



# THE GOVERNMENT OF THE KINGDOM OF LESOTHO

MINISTRY OF FINANCE

INTERNAL MID-TERM REVIEW

*Of*

THE PUBLIC FINANCIAL MANAGEMENT REFORM  
PROJECT (PFMRP)

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## **FOREWORD**

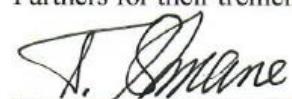
The Public Financial Management (PFM) system remains pivotal to Lesotho's public policy and fiscal policy making in particular, and the broader national development agenda. Over several years, the country's PFM system has suffered a number of critical weaknesses which have made it difficult for the Government and the country at large to pursue and fully achieve the objectives set out in various national policies and strategic development plans, which has had dire impact on the country's socio-economic development. Consequently, the efficacy of the national budget, which is based on very limited financial resources, particularly in recent years since the global economic meltdown, has been severely affected. This calls for strong policy response and serious corrective actions in a country where Government's role in the economy is pervasive with public spending constituting more than 50 percent of Gross Domestic Product (GDP).

To address the weaknesses in the PFM system, the GoL through financial and technical support from its Development Partners (DPs) —the African Development Bank (AfDB), the European Union (EU), the International Monetary Fund (IMF) and the World Bank (WB) embarked on an ambitious reform project which officially commenced in 2013 but its full implementation begun in 2015. Since the project inception, demonstrable progress is being made in the different components of the reform project, albeit important signs that more effort is required to realise meaningful changes in the PFM system. In light of being half way through the project implementation and the need to make an assessment of how well the project is being implemented, so that necessary improvements are made to optimize achievement of its objectives, I directed the Ministry and made a commitment during the Improvement and Reform Steering Committee (IRSC) meeting on 30<sup>th</sup> January 2017 to conduct an Internal Midterm Review (IMTR). The review has since been finalised and I am delighted to present the report of the review.

The objectives of the review were mainly to: (i) take stock of progress made; (ii) identify key reform impediments and risks and; (iii) establish experiences or lessons learnt in the middle of the project in order to determine any instances of slippages and make any necessary adjustments in light of recent developments or emerging circumstances in order to achieve the desired outcomes of the reform. This report, therefore, presents the outcomes of the review and makes appropriate recommendations for refocusing the reform and ensuring the reform process stays its course of success. It is the hope of Government that in the remaining project period, substantial improvements will be made to implementation processes to help maximize the achievement of the reform objectives.

It is extremely important to mention and strongly emphasise that the success of this reform lies in the active ownership and leadership from the highest level of Government. I wish to provide the assurance that Government remains committed to the reform, and through the leadership of the Minister of Finance, it will continue to closely monitor implementation of the project to ensure that the reform achieves its objectives. Government recognizes that while the reform is being implemented under a project arrangement, reforms themselves should be approached on an ongoing basis, so that they are continuous and sustainable. It is the definitive authority to instill discipline, compliance and routine that will always be an indispensable element of long lasting reforms. Government is committed to getting this right.

On behalf of the GoL and the entire Nation, I wish to reiterate our heartfelt gratitude to our Development Partners for their tremendous and continued support in our quest for sustainable national development.

  
**Tlohang Sekhamane (MP)**  
**Minister of Finance**

## **ACKNOWLEDGEMENTS**

This Public Financial Management Reform Project (PFMRP) Internal Mid-Term Review (IMTR) was undertaken and its report prepared by a special Taskforce established by the Minister of Finance-Honourable Tlohang Sekhamane (MP). The Taskforce comprised: Moepi Sematlane- PFM Reform Coordinator; Tsolo Maoeng-PFM Reform Monitoring and Evaluation Officer; Arun Kumar-PFM Reform Team Leader; McCarthy Phiri-Resident Budget Advisor (Key Expert 2); Patricia Bairsto-Change Management and Capacity Development Advisor (Key Expert 3) and; Guy Anderson-Treasury Advisor.

The Taskforce wish to register its sincere gratitude to the Honourable Minister of Finance for his commendable leadership and demonstrable commitment to reforms and more particularly for entrusting the Taskforce to undertake this noble exercise. It also wish to commend the Principal Secretary for Finance (PS), Deputy Principal Secretary for Finance (DPS), all Heads of Departments (HoDs), Component Leaders (CLs), Sub-Component Leaders (SCLs) and all key stakeholders for their guidance, participation and valuable contributions to the review process.

Finally, the Taskforce thank all the DPs— AfDB, EU, IMF and WB for their tremendous financial and technical support towards Lesotho's PFMRP.

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## **ACRONYMS AND ABBREVIATIONS**

AfDB	African Development Bank
AFROSAI– E	African Association of Supreme Audit Institutions (English)
AG	Accountant General
BD	Budget Department
BFP	Budget Framework Paper
BSP	Budget Strategy Paper
CAO	Chief Accounting Officer
CBL	Central Bank of Lesotho
CBMS	Central Budget Management System
CDAMC	Cash, Debt and Aid Management Committee
CIAD	Central Internal Audit Department
CL	Component Leader
CMCDS	Change Management and Capacity Development Specialist
CMU	Cash Management Unit
CoA	Chart of Accounts
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DCEO	Directorate on Corruption and Economic Offences
DNAO	Deputy National Authorising Officer
DP	Development Partner
DPS	Deputy Principal Secretary for Finance
DSA	Debt Sustainability Analysis
EDF	European Development Fund
EU	European Union
EUD	EU Delegation
GDP	Gross Domestic Product
GoL	Government of Lesotho
GSBS	General and Sector Budget Support
IACA	International Anti-Corruption Agency
IAD	Internal Audit Department
IIA	Institute of Internal Audit
IFMIS	Integrated Financial Information Management System
IMF	International Monetary Fund
IMTR	Internal Mid-Term Review
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IRSC	Improvement and Reform Steering Committee
ISPPIA	International Standards for Professional Practice of Internal Auditing
LD	Legal Department
MDA	Ministries, Departments and Agencies
M&E	Monitoring and Evaluation
MoDP	Ministry of Development Planning
MoF	Ministry of Finance
MoPS	Ministry of Public Service
MoU	Memorandum of Understanding
MPMD	Macro-economic Policy and Management Department
MTBF	Medium Term Budget Framework
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework

NSDP	National Strategic Development Plan
NAO	National Authorising Officer
NSDP	National Strategic Development Plan
OAG	Office of the Auditor General
OECD	Organisation for Economic Cooperation and Development
ONAO	Office of the National Authorising Officer
PAC	Public Accounts Committee
PAD	Project Appraisal Document
PBB	Programme-Based Budgeting
PCM	Project Cycle Management
PPAD	Procurement Policy Advisory Department
PDAMD	Public Debt and Aid Management Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management and Accountability
PFMR	Public Financial Management Reform
PFMRS	Public Financial Management Reform Secretariat
PFMRAP	Public Finance Management Reform Action Plan
PS	Principal Secretary for Finance
PSIC	Public Sector Investment Committee
PSMP	Public Sector Modernisation Project
RTC	PFM Reform Technical Committee
SACU	Southern African Customs Union
SL	Sub-component Leader
SOE	State Owned Enterprise
STE	Short Term Expert
TAT	Technical Assistance Team
ToR	Terms of Reference
TSA	Treasury Single Account
WB	World Bank

## **EXECUTIVE SUMMARY**

**With support from its Development Partners (DPs)<sup>1</sup>, the Government of Lesotho (GoL) has been implementing Public Financial Management (PFM) reforms under various public sector reform programmes<sup>2</sup> since 2001.** In 2013, the GoL developed and launched a comprehensive five-year PFM Reform Strategic Action Plan (PfMRAP) covering the period from 2013 to 2018 to ensure a focused and properly guided reform process. Albeit with start-up delays, the implementation of reforms fully commenced in 2015. This reform project is part of the Government's strategic development initiatives enshrined in the National Strategic Development Plan (NSDP I) covering the period from 2012/13 to 2016/17 and the need for demonstrable macro-fiscal improvements necessary for restoration of the General and Sector Budget Support (GSBS) which was suspended in 2016, largely due to multiple fundamental flaws in the country's economic governance and PFM system.

**After slightly over one and half years of implementation, the GoL, through the Ministry of Finance (MoF) undertook an Internal Mid-Term Review (IMTR) of its five (5) year PFM Reform Project.** This review was mainly intended to: (i) establish if the reform project design and its governance and institutional implementation arrangements were still relevant to the needs of the Government; (ii) take stock of progress made since inception; (iii) identify key reform challenges and risks and; (iv) establish experiences or lessons learnt in the middle of the project in order to determine any instances of slippages and make any necessary adjustments in light of recent developments or emerging circumstances so that the desired outcomes of the reform can be realised. Therefore, this report presents the outcomes of the review and makes appropriate recommendations for refocusing the reform and ensuring the reform process stays its course of success.

### ***Review Approach and Methodology***

**To ensure a well-coordinated and credible review, a systematic approach and methodology was developed to guide the process.** In particular; a dedicated taskforce involving the Public Financial Management Reform Secretariat (PFMRS) and the resident Technical Assistance Team (TAT) with clear Terms of Reference (ToR) was formed to undertake the review. In addition, the methodology largely involved: (i); a stakeholder preparatory meeting; (ii) a comprehensive desk review of the Public Financial Management Reform Action Plan (PfMRAP), Results Logical Framework and other relevant documentation; (iii) development and application of a special review guiding criteria and questions based on the Organisation for Economic Cooperation and Development's (OECD) project evaluation criteria<sup>3</sup> to better guide the data and information gathering process; (iv) a stakeholder's consultative workshop to solicit different perspectives of the reform project and; (v) a validation workshop to confirm the outcomes of the review before the submission of the final report. An important element of the review process has been the direct involvement of the implementing agencies, which is extremely critical for ownership.

### ***Assessment of Relevance, Validity and Effectiveness of the Reform Project***

#### ***Assessment of the Reform Design:***

**The reform design broadly remains relevant and valid to the needs of the GoL, but the PfMRAP requires some modifications and updating to further enhance its relevance and validity.** While the

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<sup>1</sup> The PfMRP is supported by: The European Union (EU); the World Bank (WB); the International Monetary Fund (IMF) and; the African Development Bank (AfDB).

<sup>2</sup> These are: A Public Service Improvement and Reform Programme (PSIRP); Capacity Building for Economic Planning (CBEP) Programme I; Capacity Building for Economic Planning (CBEP) Programme II and; General Budget Support for PFM reforms under the 10<sup>th</sup> EDF.

<sup>3</sup> Development Assistance Committee (DAC) Criteria for Evaluating Development Assistance.

identified strategic interventions remain fundamentally relevant, there is a strong need to clearly articulate in the PFMRAP, a clear vision of ‘best-fit PFM system’ component by component of the reform to provide strategic guidance as a benchmark towards the desired and ideal PFM system of the GoL. The current design of the PFMRAP was largely based on the Public Expenditure and Financial Accountability (PEFA) assessment of 2012 which set the ultimate benchmark for PFM systems without recognising the fact that PEFA establishes the highest benchmark of an ideal PFM system which in certain instances requires advanced reforms to achieve the highest score. This resulted into the reform benchmark more oriented towards achieving A scores of PEFA assessment performance indicators than having the design oriented towards steady, but sustainable improvements—on what was more realistic and befitting to the country context, as a guide and benchmark at the apex of the reform.

**Additionally, some of the strategic interventions could benefit from further refinements to accurately reflect the intended scope of reforms as well as activities.** Currently, some of the strategic interventions do not adequately address the reform intentions; hence even more difficult to effectively identify, scope and define appropriate and priority reform activities and their corresponding strategic outputs. Specific issues have been discussed under the assessment of each component in section three (3) of the report. Most importantly, there is a need to update the PFMRAP in order to: improve the situational analysis to acknowledge and incorporate recent reform developments and emerging circumstances; refine the scope of activities in some strategic interventions to include other important and priority reforms recommended by the recent PEFA assessment, 2016<sup>4</sup>; update key performance information to align it with component activity plans and relevant PEFA pillars and dimensions; and strengthen the institutional implementation arrangements, including the existing departmental capacity to be able to implement the reforms incrementally. Detailed proposed adjustments are discussed under each component in section three (3).

*Assessment of the Effectiveness of the Reform Implementation:*

**The implementation of reforms across components has largely ‘not been effective’—not lived up to expectations.** This is clearly signaled in several shortcomings in the implementation process as well as in the pace of progress made to date. Major deficiencies include: (i) significant delays in the commencement of the entire project implementation process from inception; (ii) very limited progress with ‘minimal achievements against output-based activity plans to translate into the achievement of the strategic outputs and reform intentions; (iii) significant delays in execution of activity plans with most activities lagging behind schedule and the majority not yet started; (iv) lack of detailed monthly activity implementation plans coupled with difficulties in prioritisation and proper sequencing of reform activities; (v) blurred scope of activities in selected components; (vi) limited mainstreaming of reforms into departmental operational or work plans and intradepartmental communication; (e.g. component 1, 2 and 8); (vii) limited scope of reform progress monitoring, evaluation and reporting and; (viii) insufficient corrective measures undertaken to address performance gaps at the highest authoritative level.

**Moreover, albeit efforts made to vigorously pursue the reforms under each component, momentum seem to have been lost along the way.** This is partly due to competing demands, limited availability of core reform champions coupled with lack of commitment and ownership of reforms at departmental level. Nonetheless, there is hope that if momentum is restored and efforts reinvigorated at all levels, meaningful progress could be achieved over the remaining period of the reform. However, this could only be possible with demonstrable high level political and senior management commitment and urgent intervention as well as concerted effort from all departments as key stakeholders of the reform process. Most importantly, at this point, a decisive approach and urgent intervention of the Minister of Finance is necessary to restore and further stir enthusiasm and momentum for reforms at all levels.

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<sup>4</sup> The PEFA assessment of 2016 was undertaken in December 2016, and the final report issued for approval by the GoL in March 2017.

## ***Assessment of Overall PFM Reform Progress, Achievements and Concerns***

### ***Overall Progress and Achievements:***

**Overall, good but limited progress and achievements have been made towards reform strategic outputs and objectives.** To date, reform progress and achievements worth highlighting include: (i) the enactment of the new Audit legislation effective 1<sup>st</sup> of April 2017; (ii) the development of draft Audit regulations by the Office of the Auditor General (OAG); (iii) the completion of a certificate compliance management course by three Legal Officers of the MoF; (iv) the introduction of programme-based budgeting (PBB); (v) the introduction and institutionalisation of the quarterly fiscal bulletin and citizens' budget guide; (vi) the establishment of processes for rationalising bank accounts and implementing the treasury single account (TSA); (vii) the development and institutionalisation of Annual Internal Audit planning across several Ministries, Departments and Agencies (MDAs), the expansion of Internal Audit scope and coverage as well as the full implementation of the Audit Command Language (ACL) in the Central Internal Audit Department (CIAD); (viii) the revision and approval of the accounting cadre establishment; (ix) the development of procurement legal and regulatory frameworks<sup>5</sup>; (x) the submission of the 2014/15 audit report to the Parliament, and the 2015/16 audit report to the Minister of Finance; (xi) the development of Parliamentary Oversight Guide and; (xii) the establishment and operationalisation of core PFM reform governance and institutional implementation arrangements.

**Notwithstanding, the achievements made have yet to translate into meaningful changes and improvements in practices in the PFM system.** This is mainly because they mostly relate to processes leading to the completion of key planned activities and not the actual achievement of the planned strategic outputs and objectives. And, based on the level of progress achieved so far and without definitive guidance at the highest level, the chances are slim that the project will achieve most of its intended strategic outputs and objectives by the end of June 2018. Therefore, it is clearly evident that to achieve all reform strategic intentions an extension of the project duration or consideration of an enhanced PFM reform programme beyond June 2018 should immediately be considered. In particular, considering the fact that several planned activities are not yet started and will not be completed by June 2018, and additional scope of reforms in selected components is inevitable and necessary based on recent PEFA outcomes, there is a strong case to consider extending the project beyond June 2018, by at least another 3-year period. Alternatively, the GoL should consider designing and implementing another comprehensive 3-5-year reform programme beyond June 2018. This is extremely important considering the criticality of PFM in the national development and the lessons learned over the last one and half years of implementing the current PFM reform project.

### ***Specific Progress, Achievements and Issues/Constraints by Reform Component***

#### ***Component 1: Modern PFM regulatory framework implemented:***

**Insufficient progress and achievements have been made under the reform component.** Little progress made include: (i) enactment of an Audit Bill into new Law effective 1<sup>st</sup> of April 2017; (ii) preliminary review of the PFMA 2011; (iii) training of trainers for more than thirty (30) finance personnel from various Ministries, Departments and Agencies (MDAs) in existing PFM legal and regulations and completion of a compliance management course with certification by three (3) Legal Officers from the Legal Department (LD). Notwithstanding progress made, a number of issues should be addressed to stir progress under the component. These include the need for: (i) greater reprioritisation and proper sequencing of activities particularly on the review and modernisation of the Public Financial Management and Accountability (PFMA) Act including the development of a clear roadmap for the process; (ii) establishment of dedicated

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<sup>5</sup> Procurement Bill, regulations, policy, procedures manual, and tribunal institutional operational arrangements.

task team to champion the PFMA Act revision ad modernisation process and; (iii) mainstreaming of reforms into departmental work plan.

*Component 2: Transparency and effectiveness of policy orientation of the budget assured:*

**Limited progress and achievements have been made and efforts need to be stepped up under the reform component.** Specific progress and achievements mainly include: (i) the establishment of a good foundation towards establishing an effective planning and budget regulatory framework (i.e. draft regulations and budget guide book); (ii) the development of a new budgeting tool user functional requirements; (iii) the introduction of PBB; (iv) the development and institutionalisation of a quarterly fiscal bulletin and a citizen's budget guide; (v) the introduction and institutionalisation of the Budget Framework Paper (BFP) as part of efforts to strengthen the policy orientation of the budget; (vi) the development of a Public Debt and Aid Management Bill and (vii) the development and implementation of a Public Sector Investment Database (PSID). However, draft national planning and budget regulations, and budget guidelines and procedures have yet to be validated and approved. However, meaningful progress could be achieved by: (i) revising, rescoping, reprioritising and resequencing of the component activities to make them more relevant; (ii) developing a detailed implementation plan; (iii) focusing on developing the necessary preconditions to pave way for fairly advanced reforms.

*Component 3: Cash flow forecasts a major determinant of internal debt and financial investment:*

**Limited progress has been made than expected and work largely remains in progress in all of the outputs.** Specific progress is in relation to: the establishment of Cash Management Unit (CMU) functional structure albeit its positions have not been filled; the development and slowly progressive implementation of the Treasury Single Account (TSA); the establishment of the inventory of GoL-controlled bank accounts and progressive information gathering process; and training in cash management and development of a preliminary cash plan. Notwithstanding, a number of issues need to be addressed under the component including the need for: (i) formalization of the appointment of the temporary staff and prioritisation of the recruitment of a Deputy Accountant General-Cash Management (DAG-CM); (ii) empowering the Accountant General (AG) to issue and enforce relevant Treasury Instructions and; (iii) urgently implementing changes to sub-accountancy bank arrangements and instituting daily monitoring of Central Bank of Lesotho (CBL) based- bank balances.

*Component 4: Internal Controls ensure strengthened operational efficiency and effectiveness:*

**Notable progress has been made under component albeit rather at slower pace due to some delays outside the scope of Internal Audit (IA) to address alone.** In particular, in terms of increasing the coverage of audit plans and audits to 65% of MDAs and submitting audit reports to management in terms of Risk based auditing including pensions and payroll which is rising and will continue to do so as more sequenced staff capacity development takes place. Also notable strides have been made in terms of: (i) development of a draft Memorandum of Understanding (MoU) between OAG and CIAD; (ii) implementation of an Audit Command Language (ACL) at the CIAD and its progressive roll out to MDAs; (iii) development and approval of an Internal Audit manual; (iv) revision of the Internal Audit Charter, albeit not implemented and; (v) establishment of the MoF Audit Committee, but yet to be operationalised.

**However, stepping up progress to achieve the planned outputs would require several undertakings mainly:** (i) urgent submission to Ministry of Public Service (MoPS) and the approval of IAD structure for MDAs and its subsequent implementation; (ii) revising and setting a realistic target of introducing risk based approach across 17 MDAs in 2017/18; (iii) development and implementation of the IT Audit manual; (iv) operationalisation of the MoF Audit Committee; (v) identifying and addressing issues impeding the

finalisation and signing of the MoU between OAG and Internal Audit and; (vi) the speedy implementation of the updated IA Charter.

*Component 5: Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards:*

**Limited and slow progress has been made and efforts ought to be seriously stepped up if the planned component's outputs and strategic objective are to be achieved.** Some progress has been made towards establishing the accounting cadre and introducing cash-basis IPSAS and putting in place some foundation for enhancing in-year and annual financial reporting. However, serious challenges remain particularly on implementing the established accounting cadre and stabilising the existing Integrated Financial Management Information System (IFMIS) functionality, as well as establishing the necessary conditions for implementing the planned platform upgrade. This presents a major risk not only to the success of the component, but to the majority of the PFM reforms in macroeconomic forecasting, budgeting, procurement etc. which are largely dependent upon having a new functional IFMIS. Going forward, addressing triggers agreed with WB would be a prerequisite and very crucial to IFMIS implementation.

