihalim Ahmed Ismael	BOH	Finance & Logistic Support Process Owner
24	Ahmed Hassen Ainab	BOH	Finance Case Coordinator
25	Idris Osman	BOH	Health Infrastructure Engineer
26	Mohamed Abdelhikelif	BOH	Logistic
27	Dew Abdulahi Muhamed	BOH	Plan Process Owner
28	Abdirahuman Ali Hure	BOH	Chanel 1 Budget Coordinator
29	Ahmed Srjar Tayib	BOH	Internal Auditor
30	Remedan Zekerja Ali	BOH	Internal Auditor
31	Mohammod Omer	Revenue Authority	HRM Head
32	Ismail Ibrahim	Revenue Authority	Tax Assessment Core Process
33	Abdikadir Mohamed	Revenue Authority	Tax Education Process Owner
34	Abdiaziz Muhumed	Revenue Authority	Finance & Logistic Support Process Owner
35	Abdulahi Ali Miad	Revenue Authority	Planning Core Process Owner
36	Abdi Gedi Adan	Revenue Authority	General Manager
37	Aburahman Salad Mohamed	BOFED	
38	Mohamed Abdi Waies	BOFED	
39	Khalil Ibrahim Abdi	BOFED	
40	Mohamed Abdi Omer	BOFED	

SN	Name	Office	Position
41	Abdilahi Mohamed Abdi	BOFED	
42	Abdirisak Siyad hirsi	BOFED	
43	Hussein Abdulahi Omer	BOFED	
44	Ahmed Walid Allah	ORAG	Performance Audit Manager
45	Mohamed Ibrahim	ORAG	Financial Audit Manager
46	Anbes Getahun Bekele	ORAG	Audit Manager
47	Mohamod Abdi Mohamed	ORAG	Auditor
48	Mehamed Nur Gade	Parliament	Chairperson
49	Hagal Muhamed Fimu	Parliament	Secretary
50	Mohamed Omer Behi	PAC Committee	Standing Committee
51	Faysal Gismah Hire	PAC	Standing Committee

Appendix C. List of Documents

List of Document Reviewed / Consulted

Somali Region

1. The Amended Rules and Procedures and Members Code of Conduct Regulation of the Somali Regional Council
2. Financial Administration Regulation – Proclamation No 11/2004
3. Proclamation for the establishment of the Somali Regional Auditor General – Proclamation No 6/1999
4. Cash flow forecast reports EFY 2005 and 2006
5. Annual Cash Flow Forecast Summary – Bureau of Health – 2005
6. Financial Reports including trial balances, revenue , budget expenditure reports for the EFY 2003, 2004 and 2005, Statement of financial positions
7. Inception report of the Internal Audit and Inspection department at BoFED
8. Procurement Action plan – BoFED
9. Annual Procurement Plan – Bureau of Health
10. Budget Proclamation
11. Bank Reconciliation Report of BoFED, BoE and BoH
12. Draft Budget Documents for EFY 2003, 2004 and 2005
13. Commitment Ledgers – BoE, BoH
14. Public Procurement Directive: No. 01/2010
15. Somali Regional State- BoFED -
16. Bureau of Finance and Economic Development - External resource mobilization, coordination and Management Core Process – Assessment of the current system and proposed working system(2012)
17. BoFED Annual Magazine – February 2014
18. Financial Administration Regulation – EFY 2004
19. NGO Review Meeting Report – 2013
20. Procurement and Property Administration - Proclamation 82/2010
21. Regional State Constitution – 1994
22. Budget Guide
23. Physical Report – EFY 2005
24. Auditor General Annual Report Summaries on audit findings based on audit conducted in EFY 2003, 2004 and 2005