*Component 6: Public Procurement aligns with international best practice in efficiency and transparency:*

**Notable progress and achievements have been made under the component.** In particular: (i) the development of the draft procurement legal and regulatory frameworks (i.e Procurement Bill, Regulations, Policy, Procedures, and Procurement Tribunal regulations, rules of operation and operational manual) and training to PPAD staff; (ii) the development of a procurement M&E framework; (iii) the development of the procurement tribunal website and training toolkit; and (iv) an outreach educational programme for combating procurement related corruption across the country under the auspices of the DCEO. However, this progress may not have any bearing on influencing actual reform process change if the proposed legal and regulatory frameworks mentioned not approved and enacted into law and other associated issues addressed in order to allow operationalization of all other secondary outputs of the component. Hence there is an urgent need to: (i) expedite the enactment and approval of the proposed draft procurement legal and regulatory frameworks; (ii) develop and implement a procurement dispute resolution guiding framework; (iii) develop and introduce focused graduate certification programme in the relevant training institutions, which is critical for capacity development of procurement personnel across government; and (iv) continuous capacity building and objective selection of the members of the Procurement Tribunal.

*Component 7: External audit and oversight compliant with INTOSAI standards (ISSAI):*

**Good, but limited progress has been made under the component and efforts ought to be stepped up.** Major progress relate to the: (i) enactment of the new Audit Law; (ii) development of audit regulations; (iii) submission of the 2014/15 audit report to Parliament and 2015/16 to the Minister of Finance; (iv) introduction of performance audits; (v) development of new governance and organisational operational arrangements<sup>6</sup>; (ix) training of the OAG staff in various audit related courses; (x) and the development of Parliamentary Oversight Guide. In spite of the progress made, a number of constraints under the component need to be addressed mainly the need for: (i) making further enhancements to the new Audit Law to achieve full functional and financial autonomy; (ii) a mentoring programme for specialised audits; (iii) training of OAG staff and PAC staff support staff in effective reporting writing to enhance the quality of reports; (iv) technical briefings for PAC members and support staff on interpreting audit reports; (iii) identifying and addressing causes of continuous delays in the submission of financial statements by MoF; (v) technical

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<sup>6</sup> This mainly include the: development of HR Policy and Strategy and HR Management Operations Manual; review and updating of OAG organizational structure; review of the Scheme of Service and development of a Remuneration and Benefits Policy; review and updating of the Performance Management System; development of a wellness policy.

briefings for PAC and; (vi) allocating a specific budget for PAC operations to enhance the scope and quality of scrutiny and oversight.

*Component 8: Governance and institutional management of PFM reforms improved to facilitate ownership, monitoring and evaluation of progress*

**Good but limited progress has been made under the component.** Notable progress has largely been in terms of setting up and operationalising core project governance mechanisms such as the IRSC, RTC and Component Leaders meetings as well as the PFMRS. In addition, basic M&E and risk assessment frameworks are in place which will benefit from further development. Further progress has been made lately in HoDs demonstrating understanding and ownership of component activities which needs to continue. However, achieving optimum results under the component would largely depend on: (i) securing full ownership and leadership across MoF and MDAs for sustainability of the PFM reforms; (ii) obtaining sustained engagement with and input from MoF Human Resource (HR) and Planning Unit<sup>7</sup>; (iii) proper identification and clarification of all key stakeholder roles and responsibilities; (iv) regular sensitisation of the reform at all levels; and (v) streamlining and refocusing of the component scope of activities.

***Key Strategic PFM Reform Issues/ Critical Success Factors and Risks***

**Most important to emphasize, is the fact that the reform progress and efforts are significantly and will continue to be undermined and constrained by consistent failure by the GoL to:** (i) articulate a clear reform vision driven by a genuine desire to change and improve; (ii) define and institutionalise a Project Sponsor role and other project leadership roles of the Ministers of Finance and of Development Planning (iii) clarify and incorporate in the PFM Reform Institutional Framework the broad role of the Reform Technical Committee (RTC) as distinct from the strategic role of the IRSC for PSMP and PFMRP and make it more visible and of effect to the reform; (iv) instill discipline and cultivate a culture of responsibility and accountability for reforms at all levels within MoF and MDAs; (v) clearly define operational, technical leadership and ownership role and expectations of the MoF and Ministry of Development Planning (MoDP), Heads of Departments (HoDs), Principal Secretary-Finance and management teams; (vi) clarify and establish mutual understanding of the realistic role and expectations of the PFMFR Secretariat and of the Coordinator as ‘a project manager as well as of the reform components; (vii) development and implementation of an overall communication and stakeholder engagement strategy and; (viii) address all triggers under the IFMIS upgrade project and make strong case for possible extension.

**Moreover, the project faces surmountable risks to be mitigated.** In particular, there is urgent need to prepare for and mitigate: (i) the eminent expiry of the WB financing agreement towards the support of IFMIS upgrade project and advance a sound case for extension; (ii) political uncertainties due to the anticipated change of government resulting from upcoming elections; (iii) prolonged delays in the approval and enactment of appropriate legal and regulatory framework to underpin ongoing reforms; (iv) insufficient staff capacity in some of the key departments; and (v) the need for strong political ownership and commitment and support for reforms.

***Key Lessons Learnt***

**In spite of the delayed start of the project, a number of lessons can be learnt for the future from the experiences of the first half of the project implementation.** These mainly include: (i) PFM reforms ought to be anchored and guided by a clear vision driven by a genuine desire to change at all levels and not the interests of the DPs; (ii) PFM reforms need to be linked to overarching Public Sector Governance reform and other relevant reforms like Decentralisation, Public Service Modernisation, E-Government etc., to gain

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<sup>7</sup> To date collaboration with MoPS on HR issues impacting on reform implementation remains fragmented and well below optimal level.

more political visibility and support and have better appreciation of the key interdependencies and synergies; (iii) high level political and senior management leadership, commitment, ownership, full responsibility and support is very crucial to restoring and maintaining momentum for reforms; (iv) continuous failures to resolve staffing and other fundamental capacity issues can derail the reform efforts and the gains already made; (v) PFM reforms can only succeed to the extent to which established fundamental routines are being observed, complied with and performed with high level of discipline across all departments and (vi) implementing manpower reforms requires broad stakeholder support across a number of government agencies, a high-level champion and active change management.

### ***Conclusion and Key Recommendations***

**The implementation of the reform has largely slowed and insufficient progress has been made in almost all components.** Based on the progress made so far it is apparent that challenges remain for the project to fully achieve its intended objectives. However, in order to mitigate against the risk of non-achievement of the reform objectives, it is important that a number of critical measures are urgently implemented, particularly to ensure the reform remains more focused and relevant to the needs of the GoL. Key recommendations are presented in Table 1 below:

**Table 1 Summary of Key Recommendations**

Ref:	Recommended Action	By Whom	By When
1.	Articulate and incorporate in the PFMRAP a clear PFM reform vision across components.	MoFSMT	April 2017
2.	Update the PFMRAP to enhance its relevance based on the IMTR and PEFA 2016 proposals.	PFMRS	April 2017
3.	Urgently review and update the component output-based activity plans and develop associated detailed and highly reprioritised and properly sequenced monthly implementation plans.	CLs	May 2017
4.	Urgently initiate serious negotiations with DPs for a possible project extension or/and the process of designing the future enhanced PFM reform programme beyond June 2018.	IRSC	May 2017
5.	Urgently define and formalise the role of a Project Sponsor and clarify other project leadership roles of the Ministers of Finance and of Development Planning as well as that of the RTC as distinct from IRSC and make it of effect to the project.	Minister and IRSC	May 2017
6.	Urgently initiate negotiations with the World Bank for a possible extension of the IFMIS upgrade project support.	Minister and PS	June 2017
7.	Update the Results Logical Framework and further develop and fully implement the PFM reform M&E framework.	PFMRS	June 2017
8.	Mainstream reforms into departmental operational/work plans and making it mandatory to have reforms form part of every agenda of the MoF management and departmental meetings.	HoDs and PS	June 2017
9.	Incorporate in the component output-based activity plans clear communication and change management activities to accompany procedural changes and to enable strict enforcement	TAT and PFMRS	June 2017
10.	Revise and strengthen the reform governance and institutional implementation arrangements and formally make HoDs fully responsible and accountable for reforms in their areas.	PS-Finance	June 2017
11.	Establish and designate the role of a Project Sponsor and clarify other project leadership roles of the Ministers of Finance and of Development Planning.	IRSC	July 2017
12.	Revamp and clarify the roles and responsibilities of core project governance and institutional coordination structures, in particular the powers, roles and responsibilities of the RTC and that of the Project Coordinator.	IRSC	July 2017
13.	Develop and implement a central repository for sharing of project and other relevant documentation and extend the sharing of useful progress related information to the general public through periodical publications	PFMRS	July 2017
14.	Develop and institutionalise strong project management arrangements with clearly defined mechanisms and responsibilities for issue logging, escalation, monitoring and reporting.	PFMRS	August 2017
15.	Further strengthen the capacity of the Secretariat by filling in the vacant position of the Deputy Project Coordinator	PS-Finance and IRSC	August 2017
16.	Urgently identify and fill in all strategic positions that are more critical to the success of reforms within MoF and across MDAs.	Minister and MoPS	December 2017

## **1. INTRODUCTION**

### **1.1 Contextual Background to PFM Reforms**

**The GoL has been implementing PFM reforms over the last decade (as early as 2000s) under various public sector governance reform programmes<sup>8</sup> and thematic areas but none has resulted into meaningful achievements.** Consequently, the Government reinvigorated its commitment to PFM reforms with a much more focused reform programme around 2012. This resulted into the formulation of the Public Financial Management Reform Project (PFMRP) supported by various development partners (DPs) in 2013. The current PFMRP is mainly supported by the European Union (EU) under the 10<sup>th</sup> European Development Fund (EDF), the World Bank (WB), the International Monetary Fund (IMF) and the African Development Bank (AfDB).

**The PFMRP was fundamentally designed to improve and strengthen the Government PFM systems in the wake of several shortcomings in macroeconomic and fiscal management** identified in the 2012 Public Expenditure and Financial Accountability (PEFA) assessment and several other past PFM diagnostic assessments undertaken by IMF, World Bank and other development partners. The EU also undertook the programme performance framework assessment in 2015 which also identified several gaps and weaknesses in the PFM systems that subsequently led to the abrupt suspension of the EU General Budget Support (GBS) and Sector Budget Support (SBS) in 2016. In response to the urgent need to strengthen its PFM systems and particularly, in a bid to restore GBS and SBS, the GoL reinvigorated its commitment towards the pursuit of serious macroeconomic and fiscal management reforms.

**The GoL, with technical assistance from the IMF-Africa Regional Technical Assistance Centre-South (AFRITAC-South) developed a comprehensive PFM Reform Strategy and Action Plan** that identified eight key components or areas of focus<sup>9</sup> ( all currently supported by the above mentioned key development partners. The Strategic action plan was meant to ensure a more proactive, systematic and focused approach to the reform process. The PFMRAP was subsequently adopted and formally launched by the GoL through the MoF in 2013. However, its implementation process could not fully commence in 2014 due to the unanticipated adverse political events that led to the change of Government. As a result, the reform process was only resuscitated by the new Government in the middle of 2015 that saw full operationalisation of a reform project coordination secretariat<sup>10</sup> and appointment of component leaders (CLs) as part of the institutional arrangements to facilitate the reform process. The actual implementation started in mid-2015.

**However, since implementation started, several developments have occurred impacting on the reform process.** In addition, a number of new reform needs have emerged from the experiences of implementing the reform. Above all, the design of the PFMRAP was based on the 2012 Public Expenditure and Accountability Assessment(PEFA) Assessment whose framework has since been updated by the PEFA Secretariat incorporating several new dimensions. Based on the new PEFA framework, the GoL, has had its PFM systems reassessed in the third and last quarter of 2016/17 fiscal year. The recent assessment is based on the upgraded methodology that among other new indicators incorporates several fundamental aspects of macro-fiscal policy analysis and management that were never assessed in the 2012 PEFA. At

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<sup>8</sup> These included: A Public Service Improvement and Reform Programme (PSIRP); Capacity Building for Economic Planning (CBEP) Programme I; Capacity Building for Economic Planning (CBEP) Programme II and; General Budget Support for PFM reforms under the 10<sup>th</sup> EDF.

<sup>9</sup> The PFM reform components are: 1. Modern PFM Regulatory Framework Implemented (EU); 2. Transparency and effectiveness of policy orientation of the budget assured (EU); 3. Cash flow forecasts a major determinant of internal debt and financial investment (IMF); 4. Internal controls ensure strengthened operational efficiency and effectiveness (World Bank); 5. Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards (IMF); 6. Public Procurement aligns with international best practice in efficiency and transparency (AfDB); 7. External audit and oversight compliant with INTOSAI standards (ISSAI) (AfDB); and 8. Governance and institutional management of PFM reforms improved to facilitate ownership, monitoring and evaluation of progress (EU).

<sup>10</sup> The Secretariat was established in 2013, but was not fully functional by then.

least, based on the preliminary 2016 PEFA results<sup>11</sup>, it is apparent that a number of reform areas and their outcomes in the component work plans ought to be reconsidered and updated. In fact, certain proposed reforms resulting from the recent PEFA assessment are critical to the achievement of those already included in the work plans. Additionally, certain activities may even require deployment of new strategies and approaches in order to successfully achieve them.

**Although the PFMRAP had never envisaged the need for an IMTR, the Government considered it absolutely necessary to undertake such an important activity** in light of the developments discussed above in order to make an informed decision regarding refocusing the reform approach and process. Therefore, like in any other reform project, it is normal and good international practice in project performance management to take stock of progress made, experiences or lessons learnt in the middle of the project in order to establish any instances of slippages and make any necessary adjustments to achieve the desired outcomes of the reform. Consequently, under the leadership of the Minister of Finance, a dedicated taskforce was constituted to urgently undertake a comprehensive internal review of the progress made towards the entire PFM reform action plan, the effectiveness of governance and institutional arrangements, update the action plan as well as associated work plans. Therefore, this report discusses the progress and achievements made so far under each strategic intervention, the challenges and risks impacting on the reform and proposals for refocusing the reform process in the remaining period of the PFMRAP. The report also makes specific recommendations for strategising the entire reform process.

## 1.2 Purpose and Scope of the IMTR

**According to the ToR, the main objective of internal mid-term programme evaluation was to reassess the efficacy and relevance of the entire PFMR strategic action plan** in light of emerging critical reform needs and other contextual circumstances that were not properly considered and envisaged during the development of the current strategic action plan. In other words, it meant to refocus or re-strategise the reform process in order to achieve the desired outcomes of the project.

**In particular, the review intended to:** (i) the relevance and validity of the reform design; (ii) assess the effectiveness of the implementation process; (iii) assess progress made so far against agreed work plans and establish the scope of outstanding work to the end of the project to achieve the intended outcomes; (iv) identify factors or challenges adversely affecting progress and identify appropriate solutions for addressing them; (v) assess the effectiveness of the existing project governance and implementation institutional arrangements; (vi) assess the available resources against required inputs in the reform process to determine any resource gaps to be filled to the end of the project; (v) assess the prioritisation and sequencing of reforms and make appropriate adjustments where necessary; (vi) establish other critical reforms including those identified by the recent PEFA assessment that ought to be incorporated into the reform action plan; (vii) establish key lessons learnt from the experiences to assist in refocusing the reform implementation arrangements and processes; (viii) identify potential risks to the success of the project and develop/update the risk matrix with appropriate mitigation measures; and (ix) update the strategic reform action plan and component work plans to the end of the project and beyond in light of all necessary changes.

## 1.3 Review Approach and Methodology

**To ensure a systematic, well-coordinated and credible process, and under the directive of the Minister of Finance a dedicated taskforce involving the PFMR Secretariat (PFMRS) and the Technical Assistance Team (TAT) was established to champion the IMTR process.** In addition, specific ToR were developed with clear objectives and expected outcomes of the review as well as the roles and responsibilities of the IMTRT. This was followed by a desk review of the PFMRAP, Results Logical Framework and other

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<sup>11</sup> The recent PEFA assessment final report is yet to be approved.

relevant documentation. In addition, to better guide the data and information gather process, a special review guiding criteria and questions to be addressed were developed based on the Organisation for Economic Cooperation and Development's (OECD) project evaluation framework. And to ensure ownership and a participatory process a preparatory meeting of selected key stakeholders was held on 1<sup>st</sup> of March 2017 to prepare them for the review exercise. This was followed by a stakeholder's consultative workshop to solicit necessary information. Finally, a validation workshop, involving all project components, was held to confirm the findings and recommendations of the review before the submission of the report to the Minister of Finance.

## 2. REFORM RELEVANCE, EFFECTIVENESS AND ACHIEVEMENTS

### 2.1 Assessment of Relevance, Validity and Effectiveness of PFM Reform Project

This section provides a summary of the findings and observations on the relevance and effectiveness of the PFM reform project based on the desk review of the PFMRAP and other relevant supporting documentation. This evaluation was based on specific review criteria that were developed for the purpose, largely following the commonly applied OECD-DAC<sup>12</sup> project evaluation framework approach.

#### Box 1: Internal Mid-Term Review Criteria

The following dimensions constituted the main criteria that was developed and used to guide the review process in terms of data and information gathering. Specific guiding questions were also developed under each dimension.

- (a) **Relevance and Validity of the Project Design:** This dimension of the criteria mainly assesses the extent to which the PFM Reform Strategic Action remains relevant and valid to the identified reform needs or strategic interventions of the GoL.
- (b) **Effectiveness of the Reform Implementation:** This dimension of the criteria mainly assesses the extent to which implementation of the reform has lived up to its expectations and made sufficient progress towards achieving it's intended strategic objectives.
- (c) **Relevance and Effectiveness of Governance and Implementation Arrangements:** This dimension of the criteria mainly evaluates the extent to which the existing governance and institutional implementation arrangements are relevant and effectiveness to the reform implementation process.
- (d) **Understanding of and Motivation to Achieve Reform/Improvement Objectives:** This dimension of the criteria aims to establish the extent to which there is a common understanding across the Government of what and why the need for reform.
- (e) **Efficiency and Effectiveness in Implementation and Resource Utilisation:** This dimension of the criteria aims to establish the extent to which the reform project efficiently and effectively allocated and utilised its resources towards the achievement of the intended objectives.

#### 2.1.1 Relevance and Validity of the Project Design

Generally, the review observed that serve for a few areas, the reform design is largely still relevant and valid to the needs of the GoL. In particular, the identified strategic interventions and objectives are in most respects still very relevant as again confirmed by the recent PEFA assessment albeit some tweaking might be necessary. However, the major shortcoming is the fact that the PFM reform strategic action plan lacks a clear vision to provide strategic guidance towards the desired PFM system. This is more important as without such a vision it is so difficult to determine that ideal PFM system for Lesotho as a country in light of its existing context and merging circumstances. There is also need to refine the names of some of strategic interventions so that they sufficiently address the intended reform objectives, outputs and scope of necessary activities. Specific details of this have been discussed under the assessment of each component.

<sup>12</sup> Development Assistance Committee (DAC) Criteria for Evaluating Development Assistance.

**It is also apparent that a few adjustments are necessary particularly in terms of:** the situational analysis to incorporate recent developments; revising the scope of activities in some strategic interventions to reprioritise and include other important reforms recommended by the recent PEFA and other PFM diagnostic assessments; updating performance information to align it with component activity plans and PEFA dimensions; and the institutional implementation arrangements. The detailed proposed adjustments are also discussed in section 3 of the report under each component.

### ***2.1.2 Effectiveness of the Reform Implementation***

**The implementation of reforms across components has not yet met expectations and key challenges remain.** This is clearly signaled in several shortcomings in the implementation process as well as in the pace of progress made to date. Major deficiencies include: (i) significant delays in the commencement of the entire project implementation process from inception; (ii) very limited progress with ‘minimal achievements against output-based activity plans to translate into the achievement of the strategic outputs and reform intentions; (iii) significant delays in execution of activity plans with most activities lagging behind schedule and the majority not yet started; (iv) lack of detailed monthly activity implementation plans coupled with difficulties in prioritisation and proper sequencing of reform activities; blurred scope of activities in selected components; (vi) limited mainstreaming of reforms into departmental plans and intradepartmental communication; (e.g. component 1, 2 and 8); (vii) limited scope of reform progress monitoring, evaluation and reporting; (viii) insufficient corrective measures undertaken to address performance gaps at the highest authoritative level.

**Therefore, based on the limited progress made under each component, it is only fair to conclude that the project has not yet been effective towards achieving its intended outputs and strategic objectives.** This is largely because most of the key planned activities are yet to be completed. Ideally by now, it was expected that the rate of execution would be at least around 50% or more after almost two years of implementation since its inception. Consequently, at the current pace it is highly unlikely that most of the planned activities would be completed by the end of June, 2018, thereby risking the failure of the achievement of the reform objectives.

**While efforts have been made to vigorously pursue the reforms under each component, momentum seem to have been lost along the way.** This is partly due to competing demands, limited availability of core reform champions coupled with lack of departmental ownership of reforms. Nonetheless, there is hope that if momentum is restored and efforts reinvigorated at all levels, meaningful progress could be achieved over the remaining period of the reform. However, this could only be possible with demonstrable high level political and senior management commitment and urgent intervention as well as concerted effort from all departments as key stakeholders. Therefore, reviewed momentum, reinvigorated and concerted effort and commitment from all key stakeholders are necessary to ensure the project returns to its course and achieves its intended objectives.

### ***2.1.3 Relevance and Effectiveness of Governance and Implementation Arrangements***

**While the existing governance and institutional implementation arrangements largely remain relevant, their effectiveness could further be strengthened** by revisiting the mandate, composition and strategic roles and responsibilities of the IRSC for PSMP and PFMRP to make it more a policy body taking hard decisions regarding the reform implementation as well as that of the RTC to make it a distinct from the IRSC. Also important, is the need to ensure the RTC is reinvigorated to meet more regular with components and revisit the current component leadership arrangements in a way that Heads of Departments (HoDs) are made ultimately responsible and accountable for reforms under their departments. The detailed

discussion and recommendations on key governance, management and coordination arrangements are covered under component 8.

#### ***2.1.4 Understanding of and Motivation to Achieve Reform/Improvement Objectives***

**Generally, the review observed that there is a limited understanding of the purpose, benefits and scope of PFM reforms at all levels with MoF and across MDAs.** This situation has been compounded by the fact that no much effort has been made to bring everyone on board the reform agenda. Consequently, this has contributed to the lack of ownership of reforms by relevant departments. In other words, the project has not generated enough awareness to translate to the desired level of ownership and commitment at all levels. Details of this, have been covered under section 3 and component 8. Going forward, it is absolutely important and necessary that PFM reform awareness programme is integrated as part of the overall change management strategy in order to develop a common understanding of the purpose of the reforms.

#### ***2.1.5 Efficiency and Effectiveness in Implementation and Resource Utilisation***

**The review could not establish the status under this dimension.** This is largely because of the difficulties in accessing financial data and information especially those related to direct payments made and technical assistance provided by respective DPs. However, there is a general view that financial and technical support are still sufficient for the project although more short term technical support is still required. Although not very critical at the moment and for purposes of this review, financial data and information is required to objectively assess this dimension.

### **2.2 Assessment of Overall Reform Progress, Achievements and Concerns**

**Overall, good but insufficient progress and achievements have been made towards achieving the PFM reform project strategic objectives.** Generally, the review observed that most of the planned activities are not started. Ideally, it was expected by now, that the project could have completed at least 50% of the planned activities. However, based on the reported progress by component in section 3, it is quite evident that far less than 50% of the planned activities have been completed so far and the project is still far from achieving its intended outputs and strategic objectives by the end of June 2018. This view is also echoed by the findings of the recent PEFA 2016, which has concluded that little progress had been made towards addressing the recommendations of the PEFA 2012 in improving PFM system as clearly evident by scores in almost all Assessment Dimensions and Performance Indicators.

**To date, a few achievements made worth highlighting include:** (i) the enactment of the new Audit legislation effective 1<sup>st</sup> of April 2017; (ii) the completion of a certificate compliance management course by three Legal Officers of the MoF; (iii) the introduction of programme-based budgeting (PBB); (iv) the introduction and institutionalisation of the quarterly fiscal bulletin and citizens' budget guide; (v) the establishment of processes for rationalising bank accounts and implementing the treasury single account (TSA); (vi) the development and institutionalisation of Annual Internal Audit planning across several Ministries, Departments and Agencies (MDAs), the expansion of Audit scope and coverage as well as the full implementation of Audit Command Language (ACL) at the Central Internal Audit Department (CIAD); (vii) the revision and approval of the accounting cadre establishment; (viii) the development of procurement legal and regulatory frameworks<sup>13</sup>; (ix) the submission of the 2014/15 audit report to the Parliament, and the 2015/16 to the Minister of Finance and; (x) the development of Parliamentary Oversight Guide and; (xvi) the establishment and operationalisation of core PFM reform governance and institutional implementation arrangements.

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<sup>13</sup> Procurement Bill, regulations, policy, procedures manual, and tribunal institutional operational arrangements.

**Notwithstanding, the achievements made above are still far from translating into meaningful changes and improvements in PFM practices.** This is mainly due to the fact that most of them relate to processes leading to the completion of key planned activities and not the actual achievement of the planned strategic outputs and objectives. Consequently, based on the level of progress achieved so far and without definitive guidance at the highest level, the chances are slim that the project will achieve most of its intended strategic outputs and objectives by the end of June 2018.

**However, it is also important to highlight the fact that progress was largely constrained by late start of the project from inception attributed to multiple factors.** In particular, adverse political developments in 2014 coupled with significant delays in operationalising core project governance and institutional implementation arrangements. While the PFMRAP was formally launched in 2013, established governance and institutional arrangements were only fully operational towards the middle of 2015 and actual implementation of the project only commenced in the middle of 2015. This situation was compounded by limited availability of key staff, commitment and ownership of reforms at both component and departmental levels as well as difficulties in prioritisation and proper sequencing of reform activities.

**Consequently, this delayed the start and successful implementation of the several activities across all components.** While some momentum for reforms was generated at the beginning of the 2016, it seems this has been lost along the way towards end of the year, as other priorities kicked in, thereby eroding the most needed interest for reforms. To a larger extent, this points to the fact that the project has not been as effective as had been expected. Therefore, there is a strong need to reinvigorate the genuine spirit of reform across all components and step up efforts to speed up implementation if the project is to achieve its intended objectives.

**Therefore, given that most of the outstanding scope of work may not be completed to achieve all planned reform strategic objectives by June 2018, it is absolutely imperative to urgently consider an extension of the project duration or another enhanced PFM reform programme beyond June 2018.** In particular, given the fact that several planned activities are not yet started, others are still work in progress and additional scope of reforms in selected components is inevitable and necessary based on recent PEFA outcomes, there is a strong case to consider extending the project beyond June 2018, by at least another 3-year period. Alternatively, the GoL should consider designing and implementing another enhanced 3-5-year reform programme beyond June 2018. This is extremely important considering the criticality of the PFM in the national development and the lessons learned over the last one and half years of implementing the current PFM reform project

### **3. PROGRESS, ISSUES AND REFOCUSING OF REFORMS BY COMPONENT**

#### **3.1 Component 1: PFM Regulatory Frameworks**

##### ***3.1.1 Context and Strategic Objectives***

**Component 1-PFM Regulatory Frameworks Implemented:** Based on international experience, the GoL recognised that PFM reforms are not sustainable unless they are rooted in a robust PFM regulatory framework. The enactment of Public Financial Management and Accountability (PFMA) Act, 2011, was a significant step in this direction. While the PFMA Act decentralised key PFM responsibilities to Ministries, Departments and Agencies (MDAs), the supporting enabling regulatory framework is yet to be fully established. To address this, the Government reviewed the Act with support from development partners and identified several PFM regulatory areas that need further strengthening. GoL finalized the Treasury Regulations 2014 that address some of these weaknesses and enforce financial discipline across line ministries. Therefore, this component was designed to update the PFM regulatory framework to underpin

the PFM reforms and develop the necessary capacity across Ministries, Departments and Agencies (MDAs) to support and sustain the implementation of the PFM regulatory framework. The component strategic objectives and outputs as defined in the PFMRAP are captured in Box 2 below.

**Box 2: PFMRAP Component 1 Objectives and Outputs**

**Strategic Objective:** By the end of financial year 2017 -18, a modern PFM regulatory framework will be in place and implemented by competent personnel, that ensures compliance with all aspects of the PFMA Act and other relevant laws across public administration

**Key Component Outputs:** This component has the following outputs:

1. Output 1: PFM Regulatory Framework Updated to Underpin PFM Reforms
2. Output 2: Capacity developed to implement and sustain the PFM regulatory framework

**Estimate Component Cost:** US\$ 421,000

### **3.1.2 Progress and Achievements**

**Good, but limited progress has been made under the component.** Over the period under review, the focus of the component has largely been on: the drafting and ensuring enactment of the Audit Bill in new Law; the review and modernisation of the PFMA, Act 2011; developing the necessary staff skills and competences of the Legal Department in compliance management and; laying the necessary foundation for developing and providing basic training in the existing PFM legal and regulatory framework. While good progress has been made in developing staff capacity of the LD in compliance management, the review of the PFMA Act has significantly slowed and remains work in progress. The delays in finalisation of the amendments to the PFMA, 2011 poses a great risk to many reforms which require appropriate legislative underpinning. Therefore, going forward, this need to be prioritised. Notwithstanding, the major achievement made under the Component has been the enactment of the Audit Bill into new Law. Specific progress status under each output is discussed below.

#### ***Output 1: PFM Regulatory Framework Updated to Underpin PFM Reforms:***

- (a) The enactment of the long standing Audit Bill into new Law effective 1<sup>st</sup> of April 2017.
- (b) Work on the revision of the PFMA Act, 2011 has significantly slowed and is yet to be completed. A memo seeking the Cabinet's approval of the proposed amendments was submitted twice, but has been differed. This has subsequently delayed the commencement of the legal drafting of the initial proposed amendments, albeit without a proper validation process by all key stakeholders. However, the process for soliciting further submissions is still open, but no action plan has been developed to guide the process, which has subsequently dragged the process even further.
- (c) Terms of Reference (ToR) for training various Government officers across Ministries, Departments and Agencies (MDAs) in the existing PFM legal and regulatory framework have been developed and the suitable STE engaged for the assignment. The initial training of trainers (ToT) of finance personnel in various MDAs has been delivered to more than thirty (30) officers. It is expected that 40-50 trainers will be trained through three (3) planned ToTs. These Trainers will then in turn train the majority of finance personnel across MDAs.

#### ***Output 2: Capacity developed to implement and sustain the PFM regulatory framework:***

- (a) Three (3) legal officers have completed an online certificate course in compliance management as part of measures to strengthen the regulatory risk post review of the legal frameworks and the risk

management function of the MoF. Post training reports have been produced and approved and submitted to the PFMRS. Follow-up actions to assess the impact of this training on the departmental routine responsibilities is being arranged.

- (b) One more Legal officer is expected to be enrolled onto the same course with the University of Cape Town during the 2017/18 fiscal year.

### ***3.1.3 Major Component Adjustments***

Since the start of the project, no major changes have been made to this component, except for the inclusion under Output 1 of a couple of non PFM related laws such as money laundering, anti-tobacco etc. The intention behind this adjustment was mainly to better understand the effort involved by the LD in the review of other legal and regulatory frameworks under the responsibility of the Legal Department and its implication on the delivery of the PFM related commitments. However, this has to some extent skewed the focus of Output 1 and the intended objectives of the component.

### ***3.1.4 Challenges, Risks and Mitigation Measures***

The major issues that hampered progress under this component mainly included the following:

- (a) The activities related to review and modernisation of the PFM legal and regulatory framework are not properly prioritised and sequenced. For instance, the focus is now on training on existing legal and regulatory framework, and little attention is given to the revision of the PFMA Act. While training in existing laws and regulations is important, it is inevitable that significant part of the existing framework will subsequently change thereby necessitating another rigorous training programme. The risk of this approach is not only misguiding the process, but rather delaying the necessary and critical legal and regulatory changes to underpin the ongoing reforms as well as duplicating the training efforts. Addressing this, will require reprioritisation and proper sequencing of the planned activities. Most importantly is the need to have a holistic approach.
- (b) Significant delays by Cabinet to approve the proposed amendments to the PFMA Act 2011 for legal drafting process has significantly stalled the process. The LD has written a couple of cabinet memos seeking its authorisation, but the matter has since been deferred without clear reasons. To address this, the LD should seek the Minister's intervention to further engage Cabinet.
- (c) Lack of a properly guided process for reviewing and updating the existing PFM legal and regulatory framework. There is no formal taskforce in place to champion the process let alone an action plan for guide the process. This has resulted in lack of coordination and significant delays in the process. To address this, it is recommended that the Component establish a dedicated review and modernisation taskforce and develop an action plan to guide the process.
- (d) There were significant delays in the engagement of the STE to deliver planned trainings in existing PFM legal and regulatory framework. This was largely due to the difficulties in the identification and mobilisation of a suitable expert.
- (e) The inclusion of the mostly non PFM related laws and regulations has unnecessarily overclouded and skewed the component objectives and expected outcomes as well as shifted the component's focus from PFM legal and regulatory framework to other more general public sector legal and regulatory frameworks. It is therefore important that the scope is revised and narrowed to the modernisation of only cross-cutting PFM related laws and regulations.

### ***3.1.5 Key Component Lessons Learnt***

A few lessons can be learnt from the experiences in implementing reforms under this component. These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) Proper planning and prioritisation of activities is fundamental to ensuring focus and guidance to the implementation process. The planning needs to be better and the sequencing of events should be accordance with a realistic timetable;
- (b) Bloated scope of reforms could shift the focus and have adverse impact on implementation; and
- (c) Prioritisation of the revision of the PFM legal and regulatory frameworks especially the PFMA Act is critical to underpin new reforms which cannot be implemented without it.

### **3.1.6 Proposed Changes to the Component Design and Scope**

While most of the component's elements largely remain relevant and valid, the following amendments are proposed to further enhance its relevance and validity as well fully align it with overall reform intentions:

- (a) Tweak the component name to read: '*PFM legal and regulatory frameworks updated, modernised and implemented to underpin reforms*'. It could also read: *Updated and Modern PFM Legal and Regulatory Frameworks Implemented*'. This will ensure that the focus is on both primary and secondary legislation.
- (b) Revise *Output 1* activity scope to exclude all non-PFM related laws (i.e. Money Laundering, Anti-tobacco laws etc.). This will ensure the focus only on the review and modernisation PFM legal and regulatory framework.
- (c) Include under *Output 1* the revision and implementation of Treasury Regulations in light of the development of separate new planning and budget regulations.
- (d) Consideration should be made to revisit the appropriateness of having compliance review *Output 2* given under the component given that it is not necessarily the domain of the LD. This is more of an Internal and External Audit issue or perhaps a dedicated Compliance Enforcement and Management function if there was one. Therefore, it is proposed that perhaps the entire Output be moved to either Internal Audit (Component 4) or Office of the Auditor General (Component 7). Alternatively, consideration should be given to establish a dedicated Compliance Enforcement and Management function within the MoF. However, the Legal Department will be involved in the implementation process.
- (e) Consider expanding training coverage on compliance management under *Output 2* to other key related functions such as Internal Audit and OAG staff.

### **3.1.7 Additional Activity Scope and Modification**

**Table 2 Summary of Component 1 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 1</b>	<b>1</b>	(a) Revision and implementation of updated Treasury Regulations.	(a) Revisiting and removing all output 2 activities from the component.
		(a) Implementation of the updated PFMA Act which was never included in the activity plan.	(b) Extending coverage of training to Internal Audit and OAG staff.

### **3.1.8 Reprioritisation of Component Activities**

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the scope of the recommended extension or a new reform programme beyond June 2018.

**Table 3 Proposed Reprioritisation and Sequencing of Component 1 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
Component 1	1	(a) Enactment and implementation of the revised PFMA Act. (b) Revision and implementation of new Treasury Regulations. (c) Implementation of the new Audit Law. (d) Comprehensive training of all finance personnel on the requirements of the Treasury Regulations, PFMA Act and other relevant Laws.	(a) Full institutionalisation of the updated PFMA Act. (b) Full institutionalisation of new Treasury Regulations. (c) Full implementation and institutionalisation of new Audit Law. (d) Further training on PFM Act, Treasury Regulations and other related and relevant laws.
	2	(a) Further training in compliance management to LD and all other key departments and undertaking a compliance review process.	(a) Establishment of a dedicated compliance enforcement and management function with MoF.

### **3.1.9 Conclusion and Key Recommendations**

**In spite of the major achievement made in terms of enacting the long standing Audit Bill into new Law, efforts need stepping up in restoring the momentum and speed up progress especially in reviewing and updating the PFMA Act, which is critical to many other PFM reforms. Also important to address going forward is the need to rescope, reprioritise and properly sequence the component activities accordingly. Therefore, in order to ensure the achievement of the planned outputs and strategic objective, it is recommended that:**

- (a) The component carefully revises and reprioritises the scope of activities and properly sequence them in light of the proposed scope changes;
- (b) The component urgently and highly prioritise the revision of PFMA Act 2011, establish a dedicated review taskforce and develop a clear action plan to guide the process;
- (c) The component develops a detailed implementation plan and fully mainstream component reform activities in the departmental work plans; and
- (d) The MoF Senior Management consider publishing the all PFM related laws and regulations once enacted or approved.

## **3.2 Component 2: Transparency and Effectiveness of Policy Orientation of the Budget**

### **3.2.1 Context and Strategic Objectives**

**Component 2-Transparency and effectiveness of policy orientation of the budget assured:** The 2012 Public Expenditure and Accountability Assessment (PEFA) assessment identified are number of a strategic issues to be addressed in order to strengthen transparency and effectiveness of policy orientation of the budget. These mainly included the need to: strengthen the links between the Budget Framework Papers (BFPs) and overall Medium-Term Fiscal Strategy (MTFF) aggregates or projections; strengthen fiscal forecasting capacity by improving forecasting performance in the composition of expenditure outcomes; determine and mitigate the impact of fiscal risks arising from customs union dependency, volatile extractive

industry revenues, government guarantees, state owned enterprise, sub national government or extra budgetary unit operations; further implement programme based budgeting (PBB), in terms of redefinition of programmes and development of a comprehensive performance monitoring and evaluation framework, developing capacity in the IFMIS support unit to generate such reports, and integration of donor funded activities and the requirement for further skills development to support programme monitoring and evaluation and; improve the coverage and comprehensiveness of budget documentation and provide public access to these documents.

Therefore, the main purpose of this component is to establish strong linkages between the National Strategic Development Plan (NSDP), fiscal strategy and budget appropriations, address capacity constraints in the budget formulation and budget challenge processes, re-orientate the budget process to provide space for enhanced engagement by policy makers, strengthen skill in macro-fiscal management and improve the quality of budget documentation in line with internationally accepted good practices.

**Box 3: PFMRAP Component 2 Objectives and Outputs**

**Strategic Objective:** By the end of financial year 2017 -18, all annual budgets will fully reflect policy priorities and these annual budgets will be comprehensive and transparent.

**Key Component Outputs:** This component has the following outputs:

1. Clear links established between development plans, fiscal strategy and the actual budget appropriations;
2. The budget process is redesigned to ensure that it provides information to enable policy makers to make informed decisions;
3. Macro-fiscal management will be more effective and more accurate; and
4. Comprehensiveness and quality of information included in budget documentation improved.

**Estimate Component Cost:** USD\$ 6,716,300

### **3.2.2 Progress and Achievements**

**The component has registered good but limited progress in most of the planned outputs .** While a good foundation towards establishing an effective planning and budget regulatory framework, developing a new budgeting tool, implementation of PBB, introducing a quarterly fiscal bulletin, and introducing a citizen's budget guide, a number of activities have yet to be completed and translate into meaningful progress in almost all outputs. Although efforts had been made to vigorously pursue the reforms under the component, momentum seem to have been lost along the way and the pace slowed due to multiple factors including competing demands within respective departments resulting into unavailability of key staff to champion the reforms. Notwithstanding, there is hope that if momentum is restored and with reinvigorated effort, meaningful progress could be achieved over the remaining period of the reform. Specific progress is discussed under each output below:

***Output 1: Clear links established between development plans, fiscal strategy and the actual budget appropriations:***

- (a) A situation analysis has been undertaken to better understand the existing budget planning, formulation and management systems and their key shortcomings. A brief report to that effect has been shared with key stakeholders.
- (b) System user functional requirements for the new budgeting tool have been completed and submitted to the IFMIS project management unit (PMU) and used in the initial testing of the identified budgeting solution—Central Budget Management System (CBMS).

- (c) Work on developing a new integrated Chart of Accounts (CoA) is successfully progressing. A CoA prototype has since been developed and recently presented to key stakeholders for confirmation.
- (d) The review of the Vision 2020 has just commenced by a local expert engaged by MoDP. It was originally expected that the local expert would work under the supervision of the international expert who unfortunately resigned in the process on health grounds.
- (e) The first citizen's budget guide has been developed with the 2016/17 budget already translated into Sesotho, but not yet published.
- (f) The quarterly fiscal bulletin has also been fully institutionalised with the first and second quarters of the 2016/17 fiscal year already published. However, the third and fourth quarters' bulletins are yet to be completed and published due to pressing demands of the 2017/18 budget preparation process.

***Output 2: The budget process is redesigned to ensure that it provides information to enable policymakers to make informed decisions:***

- (a) The development of draft planning and budget regulations has been completed, but yet to be validated, approved and issued by the MoF. The validation of regulations is planned for April 2017.
- (b) The development of the draft budget guidelines and procedures manual (Budget guidebook) has also been completed and awaiting validation and approval.

***Output 3: Macro-fiscal management will be more effective and more accurate:***

- (a) ToR for strengthening macroeconomic modelling capacity of the MPMD has been developed, approved and the subsequent STE selection process also completed. The selected STE has been appointed, is expected to commence his assignment in April 2017.
- (b) Detailed ToR for the formal establishment of the Macroeconomic Working Group (MWG) and its Technical Working Group (TWG) has also been developed and approved, but formal appointment of members is yet to be done by the Minister.
- (c) ToR for training MPMD staff in tax policy formulation, fiscal analysis and revenue forecasting as well as advanced excel modelling have been completed and still under review by the department.

***Output 4: Comprehensiveness and quality of information included in budget documentation improved:***

- (a) A new Budget Strategy Paper (PSP) outline and content has been developed. Major improvements made include: (i) the introduction of fiscal objectives and targets; (ii) a comprehensive fiscal strategy with clear fiscal adjustments and; (iii) fiscal risk statement to enhance the quality of documentation of the strategic phase of the budget planning process. However, its full application is expected in the 2018/19 budget cycle.
- (b) A detailed review of all budget documentation is currently underway. A draft report is expected to be presented by May 2017.

***Output 5: Development cooperation management and effectiveness improved coverage of external flows in budget documentation:***

*Support to Public Debt and Aid Management:*

- (a) The Public Debt and Aid Management Bill has been redeveloped to address several shortcomings which were identified in the earlier version of the Bill. The completed final revised draft Bill has been discussed and agreed with the Public Debt and Aid Management Department (PDAMD), but yet to be validated by all key stakeholders before its approval by the Minister for legal drafting.

- (b) ToR for reorganizing the PDAMD function and strengthening its capacity has been developed and approved by ONAO. The STE identification process is currently underway.
- (c) ToR for undertaking a focused study on the development of domestic debt capital markets has also been completed and submitted for approval to the ONAO. This initiative is fundamentally intended to mitigate the increasing risk of shrinking external debt capital markets has also been developed and submitted to ONAO or approval.

*Support to Private Sector Development:*

- (a) One study tour involving four (4) PSDD staff to Botswana has been undertaken to understudy the institutional arrangements for appropriate and effective governance and fiscal oversight arrangements of state owned enterprises (SOEs). Draft report to that effect has been shared with key stakeholders. Another study tour to Namibia is planned in the 2017/18 fiscal year.
- (b) Work to reclassify the SOEs based on the Government Finance Statistics (GFS) 2014 classification framework and develop a comprehensive database has recently commenced.

### ***3.2.3 Major Component Adjustments***

**The introduction of a new output (5) which was not included in the PFMRAP.** This included all the activities under this output. This largely meant to address issues related to debt management, public investments planning; and oversight of SOEs.

### ***3.2.4 Challenges, Risks and Mitigation Measures***

**Limited progress under the component has largely been constrained by the following:**

- (a) In appropriate definition of certain outputs under the component makes it difficult to better understand and develop an appropriate results logical framework for the component. The outputs should be reviewed and redefined.
- (b) Inappropriate scoping of activities related to governance and oversight of SOEs has also obscured the expectations of the output 5. This makes it difficult to clearly define outputs related to SOEs. It is important that the scope of the component is revised and perhaps consider creating a separate output for SOEs. This has been proposed under refocusing part of the subsection.
- (c) Limited prioritisation and lack of a detailed implementation plan has made it even difficult for the component to identify critical reforms to establish fundamentally critical reforms to establish necessary conditions for advanced reforms. It is also difficult to easily monitor performance, resulting into many slippages. Reprioritisation, sequencing and detailed implementation plan are key to the success of the component.
- (d) Significant delays in resolving IFMIS upgrade contractual issues between the GoL and STCL has subsequently delayed and could even further delay the implementation of the new budgeting tool. While, the contract has recently been signed by the GoL, it is yet to be signed by STCL. In addition, there are a number of triggers that have yet to be successfully completed as agreed between the GoL and the WB to pave way for the IFMIS upgrade implementation. A decisive approach and commitment from the Minister and Top management is absolutely necessary to addressing the IFMIS upgrade triggers to avert the risk a possible WB pullout of the IFMIS project.
- (e) Development of the new CoA has also been hampered by the limited availability of key officials from the BD and MPMD because of the pressing demands of the budget preparation process for the fiscal year 2017/18. This has resulted in further delays and difficulties in constituting the TWC and Work Streams. However, the situation has improved now that the budget process is complete.
- (f) The unexpected resignation of the M&E expert and further delays in the identification of a replacement expert may compromise the expected outcomes of the review of Vision 2010. It is

therefore, absolutely necessary that the suitable STE is urgently replaced to guide and peer review the work of the local expert.

- (g) The unprecedented delays in the approval and engagement of the Macroeconomic modelling STE has further delayed work on all planned activities under output three (3). However, efforts are underway to mobilise the STE by April 2017.

### **3.2.5 Key Component Lessons Learnt**

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) The achievement of poorly defined outputs does not necessarily mean effective reform;
- (b) The success of advanced PFM reforms will always depend on the existing fundamental elements of the system;
- (c) A culture of responsibility and accountability is critical to instilling and ensuring that all key stakeholders take responsibilities more seriously; and
- (d) More emphasis on the importance of the unwavering involvement of various stakeholders to facilitate reform is absolutely crucial to secure strong commitment and ownership of the reforms.

### **3.2.6 Proposed Changes to the Component Design and Scope**

**While most of the component's elements still remain relevant and valid in most respects, a few revisions are proposed** to further enhance its relevance and validity as well fully align it with overall reform intentions:

- (a) The name of the component should be tweaked to read: '*Transparency and effectiveness of policy orientation of the budget, fiscal sustainability and oversight of SOEs assured*'. It could also be rephrased to '*Transparency and Effectiveness of Policy Orientated Annual Budgets*'. This will ensure that the additional scope of the component related to debt management, governance and oversight SOEs, and public investment planning and management are adequately covered;
- (b) Most of the component outputs should be redefined to be strongly aligned to strategic objective of the component;
- (c) Fragmentation of sector planning and budgeting activities should be resolved so that all related activities are addressed under one component;
- (d) Consider introducing three *separate outputs* for all activities related to governance and oversight of SOEs, public investment planning and management and public asset management<sup>14</sup> respectively;
- (e) The scope of activities under the component needs to be revised and reprioritised to incorporate recommendations from the recent PEFA, 2016, situational analysis report and other past PFM diagnostic assessment reports. The revised scope should consider: further implementation of PBB; strengthening the implementation of MTEF; further improving budget documentation; developing budget analytical reporting capacity; budget monitoring and reporting; further strengthening the strategic planning phase of the budget preparation process; establishing dedicated fiscal risk management function; developing fiscal risks analysis and reporting capacity; establishing a dedicated task policy formulation and analysis function; strengthening macro-fiscal analytical reporting capacity; developing public debt and aid policy, regulations and standard operating procedures; conducting public debt sustainability analysis; functional reorganization of the PDAMD; developing the PDAMD staff capacity; developing public debt analytical reporting capacity of the PDAMD; public assessment management; strengthening capital budgeting etc.

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<sup>14</sup> This is a new PEFA framework dimension which was not part of the old framework used in the PEFA assessment of 2012. However, the focus should only be on financial assets as non-financial assets would be addressed by the Treasury Department in collaboration with Administration Department of the MoF.

- (f) Amend activity 2.1 in the activity plan to remove the part of programme-based budgeting (PBB). Development of PBB manual should follow after the further implementation of PBB.
- (g) Development of planning and budget regulations and budget guidelines and procedures should be separate activities; and
- (h) Amend, activity 5.8 in the component output based activity plan to read '*develop Medium-Term Debt Strategy*'.

### **3.2.7 Additional Activity Scope and Modification**

**Table 4 Summary of Component 2 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 2</b>	<b>1</b>	(a) None.	(a) None.
	<b>2</b>	(a) Strengthening/further implementation of PBB.	(b) None.
		(b) Introduction and implementation of a mid-year budget review process.	(c) None.
	<b>3</b>	(a) Establishment of dedicated fiscal risks management function.  (b) Fiscal risk assessment and reporting.	(a) None.  (b) None.
		(c) Strengthening the capacity of a tax policy formulation and analysis function.	(c) None.
	<b>4</b>	(a) None.	(a) None.
	<b>5</b>	(a) Development of public debt policy, regulations and standard operating procedures.  (b) Reorganization and strengthening the capacity of the debt management function.  (c) Introduction of quarterly debt bulletin.  (d) Recording and reporting on guarantees.  (e) Debt sustainability analysis (DSA).  (f) Reclassification and development of an SOE database.  (g) Development of legal and regulatory framework for SOEs.	(a) Activity 5.8 to read ' <i>develop Medium-Term Debt Strategy</i> '.  (b) None.  (c) None.  (d) None.  (e) None.  (f) None.  (g) None.

### **3.2.8 Reprioritisation of Component Activities**

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the scope of the recommended extension or a new reform programme beyond June 2018.

**Table 5 Proposed Reprioritisation and Sequencing of Component 2 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
<b>Component 2</b>	<b>1</b>	<ul style="list-style-type: none"> <li>(a) Development and implementation of new CoA.</li> <li>(b) Development and implementation of a new planning and budgeting system.</li> <li>(c) Timely preparation and publication of fiscal bulletin and citizens' budget guide.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Extending the institutional coverage and consolidation of the new CoA.</li> <li>(b) Further implementation of new planning and budgeting system.</li> <li>(c) Production and publication of monthly in-year fiscal operational reports.</li> </ul>
	<b>2</b>	<ul style="list-style-type: none"> <li>(a) Issuance and implementation of new Planning and Budget Regulations.</li> <li>(b) Issuance and implementation of new budget guidelines and procedures (guidebook).</li> <li>(c) Further implementation of PBB (refinements, performance framework and manual)</li> <li>(d) Strengthening strategic phase of the budget preparation process (introducing pre-budget statement and mid-year review processes).</li> <li>(e) Review and dissemination of the outcomes of vision 2020.</li> <li>(f) Development and launching of NSDP II.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Further implementation of new planning and budget regulations.</li> <li>(b) Further implementation of new budget guidebook.</li> <li>(c) Consolidating PBB system.</li> <li>(d) Further strengthening MTEF and links to MTFF and strategic phase of the budget preparation process.</li> <li>(e) Developing analytical capacity of the budget department.</li> <li>(f) Developing and implementing budget monitoring tools and capacity of the Budget Department.</li> <li>(g) Developing and implementing advanced costing methodology.</li> </ul>
	<b>3</b>	<ul style="list-style-type: none"> <li>(a) Establishment of dedicated fiscal risks management function.</li> <li>(b) Fiscal risk assessment and regular analytical reporting.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Whole government wide fiscal risks analysis and reporting.</li> <li>(b) Strengthening the macrofiscal analytical and reporting capacity.</li> </ul>

		(c) Strengthening of a dedicated tax policy formulation and analysis function.	(c) Tax policy analysis and reporting.
		(d) Development and implementation of a new macroeconomic model and improved macrofiscal forecasts	(d) Introduction of economic review and reporting.
		(e) Formal establishment and operationalisation of the MWG and TWG	(e) Full operationalisation of the MWG and TWG
		(f) Introduction of binding fiscal rules	(f) Consolidation of binding fiscal rules.
	<b>4</b>		
	4	(a) Improved quality of key budget documentation (BSP, BFP and Estimates Book and in-year budget reports)	(a) Improving the presentation of the estimates book.
	<b>5</b>		
	5	(a) Enactment and introduction of the public debt and aid law	(a) Implementation of the public debt and aid law, regulations and policies.
		(b) Development of public debt policy and regulations and standard operating procedures	(b) Public asset management (financial assets).
		(c) Functional reorganization of the PDAMD	(c) Operationalisation of the revised PDAMD function.
		(d) Production of quarterly debt bulletin	(d) Production and publication of monthly debt bulletins
		(e) Development of a register and recording of guarantees	(e) Detailed analysis and reporting of guarantees.
		(f) Reclassification and database of SOEs	(f) Development and implementation of a public asset management framework (financial assets).
		(g) Development and enactment of legal and regulatory framework for SOEs (policy, law, regulations and procedures)	(g) Implementation of new SOE legal and regulatory framework.
		(h) Implementation of PSID across MDAs	(h) Implementation of PSID across MDAs.
		(i) Development and implementation of project cycle management tools and strengthening the capacity and role of the Public Sector Investments Committee	(i) Further strengthening the capacity and role of the Public Sector Investments Committee.
		(j) Approval and implementation of the revised Lesotho partnership policy	(j) Further implementation of the revised Lesotho partnership policy.
		(k) Timely production and publication of annual aid flow report (2016/17 & 2017/18)	(k) Timely production and publication of annual aid flow report (2016/17 & 2017/18).

### **3.2.9 Conclusion and Key Recommendations**

**While some progress has been made under the component, it is quite clear that several activities remain work in progress and are still far from translating into meaningful progress and achievements of the component outputs.** Going forward, there is need step up efforts and more importantly revise and highly reprioritise the scope of the component activities and outputs and developing a detailed

implementation plan. Therefore, to ensure the component achieves its outputs and strategic objective, it is recommended that:

- (a) The component outputs should be reviewed and redefined in light of the proposed changes to the component design and scope;
- (b) Component activities should be carefully and highly reprioritised, properly sequenced as proposed by the review;
- (c) The component should prepare a detailed output based implementation plan;
- (d) The component should create a separate output for activities related to governance and oversight of SOEs;
- (e) The Minister of Finance and MoF Senior Management should take a decisive approach and ensure that IFMIS upgrade triggers are urgently addressed to avert the risk further delays and possible failure of the system upgrade project;
- (f) The M&E Department of the MoDP should consider replacing the M&E expert to guide and peer review the work of the local expert on the review of the Vision 2020;
- (g) The BD should expedite the process of validating the planning and budget regulations and budget guide book. In addition, the BD should consider a clear action plan developed for validating, approving and implementing the draft documents; and
- (h) The MPMD and LINPICO should expedite the placement of the Macroeconomic Modelling expert.

### **3.3 Component 3: Cash Management**

#### **3.3.1 Context and Strategic Objectives**

**Component 3: Cash flow forecasts a major determinant of internal debt and financial investment:** Despite past volatility of revenues, cash management had not been viewed as a priority area for the GOL though better management of cash balances could have reduced borrowing costs. However, more recently, due to economic downturn and particularly year-on-year variations in receipts from the Southern African Customs Union (SACU), increased fiscal pressure has emphasized the need for strong cash management. To best perform this function, GOL undertook to: create a Cash Management Unit (CMU); rationalize the large number of bank accounts into a treasury single account (TSA) structure; strengthen oversight of the GOL banking operations; and develop capacity for providing reliable cash forecasts.

#### **Box 4: Component 3 objective and outputs**

**Strategic Objective:** By the end of fiscal year 2017/18, cash management will be operating in a manner that will allow the efficient and effective day-to-day management of public monies and that the personnel responsible for cash management will be fully conversant with and implementing revised procedures to ensure the proper management of cash and liquidity.

#### **Component Outputs:**

1. A Cash Management Unit and Liquidity Committee are established
2. Access to consolidated information on Government cash balances
3. Cash forecasts are 90% accurate

**Estimated Component Cost:** UDS\$ 186,000

#### **3.3.2 Progress and Achievements**

**The component is making progress, but at a slower pace than planned and work largely remains in progress in all of the outputs.** At the current pace the component objectives will not be achieved by the

end of the project. Limited staff capacity remains the major stumbling block resulting in component slippages. Specific progress is discussed under each output.

***Output 1: A Cash Management Unit and Liquidity Committee are established:***

- (a) The Cash Management Unit (CMU) functional structure has been established, but positions have yet to be filled. Currently, the function is performed by a few staff on temporary basis.
- (b) Cash, Debt and Aid Management Committee (CDAMC) envisaged in the Debt and Aid Management Bill—but, yet to be established.

***Output 2: Access to consolidated information on Government cash balances:***

- (a) The TSA structure has been proposed by the Treasury, agreed by the CBL and a strategy for its phased implementation accepted, but implementation is slow.
- (b) Inventory of GoL-controlled bank accounts has been established and information gathering is in progress.
- (c) While some dormant bank accounts have been closed, new accounts continue to be opened. This remains a major issue to be dealt with by the Treasury Department.

***Output 3: Cash forecasts are 90% accurate:***

- (a) Training in cash management training and development of a preliminary cash plan has been done, but none of these have been applied. In particular, no subsequent extension of training or updates to the cash plan have been done to-date.

### ***3.3.3 Major Component Adjustments***

No changes were made to component scope or planned activities. More detailed work plans were developed as part of the Inception Report of the Resident PFM Advisor to the Accountant General's Office. For each output the work plan envisaged phased approaches with interim milestones. However, continued slippage in implementation has been reported due to the unresolved staffing issues.

### ***3.3.4 Challenges, Risks and Mitigation Measures***

The major issues and risks under this component include the following:

- (a) *Significant delays in filling the CMU established positions:* CMU functional positions were established in 2012. While, the PFMRAP anticipated that appointments would be completed during 2013, to date no staff have been formally appointed to fill those positions. Although temporary staff have been assigned to the CMU, they are frequently diverted to other duties (most notably, the preparation of the consolidated annual financial statements). Moreover, the post of Deputy Accountant General – Cash Management (DAG-CM) has been vacant since December 2015. This has significantly stalled the cash management reforms. To address this issue, it is recommended that the MoF, urgently formalise the appointments of the temporary staff and prioritise the recruitment of a DAG-CM.
- (b) *Rationalizing bank accounts:* Whilst a number of bank accounts have been closed since 2012, an almost equivalent number of new bank accounts have been opened, most especially to cater for donor-funded development project monies. As a result, problems arising from having large numbers of bank accounts often hosted in commercial banks with substantial aggregate idle balances persist. Continued demands for new bank accounts counters the impact of account closures. While, a new Treasury Instruction on opening and managing bank accounts has been

issued, it is not being complied with. Therefore, there is an urgent need for the Accountant General to be empowered to enforce the Treasury Instruction and close accounts where their purposes are no longer justified or for non-compliance with the Instruction.

- (c) *Lack of cash forecasting*: The temporary CMU staff received training in the preparation of Cash Flow forecasts including identification of the data sources, bases for modeling forecasts and construction of a suitable cash plan format. However, due to the CMU staffing issue and the lack of funding, further planned work stalled. Cash forecasting training has yet to be extended to the key Spending Units whilst the preliminary cash plan has not been updated with revised forecasts or actual revenues and payments. To institutionalize cash management and also comply with Section 13 of the Treasury Regulations (2014), staff from the key Spending Units need to be competent in preparing and regularly updating cash plans – there is need for a training program.
- (d) *Delays in establishing and operationalising the TSA at the CBL*: While a Plan for phased TSA implementation has been proposed, initial changes to the bank account structure are awaiting installation of the new CBL core banking system. Subsequently, GoL cash balances remain dispersed and non-fungible, and may result in unnecessary borrowings. As first steps to address this, it is recommended that the Treasury Department implements changes to sub-accountancy bank arrangements and institute daily monitoring of CBL bank balances.
- (e) *Pre-funding of sub-warranted expenditures continue to contribute to accumulation of idle bank balances and accountability issues*: While the principle of separating permissions to spend from cash movements has been agreed, it is yet to be confirmed and configured in IFMIS. This needs to be addressed before migration to EPICOR 10.1. There is thus an urgent need to configure, test and implement revised IFMIS sub-warrant process.

### **3.3.5 Key Component Lessons Learnt**

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) Failure to resolve staffing and other capacity issues can derail the reform efforts; and
- (b) The need for clear communication and change management activities to accompany procedural changes and to precede strict enforcement (e.g. on opening/closing of bank accounts).

### **3.3.6 Proposed Changes to the Component Design and Scope**

**No adjustments to the component are proposed.** However, consideration should be given to exploring the possibility and benefit of combining cash and debt management reforms within the same component to better recognize dependencies and promote improved linkages.

### **3.3.7 Additional Activity Scope and Modification**

No expansion of the component scope of activities is envisaged so far. However, consideration should be given to identifying specific funding for more capacity building activities.

**Table 6 Summary of Component 3 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
Component 3	1	None	None
	2	None	None
	3	None	None

### *3.3.8 Reprioritisation of Component Activities*

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the recommended extension or a new reform programme beyond June 2018:

**Table 7 Proposed Reprioritisation and Sequencing of Component 3 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
<b>Component 3</b>	<b>1</b>	(a) Formalise CMU positions and fully operationalise the unit.	(a) Further training CMU staff in more advanced cash management operations i.e. fine tuning etc.
		(b) Establish and operationalise the Cash, Debt and Aid Management Committee (CDAMC).	(b) Increase the linkages between cash and debt management.
	<b>2</b>	(a) Complete and maintain the inventory of all GoL-controlled bank accounts, and produce quarterly reports.	(a) Continue to rationalize the numbers and purposes of GoL bank accounts.
		(b) Strengthen oversight of bank accounts, ensuring regular bank reconciliations, reporting and capture of transactions and balances in IFMIS.	(b) Expand the scope of the TSA in tandem with IFMIS coverage.
		(c) Rationalise the number and purposes of bank accounts, closing those where payments can be reasonably transacted through the IFMIS and CPO accounts.	(c) Expanding TSA beyond Central Government bank accounts to the best possible coverage to be determined.
		(d) Develop the TSA by: restructuring the sub-accountancy banking arrangements; increasing the use of zero-based sub-accounts; reducing the GoL balances held in commercial banks.	(d) None.
	<b>3</b>	(a) Develop and maintain cash plan for 2017/18.	(a) Further develop the CMU cash flow skills, enabling gradual progression towards more finely tuning cash plans.
		(b) Develop cash forecasting training materials, train CMU staff as trainers, and extend training to key Spending Units	(b) Revise the MoF/CBL service level agreement (SLA) to, amongst others, provide incentives for better managing GoL surplus balances.
		(c) Establish working group to scrutinize cash plans on a monthly basis for completeness and reliability and to understand the nature and size of forecasting errors.	(c) Extend cash forecasting capacity building to additional Spending Units.
		(d) Once reasonably reliable cash plans are produced, establish the CDAMC to consider budget release, borrowing and related cash management recommendations.	(d) None.

### *3.3.9 Conclusion and Key Recommendations*

**It is apparent that the component has not made sufficient progress towards achieving its intended outputs and reform objective.** This is mainly because efforts under the component have continuously been constrained by the long standing staffing issues highlighted above. This presents a major risk to the

success of the component to the extent that if staffing issues are not resolved then the objective of the reform will not be realised. Going forward it is recommended that:

- (a) The Component should reprioritise and develop a detailed and properly sequenced implementation plan as proposed by the review;
- (b) The MoF Senior Management should urgently formalise the appointments of the temporary staff and prioritise the recruitment of a DAG-CM;
- (c) The Treasury Department should develop and provide basic cash management training to all MDAs to develop basic understanding of the subject in order to prepare them for cash planning.
- (d) The Treasury Department should mainstream reforms into departmental workplans and incorporate them in departmental meeting agendas;
- (e) The MoF Senior Management should empower the AG to enforce Treasury Instructions;
- (f) The MoF Senior Management institutionalise cash management to comply with Section 13 of Treasury Regulation (2014) and provide funding for further training;
- (g) The Treasury Department should urgently implement changes to sub-accountancy bank arrangements and institute daily monitoring of CBL bank balances;
- (h) The IFMIS PMU should urgently configure, test and implement revised IFMIS sub-warrant process; and
- (i) The Treasury Department should finalise the revised sub-accountancy bank account structure.

### **3.4 Component 4: Strengthening of Internal Controls**

#### ***3.4.1 Context and Strategic Objectives***

***Component 4: Internal Controls ensure strengthened operational efficiency and effectiveness:*** GoL recognises the need of instilling fiscal discipline and enhancing transparency and accountability in the public financial management cycle of Lesotho. The Government observed several weaknesses in the entire internal control framework. In particular, the application of commitment controls in IFMIS, and limited controls in processing and managing payments related to salaries and pensions. Considering that salary and pension payments comprise a significant portion of government expenditure it was considered important to address these weaknesses and institute a system where these payments are consistent with employee/pensioner number and entitlements. Therefore, this component was designed to institute a robust internal control environment, build capacity for implementation and ensure enforcement of the internal controls in line with the COSO framework. This component is currently supported by the African Development Bank (AfDB).

#### **Box 5: Component 4 Strategic Objective and Outputs**

***Strategic Objective:*** By the end of the financial year 2017 – 18 the Internal Control Framework will meet the COSO Standards and Internal Auditors will be auditing this framework in compliance with the International Standards for Professional Practice of Internal Auditing (ISPPA)

***Component Outputs:***

1. Ex-ante controls on non-salary expenditures compliant with contextually relevant components of the COSO framework
2. Compensation of employees and pension payments consistent with employee/pensioner number and entitlements
3. Internal audit compliant with COSO and IIA controls and standards

***Estimated Component Cost:*** UDS\$ 3,875,000

### **3.4.2 Progress and Achievements by Output**

**Good progress is being made in all outputs of the component albeit rather at slower pace due to some delays outside the scope of IA to address alone.** In particular, good progress has mostly been made in the two activities in Output One in terms of increasing the coverage of audit plans and audits to 65% of MDAs and submitting audit reports to management and Output two (2) in terms of Risk based auditing including pensions and payroll which is rising and will continue to do so as more sequenced staff capacity development takes place. However, the target of covering most MDAs cannot be met without the implementation of the proposed IAD structure for MDAs and it may not be achieved in the lifetime of the project unless this happens immediately. Specific progress and achievements made under each output are discussed below.

***Output 1: Ex-ante controls on non-salary expenditures compliant with contextually relevant components of the COSO framework:***

- (a) Annual Internal Audit plans have been developed for seventeen (17) out of twenty-six (26) MDAs representing a 65% coverage and making good progress towards achieving the target of covering 80% of MDAs.
- (b) Audit coverage and scope (including new types of audits) has expanded in that thirty-three (33) audits were conducted across seventeen (17) MDAs and five (5) risk based audit were completed across 5 MDAs in fiscal year 2016/17. However, the target to cover all MDAs by 2016/17 including special audits in high risk areas such as payroll, pension and gratuity has not yet been achieved.
- (c) The Audit Command Language (ACL) automated system for audit is in full use at the Central Internal Audit Department (CIAD) and its roll out to MDAs is still progressing; hence the target of its full utilisation has not yet been achieved.

***Output 2: Compensation of employees and pension payments consistent with employee/pensioner number and entitlements:***

- (a) *Payroll and Pension Audits:* One audit of old age pension payments has been completed and a report produced with recommendations for remedial action and its implementation will be followed up in fiscal year 2017/18. In addition, Payroll audits in three (3) MDAs are currently underway. There is synergy between this and the biometric census being undertaken under the WB funded PSMP project. Furthermore, the CIAD has assisted and collaborated with PSMP in order to avoid audit fatigue.

***Output 3: Internal audit compliant with COSO and IIA controls and standards:***

- (a) Internal Audit Manual has been developed and approved by MoF Senior Management Team and awaits endorsement by the PS-Finance and subsequent piloting before its full implementation.
- (b) The Training Plan for the application of Internal Audit Manual has been developed and initial training provided by a short term Technical Adviser. Further training will be conducted internally using a training of trainers' approach. As this manual does not address Information Technology (IT) based auditing, the need for a specific manual on this has been identified and will be addressed.
- (c) Staff capacity development of the Intern Audit Department (IAD) has continued but still short of meeting the targeted fifty (50) IAD staff to be certificated in Internal Audit Technician (IAT) and another fifty (50) IAD staff with GIA\PIA certificate by 2016. However, proposals for 2016/17 enrolment have been approved for sixteen (16) IAD staff for Professional/General Internal Audit certificate in fiscal year 2017/18, twenty (24) IAD staff on Internal Audit Technician programme and one (1) IAD staff on the Certified Internal Audit (CIA) learning system Instructor-led course-Part 2 and 3.

- (d) Training on the following Specialised Audits have been delivered by a STE: Performance Audit for twenty (23) staff; Audit of Supply Chain Management for fifteen (15) staff. Also five (5) IAD staff participated in regional and thirty (34) in local training on Risk Based Audit Approach.
- (e) The MoF Audit Committee has been established, but not operationalised.
- (f) The new Audit Charter has been developed and approved by MoF Senior Management Team but yet to be implemented.
- (g) The MoU between Internal Audit and OAG is awaiting finalization and agreement.

#### **3.4.3 Major Component Adjustments**

To make it more relevant, the following changes have been made to the component over the period of implementation:

- (a) **Output 1:** Changed in the Component Output Activity Plan to – ‘*Internal Audit provides management with an independent and objective assessment of the reliability of Ex-ante controls (based on the COSO framework) established by management*’.
- (b) **Output 2:** Changed in the Component Output Activity Plan to – ‘*An annual internal audit report will be produced on both the payroll and the pension payments system. Internal audit report(s) produced on both the payroll, pension and gratuity payments*’.
- (c) **Output 3:** Changed in the Component Output Activity Plan to – ‘*Internal audit Activities are compliant with the International Standards for Professional Practice of Internal Auditing (ISPPA)*’
- (d) The review and updating of the Audit Charter was addressed under the project linked to the review and updating of the Audit Manual.

#### **3.4.4 Key Challenges, Risks and Mitigation Measures**

Several issues affected progress under this component. These mainly include the following:

- (a) Lack of IAD structures within every MDA continues to impede progress on improving Internal Audit plans and audit activity coverage. Consequently, ineffective audit coverage means potential fraud and lack of effective controls are not identified and thus no remedial action taken. Therefore, it is absolutely necessary that the recently approved (by MoF SMT) IAD structure for MDAs is approved and implemented. In addition, it is recommended that a revised and realistic target set of introducing the implementation of risk based approach across seventeen (17) MDAs in the fiscal is pursued.
- (b) The review of the GIA<sup>15</sup>/PIA and IAT training programmes by the Institute of Internal Auditors (IIA) delayed enrolment. As a result, IA staff are not fully equipped to operate in accordance with ISPPA standards affecting audit effectiveness and the ability to strengthen internal controls. Sixteen (16) IAD staff to enroll for Professional/General Internal Audit certificate in 2017. A proposal for enrollment of 24 IAD staff on Internal Audit Technician programme 2016/2017 is also approved. However, given the remaining lifespan of the project CIA qualification target has been amended to one IA. It is also proposed that the revise training target be implemented in the next financial year (2017/18)
- (c) Lack of capacity of Internal Audit in the MDAs and lack of an IT audit manual is also affecting audit effectiveness and the ability to strengthen internal controls. As part of efforts to address this, ToR for engaging a Technical Advisor (TA) to draft an IT audit manual has been submitted for approval. In the medium and long term, training of IAs and provision of an IT audit manual is necessary.

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<sup>15</sup> After the review, GIA is now called Professional Internal Auditor (PIA).

- (d) Lack of operational Audit Committees has resulted in IA reports being submitted to Chief Accounting Officers (CAOs) only with copy to OAG and AG. This situation has resulted in lack of action by CAOs on recommendations made, in which case remedial action may not be taken to strengthen internal controls. While, internal audit is now incorporated into the PFMA Act and Treasury Regulations the provisions do not incorporate the establishment of Audit Committees. Therefore, as part of further efforts to address this issue, relevant proposed amendments to PFMA Act have been submitted to legitimise the mandate and role of Audit Committees to support operationalisation and enhance professional independence of IAD.
- (e) A draft MoU between IA and OAG on respective roles and responsibilities has been produced but not yet finalized and agreed. Lack of common understanding could lead to conflict and confusion including by MDAs. It therefore, recommended that renewed efforts are made in identifying and resolving and outstanding issues and the conclusion of an MOU between OAG and IAD.

#### **3.4.5 Key Component Lessons Learnt**

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) To secure strong commitment and ownership of the reforms, more emphasis on the importance of the unwavering involvement of various stakeholders to facilitate reform is key;
- (b) It is important that capacity development activities are properly sequenced to ensure that participants have the required foundation knowledge and skills to effectively anchor any necessary advanced knowledge and skills for institutionalising the reforms; and
- (c) The importance of regular following up on every capacity development activity to ensure that learning is applied, performance improvement is made and recognized is critical.

#### **3.4.6 Proposed Changes to the Component Design and Scope**

**While most of the component's elements still remain relevant and valid in most respects, a few major amendments to the component design and scope are proposed** to address some of the issues and lessons learnt so as to further enhance its relevance and validity as well as fully align it with overall strategic reform intentions. They include the following:

- (a) Modification of the component name to read: '*Effective Internal Controls that Ensure Strengthened Operational Efficiency and Effectiveness*'.
- (b) Revision of the Strategic Objective to read: '*By the end of financial year 2017-2018 the Internal Control Framework will meet international risk management framework standards such as COSO and Internal Auditors will be auditing this framework in compliance with the International Standards for Professional Practice of Internal Auditing (ISPPIA)*'.
- (c) Replace the phrase under *Output One* which currently reads '*based on the COSO framework*' with '*based on international risk management frameworks such as COSO*'.
- (d) Output Based Activity Plan for 2017/18 should capture all PFMR Project funded activities (e.g. include Audit Charter and IT Audit manual)

#### **3.4.7 Additional Activity Scope and Modification**

**Table 8 Summary of Component 4 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
Component 4	3	(a) Reviewing, updating and implementing the Audit Charter to operationalise and institutionalise it.	(a) None.

		(b) Develop, implement and provide training on an IT Audit Manual.	(b) Additional to existing Audit Manual activity.
		(c) Capacity development for 17 IA Team Leaders on IPSAS in order to equip them to audit annual accounts of MDAs.	(c) None.

### 3.4.8 Reprioritisation of Component Activities

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the recommended extension or a new reform programme beyond June 2018:

**Table 9 Proposed Reprioritisation and Sequencing of Component 4 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
Component 4	1	(a) Achieving the targeted audit coverage across MDAs and expanding scope to all risk areas.	(a) Extending audit coverage in terms of types and across all MDAs.
	2	(a) Further training of the IAD staff.  (b) Development and implementation of IT audit procedures.	(a) Further capacity building of the IAD staff.  (b) Further roll out and implementation of IT audit procedures.
	3	(a) Signing and implementation of the MoU between OAG and CIAD.  (b) Operationalisation of the MoF Audit Committee and Audit Charter.  (c) Approval and implementation of IA structures and rolling out of audit plans across MDAs.	(a) Full institutionalisation of the MoU roles and responsibilities and working arrangements.  (b) Operationalisation of the MoF Audit Committee and Audit Charter.  (c) The implementation of new IAD structure across MDAs which may not be completed by June.

### 3.4.9 Conclusion and Key Recommendations

**Full Internal Audit coverage of all MDAs by the end of the project may not be achieved.** However, significant progress will be made on developing the capacity of the Internal Audit function so that activities are compliant with International Standards for Professional Practice of Internal Auditing (output three), along with the quality and scope of internal audit coverage (outputs one and two). Notwithstanding, governance and institutional factors remain major impediments to the achievement of full coverage of all MDAs and the implementation of internal audit recommendations. Therefore, to ensure the Component achieves its defined outputs and strategic reform objective, it is recommended that:

- (a) The MoF Senior Management should prioritise the final approval and the subsequent implementation of the amended Audit Charter and Internal Audit Procedures Manual;
- (b) MoF Senior Management and HR function liaise with MoPS to expedite the approval and implementation of the new IAD structure for MDAs;
- (c) The IAD should revise and set a realistic target of introducing the implementation of risk based approach across seventeen (17) MDAs;
- (d) The IAD should consider implementing the revised IA training target in the next financial year (2017/18);
- (e) The MoF Senior Management should expedite the engagement of a TA to develop an IT audit manual and provide necessary training;
- (f) The Legal Department should urgently consider and incorporate the relevant proposed amendments into the PFMA Act to legitimise the mandate and role of Audit Committees to support operationalisation and enhance professional independence of IAD; and
- (g) The OAG and IAD should identify and resolve outstanding issues delaying the conclusion and signing of an MOU and have it signed.

### **3.5 Component 5: Accounting and Fiscal Reporting**

#### **3.5.1 Context and Strategic Objectives**

**Component 5: Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards:** This component was designed to address serious weaknesses in budgetary and financial reporting so as to improve accountability and oversight. The main issues to be addressed under the component include: the late submission of annual financial statements; adverse audit opinions on the annual financial statements; absence of regular reconciliations of bank accounts and other below-the-line balances; an integrated financial management system (IFMIS) that lacked functionality and interfaces; and the lack of any in-year financial reporting. In 2012 the Treasury structure was revised as an important step towards resolving these issues and supporting priority Treasury reforms. The component design comprised three related thematic areas with activities aiming to operationalize the revised Treasury structure, improve IFMIS operations and address the financial reporting weaknesses, as summarized below.

<b>Reform theme</b>	<b>Key activities</b>
Restructuring the Treasury and accounting cadre.	<ul style="list-style-type: none"> <li>(a) Operationalize newly approved sections to address priority reform areas.</li> <li>(b) Develop accounting capacity and professionalism.</li> <li>(c) Manage the cadre across government according to well-defined HR policies.</li> </ul>
Stabilizing and upgrading the accounting software.	<ul style="list-style-type: none"> <li>(a) Maximize benefits from existing IFMIS platform, develop interfaces with other PFM systems and stabilize functionalities.</li> <li>(b) Strengthen operational management of EPICOR 7 and support to end users.</li> <li>(c) Upgrade IFMIS version to address functional issues identified with current version, provide for new functional requirements and extend IFMIS coverage.</li> </ul>
Improving in-year and year-end financial reporting.	<ul style="list-style-type: none"> <li>(a) Improve the coverage, quality and integrity of IFMIS data.</li> <li>(b) Bring bank reconciliations up-to-date.</li> <li>(c) Publish monthly budget execution reports.</li> <li>(d) Submit consolidated financial statements for audit, within prescribed timeframe and compliant with the legal/regulatory framework.</li> </ul>

While these reform themes largely remain relevant and valid, they understate the critical cross-cutting role of the IFMIS upgrade as an enabler for progressing reforms across all PFMR components. This component is currently supported by the WB.

**Box 6: PFMRAP Component 5 Strategic Objective and Outputs**

**Strategic Objective:** by the end of fiscal year 2017 -18, all Annual Financial Reports and Statements will be Produced in Full Compliance with the Regulatory Framework and Accepted International Accounting Reporting Standards.

**Outputs:**

1. Government accounting cadre reforms implemented.
2. Accounting systems and application software upgraded to comply with regulations and standards.
3. In-year and annual financial reports published in accordance with regulations and standards.

**Estimated Component Cost:** US\$ 8,480,000

### *3.5.2 Progress and Achievements*

**Limited progress has been made under this component and efforts need to be stepped up if the planned outputs and component strategic objective are to be achieved.** While some progress has been made towards establishing the accounting cadre and putting in place foundations for enhancing in-year and annual financial reporting, serious challenges remain on stabilising the existing IFMIS functionality let alone establishing the necessary conditions for implementing the planned platform upgrade. This presents a major risk not only to the success of the component, but to the majority of the PFM reforms in macroeconomic forecasting, budgeting, procurement etc. which are largely dependent upon having a functional IFMIS, as well as other governance reform projects (e.g. public sector modernization). Specific progress and achievements made under each output are discussed below:

***Output 1: Government accounting cadre reforms implemented:***

- (a) Revised accounting cadre establishment was approved in 2012 with a view to professionalizing the accounting services and supporting planned PFM reforms. However, the revised Treasury structure and accounting scheme of service have yet to be implemented. In addition, specific to Component five (5), positions for the Financial Performance Monitoring section have yet to be filled.
- (b) A partnership between the Treasury Department, Centre for Accounting Studies (CAS) and Lesotho Institute of Accountants (LIA) continues. However, the number of fully qualified accountants in the public sector remains few.

***Output 2: Accounting systems and application software upgraded to comply with regulations and standards:***

- (a) The IFMIS upgrade to Epicor version 10.1 contract has been signed by the GOL, but yet to be done by Soft-Tech Consultants Ltd (STCL). This process has dragged due to multiple technical issues which have since been resolved.
- (a) Initial testing and evaluation of CBMS—a budget planning, preparation and management module of the proposed IFMIS upgrade platform has been completed and a report to that effect has been prepared. However, a final decision based on the evaluation report of the solution, is yet to be made.
- (b) Initial testing of the treasury planning and management system functionality of the proposed version 10.1 has also been completed.

**Output 3: In-year and annual financial reports published in accordance with regulations and standards:**

- (a) *Annual financial reporting*: (i) IPSAS-cash basis roadmap has been developed and its implementation commenced; (ii) For the first time, all Chief Accounting Officers (CAO) produced financial statements for fiscal year 2015/16; (ii) The consolidated financial statements contain increased disclosures on financial assets, liabilities and contingent liabilities in line with cash basis IPSAS requirements and; (iii) Consolidated financial statements for the past three fiscal years have been produced within statutory deadline.
- (b) *In-year financial reporting*: (i) Treasury Instruction issued on period closure and production of monthly reports with effect from April 2017; and (ii) New in-year report formats for publication have been designed and currently being configured in IFMIS.
- (c) *Data cleansing*: (i) Increased oversight, monitoring and clearances of hanging transactions; (ii) Reconciliation of the Consolidated Fund Main Account up-to-date; activities in progress to reconcile the other main government bank accounts; (iii) Treasury Management System (TMS) module in use to facilitate automated matching of bank and cash book transactions and; (iv) Identification of IFMIS-generated transactions that distort financial reports; corrective actions being tested and assessed.

**3.5.3 Major Component Adjustments**

**No changes were agreed and made in respect of the Treasury structure or financial reporting outputs.** Target dates for implementing the IFMIS upgrade have been pushed back from April 2015 to April 2018.

**3.5.4 Challenges, Risks and Mitigation Measures**

**Despite some advances made, the limited progress in financial reporting reforms is confirmed by the recent 2016 PEFA assessments and WB's mid-term review of its support project.** This was largely due to the following issues:

- (a) Significant delays in implementing the revised Treasury Department Restructure resulting in dysfunctional management of Treasury human resources. Despite the 2012 approval of the revised Treasury structure it has yet to be implemented. Key new sections established specifically to support priority PFM reforms including the Performance Monitoring Section to undertake financial reporting duties are still unstaffed. In addition, a failure to adequately provide arrangements for employees to transition from the old to new scheme of service has demotivated staff and negatively impacted performance. To address these, there are needs for: prioritisation of positions to be filled and fast tracking, where feasible; high-level interventions to engage the Minister of Public Service to implement the revised structure; and establishment of procedures for sponsoring professional training based on merit and performance.
- (b) Significant delays in preparing for the IFMIS upgrade. The contract has just recently been signed by GoL, but yet to be signed by STCL. In addition, a number of triggers agreed between GoL and WB, have yet to be resolved and completed. This poses a significant risk since the current agreement with WB formally expires in June 2017.
- (c) Lack of appropriate IFMIS implementation approach and institutional arrangements pose a greater risk to the success of the upgrade. Currently there are several shortcomings in the way the upgrade is being approached mainly: lack of properly defined governance and institutional implementation arrangements serve for the PMU; insufficiently staff PMU; lack of project sponsor role; lack of clarity on roles and responsibilities of all key stakeholders; lack of a detailed project implementation plan/charter and system deployment/roll out plan; lack of refined business processes and comprehensive all-encompassing blue print; lack of risk management

strategy/business continuity plan; lack of a communication strategy/plan etc. In other words, the GoL is not yet ready to successfully start the project without these being in place. As a result, there is no clear strategic direction and sufficient technical guidance of the reform. It is therefore, important that clear governance and institutional implementation arrangements are developed and well communicated across to all key stakeholders.

- (d) The success of the IFMIS upgrade is largely dependent on the stabilisation of the existing platform—version 7.3.5 and addressing a number of fundamental process issues which currently seem not to be given priority to establish the necessary conditions for the planned upgrade.
- (e) There are perpetual difficulties in developing the necessary financial reporting capacity without dedicated staff in the Performance Monitoring Section to undertake financial reporting duties. The lack of permanent financial reporting oversight has allowed the perpetuation of errors, accumulation of hanging and unreconciled bank balances and data inconsistencies, and has slowed the pace of financial reporting progress. Seconding staff to financial reporting duties has also adversely impacted on the advancement of other PFM reforms (e.g. cash management). While greater staff rationalisation within Treasury is needed in the short term, implementation of the revised structure remains the ultimate long term solution to this issue.
- (f) Lack of proper monitoring and management of Government Wide Area Network (WAN) which has resulted in continuous system downtime. While, network management tool (Solarwinds) has been procured and installed, actual monitoring and reporting is yet to be established. To urgently address this, the Ministry of Communication Systems and Transport (MCST) and IFMIS team should start using the tool and consequently reduce the downtime of the network.
- (g) Several necessary conditions for successfully stabilising the existing IFMIS platform and paving the way for system upgrade have yet to be resolved. Among others they include: outdated primary and backup datacenter; difficulties in universalization of EFT for all the payments of GOL from Treasury; difficulties in developing and implementing interfaces with Commonwealth Secretariat Debt Recording and Management CS-DRMS Interfaces with the IFMIS; data quality and integrity in IFMIS; weak accounting controls; difficulties with maintenance and contract management for EPICOR 7.3.5; limited change management, training and project implementation support; lack of a dedicated risk and quality assurance in IFMIS etc. These pose several risks to the success of the existing IFMIS and planned upgrade.
- (h) The quality of accounting processes and financial reporting is also constrained by: accounting months and years being kept open indefinitely—allowing transaction posting; and Bank reconciliations and other balances not being reconciled on monthly basis.

### ***3.5.5 Key Component Lessons Learnt***

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) Implementing manpower reforms requires broad stakeholder support across a number of government agencies, a high-level champion and active change management. For component 5, these elements have not worked in a coordinated way;
- (b) Implementing IFMIS reforms without establishing necessary prerequisites is a recipe for failure; and
- (c) Combining the IFMIS upgrade component with the other financial reporting outputs has frequently blurred reporting responsibilities and coverage with greater emphasis given to the IFMIS upgrade and allowing the Accounting Cadre reforms to “drop off the radar”.

### **3.5.6 Proposed Changes to the Component Design and Scope**

**While most of the component's elements still remain relevant and valid in most respects, a few amendments are proposed** to further enhance its relevance and validity as well as fully align it with overall reform intentions:

- (a) Due to the important and cross-cutting role of the IFMIS upgrade project, consideration should be given to splitting Component 5 into two components, one focusing solely on the preparation for and implementation of the IFMIS upgrade, the other on accounting cadre and financial reporting.
- (b) Include the development of IFMIS upgrade project governance and institutional implementation arrangements.
- (c) Developing the tools and capacity for identifying Treasury staff training needs, candidate selection, and performance monitoring of training should be included as an additional activity

### **3.5.7 Additional Activity Scope and Modification**

**Table 10 Summary of Component 5 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 5</b>	<b>1</b>	(a) Developing the tools and capacity for identifying Treasury staff training needs, candidate selection, and performance monitoring of training should be included as an additional activity.	(a) None.
	<b>2</b>	<ul style="list-style-type: none"> <li>(a) Developing and operationalizing appropriate IFMIS upgrade project governance and institutional implementation arrangements.</li> <li>(b) Developing necessary capacity of the IFMIS upgrade project governance and institutional implementation arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Splitting of stabilisation of version 7.3.5 and upgrade to version 10.1 into separate projects.</li> <li>(b) None.</li> </ul>

### **3.5.8 Reprioritisation of Component Activities**

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the recommended extension or a new reform programme beyond June 2018:

**Table 11 Proposed Reprioritisation and Sequencing of Component 5 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
<b>Component 5</b>	<b>1</b>	<ul style="list-style-type: none"> <li>(a) Development and acceptance of a well-defined transitional arrangement for staff to convert from the old to new accountancy scheme of service.</li> <li>(b) Identification of key positions to be filled and prioritized recruitment plan implemented.</li> <li>(c) Development of a strategy for overseeing the development and management of accounting cadre staff, including the selection of candidates for and performance monitoring of sponsored courses.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Continue with implementing the Treasury restructuring.</li> <li>(b) None.</li> <li>(c) Implement the strategy for overseeing the development and management of accounting cadre staff, including the selection of candidates for and performance monitoring of sponsored courses.</li> </ul>
	<b>2</b>	<ul style="list-style-type: none"> <li>(a) Implementation of IFMIS upgrade.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Further implementation of IFMIS upgrade.</li> </ul>
	<b>3</b>	<ul style="list-style-type: none"> <li>(a) Appointment of staff to the Performance Monitoring Section with specific in-year and year-end reporting responsibilities.</li> <li>(b) Develop the capacity of staff in the Performance Monitoring Section and their abilities to extend training to Spending Unit staff.</li> <li>(c) Complete preliminary bank reconciliations on all CPO accounts and develop strategy for resolving unreconciled balances, so that 2017/18 financial statements reflect only clean reconciled balances.</li> <li>(d) Extend consolidated annual financial statements to include segment reports for district councils and public enterprises and additional disclosures on financial assets and liabilities.</li> <li>(e) Develop asset management framework and accounting policies and commence asset recording.</li> <li>(f) Publish monthly budget execution reports, progressively identifying and resolving data gaps.</li> </ul>	<ul style="list-style-type: none"> <li>(a) Fully operationalise the Performance Monitoring function.</li> <li>(b) Consolidate the financial data of budgetary central government, district councils and public enterprises, and achieve full compliance with IPSAS cash-basis.</li> <li>(c) Develop reporting and fiscal decentralization strategies.</li> <li>(d) Maintain up-to-date bank reconciliations of all Treasury managed bank accounts.</li> <li>(e) Develop and implement strategy for valuing government assets.</li> <li>(f) Continue improving the quality and timeliness of in-year and year-end reports in accordance with the legal/regulatory framework; further develop reporting capacity in Spending Units; and assist in specifying and testing relevant IFMIS functionality.</li> </ul>

### **3.5.9 Conclusion and Key Recommendations**

**Although some progress has been made, it is evident that staffing constraints and failure to establish necessary conditions to support accounting and financial reporting functions as well as implementation of the planned IFMIS upgrade remain major constraints and risks to the success of the activities under the component.** In addition, considering the importance as a cross-cutting enabler of PFM reforms and its intended broad coverage of sites and functions, it is important that the revised PFMRAP includes the IFMIS upgrade as a separate project component. Unfortunately, though, failure to successfully implement IFMIS upgrade is not an option as it would mean a failure to a number of other critical PFM reforms whose success is largely dependent on it. Therefore, to ensure the component achieves its outputs and strategic objective, the following measures are recommended that:

- (a) The MoF Senior Management should prioritise and take a decisive approach and demonstrate a genuine commitment to WB towards addressing outstanding issues impeding the commencement of the IFMIS upgrade implementation. This project should never be allowed to fail at all costs as its success underpins the subsequent success of many other ongoing reforms;
- (b) The MoF Senior Management should develop and formalise all necessary IFMIS upgrade project governance and institutional implementation arrangements to guide the implementation process;
- (c) The IFMIS PMU should work with all departments in ensuring that fundamental issues as prerequisite to the development and successful implementation of IFMIS are fully addressed before system configuration;
- (d) MoF Senior Management should work with MoPS to urgently fill in all strategic vacant positions in the Treasury Department;
- (e) The Treasury Department should urgently complete bank reconciliation and resolve all unreconciled items; and
- (f) The Treasury Department should ring-fence the reconciliation backlog and ensure that future reconciliations are conducted on a complete and timely basis.

## **3.6 Component 6: Efficiency and Transparency in Public Procurement**

### **3.6.1 Context and Strategic Objectives**

**Component 6: Public Procurement aligns with international best practice in efficiency and transparency:** This component aims at installing effective public procurement systems that offer high level of transparency, accountability and value for money in the execution of procurement plans/budget, and objectively solving public procurement disputes. The PFMRAP combines the reforms in public procurement policy and regulatory sphere with preventative efforts to combat corruption in public procurement and spread knowledge on good practices and whistle blowing where there are anomalies. This area in essence should naturally attract the best possible interests from reform policy drivers to promote good governance in the context of an open macro-economic framework that promotes open competition (free from corruption), free functioning of markets and the allocation of resources based on comparative advantages. Therefore, the overall objective of this component is to improve and align public procurement with international best practice through: (i) putting in place an enabling policy and institutional framework; (ii) operationalisation of a modern procurement system across Government; (iii) capacity building to professionalise the public procurement function; (iv) promoting public education and outreach department of the Directorate of Corruption and Economic Crimes (DCEO) to fight corruption in procurement and; (v) strengthening Procurement.

#### **Box 7: Component 6 Strategic Objective and Outputs**

**Strategic Objectives:** By the end of financial year 2017 -18, an efficient and effective system of public procurement will have been agreed and being implemented by trained and professional procurement officials across the whole public administration. By the end of financial year 2017/2018 the public procurement processes will be transparent, efficient, effective and free from corruption.

***Component Outputs:***

1. Legislative and regulatory framework revised and upgraded
2. Management and operations of the public procurement system re-engineered and reconfigured
3. Public procurement achieves transparency through outreach to public and suppliers
4. Human resource capacity within public procurement is significantly increased

***Estimated Component Cost:*** USD\$ 2,395,000

#### ***3.6.2 Progress and Achievements***

**Good but limited progress and achievements have been made under this component.** However, this progress may not have any bearing on influencing actual reform process change if outputs such as the Procurement Bill are not approved and enacted into law in order to allow operationalization of all other secondary outputs of the component. In view of the aforesaid, a general consensus is that activities are still work in progress until approval and operationalisation have been effected. This also includes the only one major activity—revision of scheme of services currently ongoing. Notwithstanding, as part of consolidation of the gains under this component and embracing synergies between current Government reform initiatives, further collaboration and/or exploration should be made with the ongoing e-governance project led by the MCST to ensure consistencies with the Procurement Policy, Procurement Bill and subsidiary laws and implementation tools with the IT platform to be proposed for the procurement processes. The following highlights progress and achievements under each output:

***Output 1: The Procurement Legal and Regulatory Framework is Revised and Updated to Underpin Improvements in Procurement Practices in the Public Administration:***

- (a) Work on strengthening the procurement legal and regulatory framework is progressing. In particular, the draft new Procurement Bill and Regulations; draft public Procurement Policy; and standard bidding documents (SBDs); and draft Procurement procedures manual and monitoring and evaluation (M&E) framework for the GoL public procurement have been developed, but not yet approved.
- (b) Country regional and national stakeholder workshops have been held to solicit inputs from the public procurement system users/clients on the above mentioned regulatory framework documents.

***Output 2: Management of Public Procurement is Re-organised to Ensure Operational Effectiveness of Procurement Activities:***

- (a) The Public Procurement Advisor Department (PPAD) has undertaken two study tours to Rwanda and Botswana to examine and learn good practices on how Public Procurement departments/authorities operate using the following criteria pillars: (i) Legislative and regulatory framework; (ii) Institutional structure framework; (iii) Management capacity; (iv) Procurement operations and market practices and; (v) Integrity and transparency of Public Procurement System. However, no further action has materialised from the study tour reports.
- (b) An in-depth review of the current procurement management and operational practises is also work in progress as part of the scheme of services consultancy assignment aimed at providing detailed

guidance on roles and responsibilities of procurement units and procurement practitioners, their job descriptions/profiles and competency framework, and career advancement scheme. This is critical for ensuring re-organisation of the procurement cadre to ensure operational effectiveness.

***Output 3: Public Procurement Activities Are Fully Transparent:***

- (a) The drafting of the procurement tribunal (PT) regulation, tribunal rules of operation, operational manual, and advocacy and communication strategy has been completed, and training delivered to the PT members and PPAD staff on the content and use of the regulatory framework documentation. However, advocacy programme and workshops for business community on the roles and functions of the procurement tribunal have not been undertaken due to the delays in the approval of the developed legal and regulatory framework.
- (b) A website for Procurement Tribunal has also been developed. The website will in future be managed by the IT Department of MoF.

***Output 4: The Human Resource Capacity for Delivering Effective and Transparent Public Procurement Activities Is in Place:***

- (a) Ninety-two (92) procurement units' staff across government have been enrolled for the professional long term training program (Chartered Institute for Purchasing and Supply).
- (b) This training program is essential for capacity building of procurement staff to transparently and efficiently discharge their procurement responsibilities.

***Output 5: A transparent, efficient, and effective public procurement system that is free from corruption is developed:***

- (a) A public procurement anti-corruption training toolkit has been developed and is being used by the DCEO to deliver anti-corruption public outreach programmes across the country for the public and private sector procurement stakeholders.

***3.6.3 Major Component Adjustments***

No adjustments have been made under this component.

***3.6.4 Challenges, Risks and Mitigation Measures***

**Notwithstanding progress made, a number of meaningful interventions are outstanding under this component.** The realisation of the expected outcomes has largely been hampered by the following issues and challenges:

- (a) Delays in the validation and approval of the draft procurement legal and regulatory framework upon which a number of reforms underpinned. It is therefore, recommended that validation and approval and subsequent enactment of the proposed legal and regulatory framework is expedited.
- (b) Lack of procurement information (annual procurement plans, procurement performance reports, contract awards, etc.) disclosure remain a challenge across Government Procurement Units, as confirmed again by the recent 2016 PEFA Assessment PI 24. This situation has been compounded by the absence of enforcement mechanism of procurement statutory obligations of the MDAs. Therefore, communication to relevant procurement practitioners and supervisors on the need to internalize change in the current operations to align to the proposed guiding frameworks and legislation is key to the success of procurement reforms.
- (c) Limited cooperation between the IFMIS support team, CMU and Budget Department (BD) remains

another setback to the success of procurement reforms. As a result, all challenges relating to procurement and cash planning, comprehensive vendor registration and aligning budget execution to plans remain unresolved. Therefore, urgent enactment of the proposed procurement legal and regulatory framework is of paramount importance to resolving this issue. In addition, there is need for the three departments and sections to establish a routine of meeting on a regular basis to discuss and address important issues.

- (d) The absence of a public-sector procurement mentoring framework to support professional development of procurement practitioners also presents a greater risk of not realising the benefits of professional training for staff. In particular, the absence of a procurement focused graduate certification in the country means that problems emanating from undefined qualifications criteria for placement of staff in the procurement cadre will persist for years to come. Therefore, consideration should be given to develop and introduce a focused graduate certification programme in the relevant institutions within the country.
- (e) The procurement dispute settlement and appeals mechanisms requires continuous support in capacity building and objective selection of members. The current members of the procurement tribunal are more than three quarters (3/4) into their term or appointment and there is a greater risk of loss of memory at the expiry of their contracts which will slightly coincide with the end of the ISEP project and may most likely be at the time the procurement tribunal is supposed to operationalize all its regulatory framework and procedures following the enactment of the procurement bill.
- (f) The lack of a clear and guiding framework with PPAD for handling procurement disputes at first line of encounter may adversely affect procurement tribunal's operations. The public procurement complaints/disputes handling system integrity may not improve despite the reported revamp in tribunal regulatory framework and operational tools due to a seemingly docile institutional placement "within" or "along" PPAD. A guiding framework should be developed and implemented.

### ***3.6.5 Key Component Lessons Learnt***

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) Revision of legal and regulatory reforms should always be prioritised and precede other reforms;
- (b) The achievement of poorly defined outputs does not necessarily mean effective reform; and
- (c) To secure strong commitment and ownership of the reforms, more emphasis on the importance of the unwavering involvement of various stakeholders to facilitate reform is key.

### ***3.6.6 Proposed Changes to the Component Design and Scope***

**While most of the component's elements still remain relevant and valid in most respects, a few amendments are proposed** to further enhance its relevance and validity as well fully align it with overall reform intentions:

- (a) Refine the overall strategic objective to also incorporate aspects of the fight against corruption. In particular, it would be useful if the component also address the development of PFM anti-corruption guidelines;
- (b) Introduce an output for strengthening monitoring of public procurement management;
- (c) Refine output 3 to read: "Public Procurement complaints mechanism regulatory framework and

processes align with international best practice in transparency, impartiality, and effectiveness";  
 (d) Establishment of a procurement website and a procurement statistics register/portal; and  
 (e) Roll out training of procurement planning across MDAs.

### **3.6.7 Additional Activity Scope and Modification**

**Table 12 Summary of Component 6 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 6</b>	<b>3</b>	(a) Establishment of a procurement website and a procurement statistics register/portal.	(a) None.
		(b) Rollout training of procurement planning across MDAs.	(b) None.
		(c) Implementation of communication strategy of the procurement tribunal.	(c) None.
	<b>5</b>	(a) Development of PFM anti-corruption guidelines.	(a) None.

### **3.6.8 Reprioritisation of Component Activities**

To ensure speedy and successful implementation of the planned activities, it is recommended that the certain activities be reprioritized within respect components as follows:

**Table 13 Proposed Reprioritisation and Sequencing of Component 6 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
<b>Component 6</b>	<b>1</b>	(a) Approval, enactment and implementation of the proposed procurement legal and regulatory framework.	(a) Implementation of the proposed procurement legal and regulatory framework.
		(a) To be determined.	(a) To be determined.
<b>3</b>	<b>3</b>	(a) Creation of a dedicated website for public procurement information on opportunities, performance and dissemination of regulatory framework documents and implementation tools.	(a) Continuation of roll out training of procurement planning.
		(b) Initiation of training on procurement planning across MDAs.	(b) On the job procurement mentoring (resident TA).
		(c) Development of anti-corruption guidelines.	(c) Training on IFMIS procurement module and usage.
		(d) Creation of a dedicated website for public procurement information on opportunities, performance and dissemination of regulatory framework documents and implementation tools.	(d) Implementation of the procurement tribunal communication strategy.

### **3.6.9 Conclusion and Key Recommendations**

**In spite of the progress made so far in developing the public procurement legal and regulatory framework and support processes it quite evident that most of the planned activities are still work in progress and far from achieving the intended outputs.** Therefore, it is worth highlighting that the future success of the component largely depends of the approval and operationalization of the legal and regulatory framework. Therefore, to ensure the component achieves its outputs and strategic objective, it is recommended that:

- (a) The MoF Senior Management should prioritise and expedite the validation and approval and subsequent enactment of the proposed legal and regulatory framework to effectively underpin the intended reforms;
- (b) The PPAD should develop and operationalise a website to be used as a communication tool to the general public to enhance transparency of public procurement activities;
- (c) The PPAD should communicate to relevant procurement practitioners and supervisors on the need to internalize change in the current operations to align to the proposed guiding frameworks and legislation is key to the success of procurement reforms;
- (d) The GoL should develop and introduce focused graduate certification programme in the relevant institutions within the country;
- (e) The PPAD should develop and implement guiding framework for handling procurement disputes at first line of encounter;
- (f) The Project a should assign a dedicated resident TA to the PPAD for mentoring and advisory support in implementing procurement reforms following professionalization of the cadre; and
- (g) In liaison with Human resource department and MoPS, the PPAD develop clear recruitment criteria/framework for placement of staff.

## **3.7 Component 7: External Audit and Parliamentary, Scrutiny and Oversight**

### **3.7.1 Context and Strategic Objectives**

**Component 7: External audit and oversight compliant with INTOSAI standards (ISSAI).** This Component was designed to align External Audit and Parliamentary Public Expenditure Oversight and Scrutiny with best appropriate international practice standards. Component seven (7) seeks to accomplish this through the two Sub Components. One Sub Component focuses on the Office of the Auditor General (OAG) as the Supreme Audit Institution and addresses: (i) the legal and regulatory framework to ensure independence and compliance with INTOSAI standards, and (ii) the human resource capacity required to technically and ethically deliver the legal mandate. The other Sub Component focuses on Public Accounts Committee (PAC) and addresses: (i) the capability of the PAC to perform its oversight and scrutiny activities in compliance with best international practices.

**The output based Sub-component work plans set out to initiate and facilitate reforms that address :**

- (a) the development and implementation of a fit for purpose Audit Act, Regulations based on that Act supported by training on both for OAG Staff, PAC members and staff, Internal Audit Department and MDAs along with workshops for other stakeholders on the provisions;
- (b) OAG optimal staff requirements, identification and delivery of appropriate capacity development interventions, an HR Policy and a Strategy to implement this supported by an HR Operations Manual and a performance management system. Also a budgeting and accounting framework plus

- procurement regulations and procedures; and
- (c) PAC rules of business, training needs analysis and training for PAC members and support staff.

**Box 8: Component 7 Strategic Objective and Outputs**

**Strategic Objective:** *By the end of the fiscal year 2017-2018 External Audit and Parliamentary Public Expenditure Oversight and Scrutiny will be aligned to best appropriate international practice standards*

**Component Outputs:**

1. Legal and regulatory framework updated to comply progressively with international standards
2. HR capacity to deliver on prescribed external audit mandate established
3. Legislature empowered to perform oversight functions

**Estimated Component Cost:** US\$ 1,040,000

### **3.7.2 Progress and Achievements**

**In relation to OAG, steady but limited progress has been made, albeit behind the original envisaged schedule.** The notable achievement made is in terms of developing and enacting the Audit legislation and supporting regulatory framework. However, finalisation of the Regulations and training have been put back to 2017/2018 and audit coverage improvement remains behind schedule. HR capacity issues are being addressed in Output 2 activities, although there is a risk that benefits of implementing the proposed new structure and policies may not be realised significantly before the end of the project. Capacity development in standard and new areas of audit are continuing at a reasonable rate although further support has been requested to assist application of learning.

**Also, progress has been made on starting the two major activities currently under PAC Output 3 by the STE intervention in reviewing rules of business and conducting a TNA for members and support staff, although behind the original schedule.** However, the report is under consideration and a request has been made for further amendment of the outputs relating to rules of business in line with the ToRs. This Output area and PAC scrutiny ability faces significant challenges in the turnover and hence availability of MPS, ability of Members to interpret terminology and content of Audit reports, the standard and quality of Audit reports, report writing ability of OAG and PAC support staff, delayed submission of OAG reports, CAO compliance and lack of dedicated budget. The following highlights progress and achievements under each output:

***Output One: The Legal and Regulatory Framework for the Supreme Audit Institution is Adopted to Ensure the Independence and Compliance With INTOSAI standards (ISSAI):***

- (a) Audit Regulations have been drafted and currently under review by the OAG before resubmitting them to the Law Office for redrafting in the first quarter of the 2017/18 fiscal year. Consequently, training has yet to be done on the new Audit legal and regulatory framework.
- (b) Although not part of the approved Component seven (7) Activity Plan, the Memorandum of Understanding (MoU) between OAG and Internal Audit Department (IAD) is awaiting finalisation and agreement. This activity is currently included under Component four (4) Activity Plan.
- (c) Three (3) performance audits are being performed per year. Procurement audits are currently done as part of the Regularity and Performance Audits. However, audit coverage of Government expenditure remains below the 50% target. This is largely due to inadequate human, financial and material resources for the OAG. In addition, the target of four (4) procurement audits annually from

2015, and 2 (two) others each year have not yet been met.

***Output Two: The Human Resource Capacity of the Supreme Audit Institution is able to Technically and Ethically Deliver the Legal Mandate of the Supreme Audit Institution:***

- (a) With technical support of the project, the OAG has: (i) developed an HR Policy and Strategy; reviewed and updated organizational structure; (ii) reviewed the Scheme of Service; (iii) developed an HR Management Operations Manual; (iv) developed a Remuneration and Benefits Policy; (v) reviewed and updated the Performance Management System; (vi) developed a wellness policy and; (vi) conducted a Training Needs Analysis and develop a Training Plan. The report and the draft documents are currently being reviewed by the OAG Management. However, the review of the Budgeting and Accounting System, and the Procurement Regulations and Procedures is yet to commence.
- (b) The following trainings and study tours have taken place: IPSAS for 49 staff; Advanced ACL (Audit Command Language) for 23 participants; Public Debt for 42 participants; Human Resource for 2 participants; ISSAI for 18 participants; Zambia study tour for 3 participants; AFROSAI-E Technical updates and refresher workshops for 11 participants. However, the target of 114 OAG staff to be trained by 2015/2016 in standard and new areas, such as performance audits, environmental audit and procurement audit has not yet been met.

***Output Three: Legislature empowered to perform oversight functions:***

- (a) The 2014/15 Auditor General's report has been submitted and currently with the Clerk of the National Assembly awaiting tabling and subsequent scrutiny. The 2015/16 report was also submitted to the Minister of Finance on 9<sup>th</sup> March 2017.
- (b) A consultant was engaged in broad terms to assist the Public Accounts Committee (PAC) to improve its operations and reporting in accordance with international standards and good international practice. The resulting report with recommendations including for capacity development, and accompanied with a Parliamentary Oversight Guide, has been delivered and currently under consideration.
- (c) With support from the project, three PAC members and 1 POAC support staff participated in the Regional PAC Conference (SADCOPAC) in the Seychelles in 2015.

***3.7.3 Major Component Adjustments***

No major changes were made except for the name of the Output 3 in the Component Output Based Activity Plan to '*The capability of the Public Accounts Committee to perform its oversight and scrutiny activities in compliance with best international practices*'. However, a few more adjustments have been proposed for the future captured under the 'refocusing of the component subsection'.

***3.7.4 Challenges, Issues, Risks and Mitigation Measures***

**Progress under the component was largely hampered by the following issues and challenges :**

- (a) Finalisation of the MoU between OAG and IAD has stalled and major concerns have yet to be established and addressed.
- (b) Difficulties in applying learning to practical situation remains a major stumbling block to translating knowledge and skills acquired into actual results. This requires a mentoring programme on specialized audits to ensure that auditors have practical experience in conducting these audits.
- (c) Most Members of Parliament (MPs) are still technical challenged to effectively interpret the accounting and audit terminology used in the content of OAG reports. This impedes their ability to

effectively scrutinize public spending. To address this issue, and in short term, OAG should organise a brief session with PAC staff on the various terminologies used in the reports. In future, consideration should be given to have PAC staff attached to the OAG for their capacity development.

- (d) The quality of the OAG Audit Reports and PAC reports could further be improved in terms of content to ensure important issues usually left out are properly addressed. If not addressed, this may impede the quality of scrutiny particularly in identifying substantive issues to be addressed. To address this, special training for PAC and OAG support staff in effective report writing is urgently required.
- (e) Delayed submission of OAG Audit reports to Parliament/PAC by MoF remains a challenge without legal consequences. This impedes proper scrutiny and identification of appropriate remedial actions by PAC and subsequently delays the process of addressing key weaknesses in a timely manner. Therefore, there is a great need for OAG and MoF to identify and address the causes of delays in the submission of the financial statements. The review of the PFMA should also consider incorporating specific sanctions for non-compliance.
- (f) Lack of PAC support staff involvement in the development of the original Activity Plan has resulted in lack of shared understanding of purpose of some activities. Greater involvement and continuous capacity development of PAC Support is a prerequisite to ensuring their commitment.
- (g) MPs high turnover remains another major challenge to the effective continuity of PAC scrutiny. With elections conducted almost every two years, institutional memory is easily lost due to the high turnover on MPs. In addition, trained and experienced PAC support staff have left the institution for better paying positions both within the organization and outside because the Committees Department Structure does not have room for mobility. Consequently, Oversight and Scrutiny not performed well. Loss of institutional memory and trained staff and poor return on training investment. It is therefore important that the department of committees is restructured such that it accommodates professional progression and the support staff be capacitated for purposes of retaining the institutional memory.
- (h) Limited financial resources for PAC operations also compromise effective parliamentary oversight and scrutiny. The PAC has no specific budget of their own. And this situation continues to exist irrespective of the provisions of the Standing Order 97 (2). This adversely affects PAC's ability to effectively undertake full oversight and scrutiny activities such as site visits and public hearings so that Parliament can make informed decisions in the enactment of laws. To address this, it is recommended that a specific budget allocation is made to support PAC operations.

### ***3.7.5 Key Component Lessons Learnt***

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) The importance of the involvement throughout of various stakeholders for ownership and to facilitate implementation of reform;
- (b) The new members of PAC after the resumption of the Parliament after the elections must be well sensitized about the project and be made aware that their full commitment can help the Committee to function as envisaged in respect of the best International Parliamentary practices;
- (c) Senior management must be fully committed and take ownership and full responsibility in ensuring that the PFMRP becomes a success;

### ***3.7.6 Proposed Changes to the Component Design and Scope***

**While most of the component's elements still remain relevant and valid in most respects, a few**

amendments to enhance its relevance are proposed as follows:

- (a) Amend Component title to: ‘External Audit and Oversight Compliant with International Standards such as International Organisation of Supreme Audit Institutes (INTOSAI) Standards (ISSAI) and best international practices for Parliamentary Oversight and Scrutiny Committees’
- (b) This will ensure that the component also emphasise on aligning the external audit and oversight arrangements with commonly used international practices. The current name included in the PFMARP gives an impression as if the focus is mostly on external audit alignment with INTOSAI which does not necessarily apply to Parliamentary Oversight and Scrutiny Committees. In addition, in the context of the current name, the focus and scope of the component on Parliamentary Oversight and Scrutiny Committees seems rather blurred. Consequently it is very challenging to establish appropriate strategic outputs related to Parliamentary Oversight and Scrutiny Committees.
- (c) Therefore, the above proposed name of the component will ensure that the focus and scope of work under the two Subcomponents are more clear and visible, and broadly aligned to relevant and applicable international standards.

### **3.7.7 Revised Activity Scope and Modifications**

**Table 14 Summary of Component 7 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 7</b>	<b>1</b>	(a) Signing of an MOU between OAG and Internal Audit should also be included under output 1 so that there is concerted effort from the OAG.	(a) None.
	<b>2</b>	(a) Engagement of a resident TA to the OAG for 1 year to provide on-the-job practical professional capacity development with mentoring and implementation support.	(a) None.
		(b) Development of OAG salary structure which seem to have been erroneously omitted on the work of HR consultancy.	(b) None.
	<b>3</b>	(a) Identification of the optimal PAC support staff requirement to achieve motivation and safeguarding of institutional memory and restructuring accordingly.	(a) None.
		(b) Specific capacity development activities for PAC support staff as recommended from the Training Needs Analysis (refer to TNA report). To be considered under AfDB criteria - consolidation, delivery of pending result targets, and quick-win measures to addressing PEFA scores.	(b) None.

### **3.7.8 Reprioritisation of Component Activities**

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the recommended extension or a new reform programme beyond June 2018:

**Table 15 Proposed Reprioritisation and Sequencing of Component 7 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
Component 7	2	(a) Development and implementation of Budgeting and Accounting system plus of Procurement Regulations and Procedures to be rescheduled for first quarter of 2017 – 2018 in order to achieve by the end of the project.	(a) To be determined.
	3	(a) Drafting of oversight reports to Parliament.  (b) Training on understanding the AG's reports on public accounts and other related matters.  (c) Training on Public Financial Management, procurement process and regulations.	(a) To be determined.  (b) To be determined.  (c) To be determined.
		(d) International Professional Development Programme for Parliamentary staff.	(d) To be determined.

### *3.7.9 Conclusion and Key Recommendations*

**While progress is being made, it is apparent that numerous limitations in the exiting PFM legal and regulatory framework (i.e. PFMA Act, 2011) and skills and competencies of relevant staff and members of PAC will continue to undermine and slow the reform efforts under the component.** Going forward, it is absolutely important these issues are proactively addressed to pave way for the desired outcomes of the component. Therefore, to ensure the component achieves its outputs and strategic objective, it is recommended that:

- (a) The OAG and IAD should urgently conclude and sign the MoU;
- (b) The Component should consider including the above a separate activity under Output 1 of the Component Activity Plan to compliment a similar activity already included in Component 4 and ensure a concerted effort and commitment from both parties;
- (c) The OAG should engage a long term resident TA to develop and deliver a comprehensive mentoring programme on specialized audits to ensure that auditors have practical experience in conducting these audits;
- (d) The OAG should organise a brief session with PAC staff on the various terminologies used in the reports. In future, consideration should be given to have PAC staff attached to the OAG for their capacity development;
- (e) The Project should develop and provide special training in effective report writing for PAC and OAG support staff;
- (f) Therefore, there is a great need for OAG and MoF to identify and address the causes of delays in the submission of the financial statements. The review of the PFMA should also consider incorporating specific sanctions for non-compliance;
- (g) The Parliament should consider restructuring the department of committees so that it accommodates professional progression and that its support staff are well capacitated for purposes of retaining the institutional memory;
- (h) The MoF should consider providing a specific budget allocation to support PAC operations so that

- the quality of scrutiny and oversight is not compromised; and
- (i) The Component should ensure greater involvement and continuous capacity development of PAC to ensure its support and commitment.

### **3.8 Component 8: Governance and Institutional Management of PFM Reforms**

#### ***3.8.1 Context and Strategic Objectives***

***Component 8: Governance and institutional management of PFM reforms improved to facilitate ownership, monitoring and evaluation of progress:*** Appropriate institutional and organizational support structures with adequately informed oversight structure that provides strategic direction in line with documented processes and procedures, are necessary to achieve a wide spectrum of governance, institutional, and change management objectives. Therefore, this cross-cutting Component was designed to support the implementation of necessary reforms that would facilitate ownership, monitoring and evaluation of progress under the PFMR Action Plan; hence the governance and institutional arrangements for PFM Reform come under this component. The PFMRAP also makes reference to the need for strong governance and institutional arrangements for communication, coordination and management and states that the success of the reforms depends on robust project management arrangements.

Consequently, this reform area provides support to the overall project management, monitoring and evaluation, capacity development and the implementation of change management principles to help manage and streamline changes necessitated by the reform. In particular, although not specifically mentioned in the original title above, the Component addresses the critical administration of the reform implementation, including support to leading departments in facilitating implementing activities, and human resource and change mobilization. In addition, the component focuses on building and retaining capacity by appropriately addressing human resource management issues.

#### **Box 9: Component 8 Strategic Objective and Outputs**

***Strategic Objective:*** By the end of financial year 2017 -18, Lesotho will have strong governance and institutional management of PFM reforms.

***Component Outputs:***

1. Management of PFM reform institutionalised

***The Output based Activity Plans addresses:***

- (a) Support to the governance and institutional arrangements relating to the Steering Committee and Reform Technical Committee, Component Leaders and Programme Estimates;
- (b) Coordination, monitoring and evaluation of PFM Reforms;
- (c) Capacity development in relation to the management of PFM Reform, including for MoF HR, change management, stakeholder analysis and management, PFMR sensitization, ownership and leadership;
- (d) PEFA Assessment;
- (e) Review of the PFM Reform progress and Activity Plans;
- (f) Appropriate links with overall public sector strengthening and reform;
- (g) Synergy and collaboration with PSMP and;
- (h) IT infrastructure of PFMRs to support delivery of their mandate

***Estimated Component Cost: USD\$ 3,980,000***

### ***3.8.2 Progress and Achievements***

**Good, but limited progress has been under the component.** Specific progress has been made in setting up governance mechanisms such as the IRSC (now the –IRSC for Public Financial Management Reform and Public Sector Modernisation Project), the RTC and CLs' meetings although the CLs' meeting has not taken place this year. Reporting arrangements for all governance structures have been set and are being utilised to inform all project management levels of progress and challenges faced during implementation. A basic M&E framework is in place and is being used to monitor and evaluate progress, although it will benefit the project from further development including a risk assessment framework. Specific progress and achievements are discussed under the output below.

#### ***Output 1: Management of PFM reforms institutionalized.***

Despite numerous challenges in delivering on planned capacity building activities under the component, notable progress has been made. Specific progress includes:

- (a) Core governance structures (IRSC (now the Public Sector - IRSC), the RTC and Component Leaders have been established and fully operationalised.
- (b) ToRs for the IRSC and RTC were revised in August, 2015 and that of the IRSC was further updated in February, 2016 to incorporate PSMP.
- (c) Reporting arrangements for all governance structures have been established. These are utilised to inform all project management levels of progress and issues.
- (d) Sensitisation on aligning capacity development with achievements of objectives has commenced with HR and Components-to be rolled out further.
- (e) Consistent advice has been given on leadership, ownership and change throughout to MoF Management.
- (f) A basic project M&E framework and a risk assessment framework have been developed, but require further enhancements.
- (g) HoDs are now demonstrating some understanding and ownership of component activities and this needs to continue.
- (h) Initial sensitisation on the requirements for sustainable change for MoF Management, HR department and Components.
  - (i) Stakeholder Analysis and management approaches have been piloted.
  - (j) Two-three half day workshops on job analysis were delivered by the CMCDA.
  - (k) Orientation was given to all component leaders on the preparation of EU funded Programme Estimates.
  - (l) PEFA training and PEFA 2016 assessment has been completed.

### ***3.8.3 Major Component Adjustments***

**No adjustments were made to the formal arrangements relating to this component** during the period under review, but the actual activities undertaken were wider in scope than the description of Output one may suggest.

### ***3.8.4 Challenges, Risks and Mitigation Measures***

**Progress under the component was largely hampered by the following issues and challenges:**

- (a) There were significant delays in the staffing of the PFMRS which adversely affected the reform process. The key positions of the Project Coordinator, Procurement, and Monitoring and Evaluation Officers were still all vacant before the period December 2015 and April, 2016.

- (b) Preparatory work within all reform beneficiary departments for annual output based activity work plans, and formal reporting arrangements was also delayed due to reasons mentioned above. Consequently, activation of all PFM reform project institutional structures also suffered the same fate as above, with the inception meeting of the IRSC being held on the 15<sup>th</sup> August, 2015 (over two years from project start-up period). This presents a dire need for rigorous policy level engagement and guidance to all PFM implementing departments.
- (c) Little effort had been made during the design to align the PFM reform action strategic intervention/pillars/components and activity plans with and the PEFA assessment pillars. Consequently, some of the identified activities may not have enough weight to make meaningful dent towards addressing the weaknesses identified in the 2012 PEFA report. The reform action plan and activity plans need to be revised in light of the recent 2016 PEFA recommendations.
- (d) The component 8 architecture does not sufficiently incorporate the necessary outputs to deliver organizational change and adoption of improved ways of working. As a result, there is a risk of ill-informed selection of key actions to address management of PFM reforms and necessary Leadership, capacity development and change interventions. There is need for revamping the component to reflect key expected outputs.
- (e) Stakeholder analysis and management has not been rolled out to all components as intended due to limited interest and availability of component members and conflicting priorities. Ad hoc approach may mean that key stakeholders are not identified and engaged in a timely way with adverse effect on their engagement and ownership. There need for collaboration with component members as part of the continuous bilateral engagements to extend the stakeholder analysis to all components.
- (f) Limited availability of CLs and SCLs for monthly component meetings and special ad hoc meetings continues to slow progress. There is need for the PFMRS to consult component leaders and deputies and identify any reasons for challenges to participation. In addition, organise the proposed ongoing workshops on leadership and engagement to address motivation and commitment to participation.
- (g) Furthermore, a more focused TNA for PFMRS, Planning Unit and Component members is required.
- (h) Difficulties in defining realistic output-based activities of the annual work plan for individual departments remain a major challenge. Some orientation in planning and formulation of activity plans would help to address part of this problem.
- (i) Limited availability and capacity of component members to update activity plans is another stumbling block. This would require regular briefings and support in workshops for participatory approach in updating output based activity plans.
- (j) The PFMRS M&E officer is the Leader of Component 8. This has resulted in less than optimal time being available to fulfil the CL's role. The PFMRS M&E Officer also undertakes implementation monitoring, and seeks to objectively evaluate project progress which is expected from the PFMRS. In order for the latter to be successfully undertaken, the PFMRS M&E Officer should not be involved in practical implementation of activities other than support and facilitation.
- (k) Effective engagement of Human Resource in Capacity Development and Change Management related activities that form the core of this component is required. However, the MoF HR department has not been consistently actively involved in C8 activities and the lead L&D officer has left and will likely not be replaced until June 2017. MoF HR staff do not have expertise in change management and have somewhat limited experience in developing the capacity of staff. Capacity development activities with MoF HR have taken place re change management sensitization, job analysis and aligning capacity development with the achievement of objectives, and training in performance management is planned. However, more intensive capacity development is needed in consultation with MoPS.

- (l) MoF Planning unit has not been consistently participating in Component 8 and this impacts on sustainability after the end of the project, and mainstreaming of reform initiatives into MoF ongoing business Clarification and contribution of the role and contribution of Planning Unit to this component is required.

### **3.8.5 Key Component Lessons Learnt**

**A few lessons can be learnt from the experiences in implementing reforms under this component.** These have also been considered in the refocusing of the component going forward. They mainly include:

- (a) Failures to resolve staffing and other capacity issues can derail the reform efforts;
- (b) The need for clear communication and change management activities to accompany procedural changes and to precede strict enforcement (e.g. on opening/closing of bank accounts);
- (c) The importance for effective sharing of project and other relevant documents so as to avoid duplication of effort, omissions and potential conflicts (e.g. debt strategies and proposed legislation, IFMIS plans) through access to a central repository;
- (d) Senior management total commitment and responsibility for reforms is absolutely necessary in ensuring that the PFM RP becomes a success; and
- (e) Implementing manpower reforms requires broad stakeholder support across a number of government agencies, a high-level champion and active change management. These elements have not yet worked in a coordinated way.

### **3.8.6 Proposed Changes to the Component Design and Scope**

**Although some of the component's elements still remain relevant and valid, it evidently clear that several amendments are required to enhance component's relevance as well fully align it with overall reform intentions.** The key proposed changes to the component include the following:

- (a) The component name should be tweaked to reflect actual scope and sustainability of implementation so that it reads: '*Governance and Institutional Management of PFM Reforms facilitate Implementation through Leadership and Ownership at all levels and Monitoring and Evaluation of Progress*'
- (b) The scope of activity in Result Area three (3)<sup>16</sup>, PFM Component 8 Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress in practice be amended as: "*To assist the GOL develop and implement Institutional, Organisational and Individual Capacity Development and Change Management Strategies and activities to implement sustainable PFM Reform Change Management Strategies and activities and specifically assist in the following areas:*

  - (i) Develop the capacity of the PFMRS to enable it to fully meet its mandated tasks and responsibilities;
  - (ii) Advise on strategic guidance and oversight of the PFMRAP to ensure focus, mobilization, leadership, ownership and sustainability;
  - (iii) Advise on and assist to develop appropriate links with overall public sector strengthening and reform;
  - (iv) Assist the PFMRS to develop and implement a Public Financial Management Reform (PFMR) Roadmap incorporating the following:

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<sup>16</sup> This component is defined as Result Area 3 in the EU project document.

- (a) stakeholder management, communication and engagement, workforce impact assessment, risk and resistance management along with capacity building events for all stakeholders to sensitise them to the PFM reform changes and engage them appropriately;
  - (b) sensitisation of MDA personnel in their PFM roles and Responsibilities and widen this scope to Sub-National Administrations;
  - (c) identifying and addressing human resource management and development issues impacting on PFM Reform;
  - (d) regular monitoring and evaluation reports on the progress in implementing the PFM Reform activities, change management strategies, successes, risks, challenges, mitigating measures and lessons learned; and
  - (e) alignment, synergy with, and contribution to, the achievement of the MoF Strategic Plan."
- (c) Institutional, organisational and individual capacity development to achieve sustainable change to be explicitly recognised in the mandate of the PFMR Secretariat and through this also to the MoF Planning Department. This should also include building and retaining capacity across government departments by appropriately addressing human resource management issues. With regard to sustainability and skills transference, the MoF Planning Department will as things stand, continue to be responsible for supporting the development and implementation of the MoF Strategic Plan even beyond the lifetime of this project and the PFMR.
- (d) The ToRs for the Project should be refined to reflect that in order to achieve PFM Reform that is owned and sustainable, Change Management and Capacity Development activities have to be integrated into all component, project management and coordination activities and that they are also over-arching. This can be explicitly reflected in the role and activities of the Team Leader (TL) and Change Management and Capacity Development Advisor (CMCDA).
- (e) The component activity plan should be revised and further outputs be added. The current single output is too restricted. The following Outputs to be substituted for the current single output –
- (i) *Output One:* PFMR Robust Governance and Institutional Arrangements support the effective implementation, monitoring and evaluation of reform activities and are institutionalized (mainstreamed).
  - (ii) *Output Two:* Key stakeholders are identified and sensitised about the scope, aims, objectives, impact and importance of their involvement in the PFM Reform for engagement and sustainability
  - (iii) *Output Three:* Human resource issues impacting on PFM Reform are identified and addressed, change management and capacity development is focused on the achievement of PFMR objectives.
- (f) Review the constitution of the IRSC and recommend inclusion of heads of DCEO and External Audit Office to the committee.
- (g) The scope of the component should include a focus area on capacitating the steering committee on their expected roles, and functions of the committee within PFM context.

### **3.8.7 Additional Activity Scope and Modification**

**Table 16 Summary of Component 8 Proposed New Activities and Modifications**

Component	Component Output	Proposed New Activities	Proposed Modifications to Existing Activities
<b>Component 8</b>	1. PFMR Robust Governance and Institutional Arrangements support the effective implementation, monitoring and evaluation of reform activities and are institutionalized (mainstreamed).	(a) To be defined.	(a) None.
	2. Key stakeholders are identified and sensitised about the scope, aims, objectives, impact and importance of their involvement in the PFM Reform for engagement and sustainability.	(a) To be defined.	(a) None.
	3. Human resource issues impacting on PFM Reform are identified and addressed, and capacity development is focused on the achievement of PFMR objectives.	(a) To be defined.	(a) None.

### **3.8.8 Reprioritisation of Component Activities**

**Going forward, it is highly recommended that this component reprioritise and focus on achieving the following by the end of June 2018.** Additional activities should form part of the recommended extension or a new reform programme beyond June 2018:

**Table 17 Proposed Reprioritisation and Sequencing of Component 8 Activities**

Component	Component Output	Priority Activities to be Completed by June 2018	Activities for Consideration beyond June 2018
<b>Component 8</b>	1	(a) Advise on strategic guidance and oversight of the PFMRAP to ensure focus, mobilization, leadership, ownership and sustainability.  (b) Refine the PFM Reform Project ToR.  (c) Include institutional, organisational and individual capacity development to achieve sustainable change in the mandate of the PFMR Secretariat and through this also to the MoF Planning Department.	(a) All to be determined.

		(d) Review the constitution of the IRSC and recommend inclusion of heads of DCEO and External Audit Office to the committee.	
		(e) Revisit C8 membership and participation and relaunch Component 8.	
		(f) Continue support for PFMR and PSMP governance and institutional arrangements.	
		(g) Regular monitoring and evaluation reports on the progress in implementing the PFM Reform activities, change management strategies, successes, risks, challenges, mitigating measures and lessons learned.	
		(h) Update Risk Assessment Matrix.	
	<b>1&amp;3</b>		
	<b>1, 2 &amp;3</b>	(a) Develop and implement performance indicators for measuring progress towards achieving sustainable change based on requirements for sustainable change (see Inception report etc).	
		(b) Update Component Output based activity plans.	
	<b>2</b>	(a) Facilitate overall PFMR Stakeholder Analysis with PFMRs, CLs and other identified champions.	
		(b) Produce PFMR Overall Stakeholder Management Plan including Communication and Engagement Strategy and Plan.	
		(c) Implement PFMR Stakeholder sensitization briefings at all levels through GoL including CAOs, MDAs.	
	<b>2&amp;3</b>		
	<b>3</b>	(a) Implement PE activities.	
		(b) Facilitate PFMR visioning workshops as part of Leadership and Change workshops.	
		(c) Identify and address human resource management and development issues impacting on PFM Reform in collaboration with MoF and MoDP HR, MoPS, and future collaboration with MoPS.	
		(a) Undertake a focused TNA and develop the capacity of the PFMRs and Components.	
		(b) Conduct readiness for change assessment for MoF departments and Components in relation to PFMR.	
		(c) Conduct readiness for change assessment for other identified key stakeholders.	
		(d) Develop and implement Resistance to Change, Communication and Engagement Plans per component and key stakeholder groups.	
		(e) Collaborate with MoPS, MoF & MoDP management teams to develop and roll out performance management training.	

### **3.8.9 Conclusion and Key Recommendations**

**Despite some progress made and discussed above, it has been very challenging to better understand the scope of the activities and their alignment with the component strategic objective.** Besides a number of issues ought to be addressed including completely redesigning the component based on the proposed changes. More importantly would be the need to develop additional separate outputs and realign the activities with relevant outputs. Going forward there is need to better align the activities of the component with key reforms under other components. Therefore, to ensure the Component achieves its outputs and strategic objective, it is recommended that:

- (a) Reforms should form part of every agenda of the senior management meetings of the MoF and departmental management team meetings;
- (b) Agreement of MoF Management and the Minister is obtained on priority actions and identification of workforce and other resource requirements; and priority then to be given to providing the resources required for key reform activities including the filling of key counterpart positions as prerequisites for deploying technical assistance;
- (c) The PFMR Secretariat should develop stronger project management and governance arrangements with clearly defined mechanisms and responsibilities for issue logging, escalation, monitoring, reporting and accountability, covering all stages from issue identification to resolution;
- (d) Component work plans should include clear communication and change management activities to accompany procedural changes and to enable strict enforcement;
- (e) The PFMR Secretariat should develop a central repository, accessible by all component stakeholders, for sharing of project and other relevant documents;
- (a) Institutional and governance factors which impede the achievement of reform activities such as the full coverage of all MDAs and the implementation of internal audit recommendations must be addressed as a priority;
- (b) The MoF Senior Management should capacitate the Planning Unit to undertake and coordinate monitoring and evaluation of PFMRAP and evaluation of progress for sustainability to enable them to support implementation of the PFM reforms beyond the life of the project; and
- (c) The three lead offices involved in C8 engage in a more proactive role in their specific areas of expertise for effective implementation of component activities. For instance, in relation to proposed Output 3, Human Resource department should provide leadership in Change Management and Capacity Development issues, and human resource requirements identification across components; In relation to Output Two, Planning Unit to lead on stakeholder engagement and management issues as well as strategic plan implementation coordination to ensure alignment and synergy with the PFMRAP; whilst the PFMRS M&E role provides governance and overall component leadership and monitoring and evaluation function for project implementation (Output One).

## **4. KEY STRATEGIC REFORM ISSUES**

**This part of the report summarizes the key strategic issues that require high-level urgent attention to ensure the PFM reform agenda is a success story.** It is apparent that the project has not made sufficient progress to signal the achievements of the planned outputs due to multiple constraints. Some of the constraints are in fact effects of the major issues summarised under this section. In particular, for the GoL to refocus and achieve meaningful progress of the reforms, there is need to address the following issues:

- (a) There is a need for a clear PFM reform vision driven by a genuine desire for change and improvements to improve public service delivery.

- (b) Ownership, leadership and coordination of overall public sector reform at the top levels of government including the Cabinet, and for PFM Reform to be recognised at that level as one of the essential components alongside PSMP and more recent public sector reform aspirations.
- (c) Setting up mechanisms at the apex of Government will enable GoL to clearly see the linkages and synergies between the various reform initiatives and provide a forum for example for appreciation of the resources and culture change required for PFM and other reforms to succeed. MoF needs Cabinet support for resources to fill the most critical positions for example in relation to the professionalisation of the Accounting Cadre and in resourcing effective implementation of PFM imperatives.
- (d) Common challenges for PSMP and PFMR in compliance and performance issues need to be tackled across the public service and not in an ad hoc way piecemeal in different reform initiatives. Similar challenges will apply to decentralisation etc.
- (e) There is need for good understanding and support of the IRSC and its members to engage at Cabinet level (e.g. with/via Government Secretary etc.) to establish mandates, strategic and operational links. This issue to be raised for discussion with IRSC on their view and the ways forward, in conjunction with following recommendations.
- (f) The role of the IRSC is currently defined in the PFM Institutional Framework as the oversight committee with responsibility for directing and monitoring PFM reform activities. The purpose of this committee includes providing the strategic leadership for implementation of the PFMRAP. However important roles not mentioned include championing PFM Reform at highest levels of government and providing necessary resources to enable effective PFM Reform.
- (g) There is need for a Project Sponsor role and other project leadership roles of the Ministers of Finance and of Development Planning, and the ownership and leadership expectations of this level. According to the PFMRP Institutional and Implementation Framework July 2015, the Minister of Finance Chairs the PFM improvement and Reform Steering Committee. The Minister of Finance is not however named as the ‘Project Sponsor’ and such a necessary role is not defined in the Institutional and Implementation Framework. This is a gap that does not assist in clarifying expectations.
- (h) In practical terms for PFMR, these responsibilities may be shared and some delegated to the PS and/or Deputy PS.

**Box 10: PRINCE2 ® Project Management Model-The Project Sponsor Role**

The project sponsor is the project's owner and champion and is ultimately accountable for delivery of the project and so must:

- (a) provide leadership and direction to other members of the Improvement and Reform Steering Committee and to the Project Manager
- (b) ensure that all key stakeholders are committed to the project and adequately represented in the project's organisation structure
- (c) ensure that budget holders and resource owners are committed to the project and that the necessary funds and other resources are made available when required
- (d) ensure that project governance arrangements of appropriate rigour are put in place
- (e) brief senior stakeholders on the current and forecast status of the project
- (f) receive, consider and act on regular frequent reports/briefings from the Project Manager
- (g) chair meetings of the IRSC
- (h) ensure that all members of the IRSC understand their roles the commitments they must make in order that the required outcomes/ benefits from the project are achieved
- (i) ensure that the Project Manager is empowered to lead the project on a day to day basis
- (j) ensure that the Project Manager is aware of the limits of her/his authority and understands that issues outside those limits must be escalated to the ‘Project Sponsor’ at the earliest opportunity.
  - (i) negotiate with senior stakeholders to broker solutions to project issues that are outside the level of authority of the Project Manager
  - (ii) decide how responsibility for Project Assurance will be met, e.g. by delegation to a suitably skilled individual.

- (i) There is also need to clarify the broad role of the RTC, distinguish it from the strategic role of the IRSC and include this in the PFM Institutional Framework. For example, to specify responsibility “to ensure strong ownership of the project activities and to enhance their sustainability beyond the relevant donor support”. Also include its role as a forum for coordinating all reform activities between components and sharing experiences and for enhancing the visibility of reforms, ensuring that change management activities are adequately rolled out to support the reforms at different levels. An overall communication and engagement strategy is required for external and internal stakeholders (and particularly for those MDAs not represented). There is currently no formal provision at this level for the voice of some MDAs and gathering information about the impact of reform/change plans on them. The RTC may benefit from input on effective change management approaches for sustainability.
- (j) Operational, technical leadership and ownership role and expectations of the MoF and MoDP Heads of Department, PS and management teams needs also to be clearly defined in terms of their responsibilities and accountability for the management and delivery of outputs of PFMR Components, distinguishing this from the role of the PFMR Secretariat and Coordinator. Currently there are differences of understanding and expectations, and it is necessary to reinforce that HoD through to the PS are responsible for the performance management of officers engaged in reform activities, not the PFMRFP Coordinator. This should be cross-referenced to the potential Project Sponsor roles that may be delegated to the PS and/or Deputy PS.
- (k) There is also need for clarification and mutual understanding of the realistic role and expectations of the PFMFR Secretariat and of the Coordinator (essentially a Project Manager role). While the role of the PFMR Secretariat is outlined in the PFMR Institutional Framework the specific role of the Coordinator is not clearly defined. Consequently, there is widespread misunderstanding in MoF at various levels of the role which required clarification alongside the role of Heads of Department, along the lines of a ‘Project Manager’ role which typically involves the following:
  - (i) monitoring progress of the project and identifying and taking necessary actions to deal with any potential/actual exceptions that might jeopardise achievement of the project's objectives;
  - (ii) maintaining a Risk Register/Log and actively managing risks using resources and approaches within limits of delegated authority;
  - (iii) escalating to the appropriate body (in this case determine whether to Management Team, RTC, IRSC) recommendations for risk mitigation actions outside the scope of delegated authority limits;
  - (iv) report progress to, and take advice from, the ‘Project Sponsor’ (to be clarified e.g. DPS, PS or Minister) at regular intervals as agreed;
  - (v) manage stakeholder relationships and communications (in accordance with an agreed Communications Plan); and
  - (vi) liaise with nominated Project Assurance staff throughout the project.
- (l) Also important is the need for clarification and mutual understanding of the realistic role and expectations of PFMR components. Components are essentially project teams with reporting relationships to Heads of Department as well as to the PFMRS. The role of Component Leader is articulated in the PFMR Institutional Framework although it is understood that this was written with the expectation that they would be at HoD level. In light of the current arrangement, it is critical that the intradepartmental communication regarding the PFM reforms is strengthened and that the HoD take responsibility of implementation of the reforms by regularly reporting to both the Minister of Finance and their respective Principal Secretaries.

## 5. KEY REFORM PROJECT RISKS

**Over and above the multiple challenges and issues discussed, it is important to recognise that in the, the project faces surmountable risks to be mitigated.** In particular, there is urgent need to prepare for and mitigate the risks presented in the table below:

**Table 18 Major Project Risks and Proposed Mitigation Measures**

Ref	Identified Project Risk	Risk Impact Rating	Proposed Mitigation
1	The eminent expiry of the WB financing agreement towards the support of IFMIS upgrade project and advance a sound case for extension	High	Address all triggers and urgently negotiate possible extension with WB
2	Political uncertainties due to upcoming elections that may result into change of Government and certain key Government senior positions (i.e. PSs)	Medium to High	Further strengthen project governance and institutional implementations arrangements to effectively manage the effects of the inevitable transition
3	Prolonged delays in the approval and enactment of already developed legal and regulatory framework to underpin ongoing reforms	High	Develop clear action plans and lobby the new Cabinet to prioritise the approval and enactment of key draft legal and regulatory frameworks
4	Insufficient staff capacity in some of the key departments (prolonged vacancies)	High	Identify and engage MoPS to urgently fill all key positions
5	Limited high level political ownership, commitment and support for PFM reforms	High	Initiate regular, strategic engagement with Office of the Prime Minister and Cabinet on reforms
6	Limited MoF Senior Management and HoDs' ownership, commitment and support for PFM reforms	High	Formally make HoDs responsible and accountable for their respective reforms at every management meeting and incorporating reforms into departmental operational plans

## 6. KEY LESSONS LEARNT

**The major lessons learned do not relate to the individual Pillar's and Component's or their key activities.** These major future key activities have been covered in the paragraph above. Instead they relate mainly to the cross cutting issues, which are so influential in determining the success or failure of major projects. We believe that the major lessons arising from the PFM Reform Strategy are those set out below:

- (a) Political leadership and commitment will be crucial to maintain momentum for reforms.
- (b) The PFM area is broader than those elements funded by different DPs. The PFM Sector Strategic Plan should cover the whole PFM area and establish a clear sequencing and prioritisation of reform measures.
- (c) Failures to resolve staffing and other capacity issues can derail the reform efforts. Future PFMR plans should ensure: (i) agreement on prior actions and the filling of counterpart positions as prerequisites for deploying technical assistance; and; (ii) stronger project management and governance arrangements with clear mechanisms and responsibilities for issue logging, escalation, monitoring, reporting and accountability, covering all stages from issue identification to resolution.
- (d) The need for clear communication and change management activities to accompany procedural changes and to precede strict enforcement (e.g. on opening/closing of bank accounts).
- (e) The importance for effective sharing of project and other relevant documents so as to avoid duplication of effort, omissions and potential conflicts (e.g. debt strategies and proposed legislation, IFMIS plans) through access to a central repository

- (f) Senior management total commitment and responsibility for reforms is absolutely necessary and crucial in ensuring that the PFM RP becomes a success;
- (g) Implementing manpower reforms requires broad stakeholder support across a number of government agencies, a high-level champion and active change management. These elements have not worked in a coordinated way.
- (h) Better planning and prioritisation and sequencing of events should be accordance with a realistic timetable.
- (i) PFM reforms should be linked to the other relevant reforms like Decentralisation, E-Government reforms and broader Public Sector and Public Service reforms. This could be achieved by bringing the coordination of individual reforms under the umbrella of an Inter-ministerial Committee which will coordinate the reforms in all these areas. Such a Committee should assume the responsibility for reviewing progress and identifying common challenges and areas of joint engagement.
- (j) The achievement of poorly defined outputs does not necessarily mean effective reform.
- (k) In the next phase of the reform there will be a need for a clear, defined and measurable M & E framework.
- (l) The PFM Reform Secretariat requires sufficient capacity in order to fulfil its mandate.
- (m) Need to increase public interest and participation in the management of public finances. Increasing direct communication with the public could arouse broader interest in PFM and encourage active public participation in PFM issues of national interest. As an introduction to next phase publicise the successes of the initial phases of the reform process. Let the public know what is being done on their behalf.

## **7. CONCLUSION AND KEY RECOMMENDATIONS**

**The implementation of the reform has largely slowed and limited progress has been made in almost all components.** It is also quite clear that a number of activities are either work in progress or have not yet started. Based on the progress made so far it is apparent that the project is far from achieving its intended objectives. However, in order to mitigate against the risk of possible failure or non-achievement of the reform objectives, it is important that a number of measures are implemented, particularly to ensure the reform remains focused and relevant to the needs of the GoL. Key recommended measures include the following:

- (a) The GoL should articulate a clear PFM reform vision driven by a genuine desire for change in line with the overall public sector reform agenda. This must be politically supported at the highest level of Government.
- (b) The IRSC should define and formalise the role of a Project Sponsor (PS or DPS) and clarify other project leadership roles of the Ministers of Finance and of Development Planning as well as that of the RTC as distinct from IRSC and make it of effect to the project.
- (c) The PFMRS should update the PFMRAP and Results Logical Framework in light of the proposals made on refocusing the reform to make it more relevant. This should include redefinition of strategic outputs and rescaling of associated activities where necessary as proposed under component as well as properly aligning the performance information to recent PEFA outcomes.
- (d) All CLs should ensure that their respective components update the output based activity plans and develop detailed and highly reprioritised and properly sequenced activity implementation plans. There is need for greater reprioritisation, careful planning and resequencing of reforms under each component to ensure focused, steady and meaningful progress.
- (e) Component work plans should include clear communication and change management activities to accompany procedural changes and to enable strict enforcement.
- (f) The MoF Senior Management should introduce compulsory monthly and quarterly joint reform component progress review and planning meetings.

- (g) The MoF Senior Management should expedite the finalisation and securing approval of the various legal and regulatory frameworks already drafted to underpin critical reforms.
- (h) The MoF Senior Management should revisit and strengthen the reform governance and institutional implementation arrangements by making the HoDs ultimately responsible and accountable for reforms under their respective departments so as to ensure their ownership and commitment.
- (i) The MoF Senior Management must ensure that reforms form part of weekly meeting agenda.
- (j) The PS should ensure that counterpart positions in respective departments are identified and filled as pre-requisites for deploying technical assistance.
- (k) The PFMR Secretariat should develop and organise regular PFM reform awareness workshops to create a common understanding of the reform purpose and scope at all levels.
- (l) The PFMR Secretariat should develop stronger project management and governance arrangements with clearly defined mechanisms and responsibilities for issue logging, escalation, monitoring, reporting and accountability, covering all stages from issue identification to resolution.
- (m) The PFMR Secretariat should develop a central repository, accessible by all component stakeholders, for sharing of project and other relevant documents.
- (n) The PFMR Secretariat should develop and implement comprehensive M&E and project risk management frameworks.
- (o) The AG should sufficiently capacitate the IFMIS team to better manage both the stabilisation of the existing IFMIS platform and implementation of the IFMIS upgrade.
- (p) The Minister of Finance and PS should ensure that all triggers agreed with WB are urgently addressed and initiate negotiations with WB for a possible extension of the IFMIS upgrade support.
- (q) The MoF Senior Management should further strengthen the capacity of the PFM Reform Secretariat in order to fulfil its mandate by urgently filling in the position of Deputy Project Coordinator, empowering it and providing further necessary training in project management and M&E.
- (r) The PFMRS should help to increase public interest and participation in the management of public finances through direct communication with the public on reform progress. As an introduction to next phase, publicise the successes and challenges of the initial phases of the reform process through quarterly publications.
- (s) The IRSC should in the future PFMRAP phases consider combining cash and debt management reform activities under a common component.
- (t) The Minister of Finance and PS should urgently identify and fill in all strategic staff positions that are more crucial to the success of reforms within MoF and across MDAs. This must be highly prioritised.

## **8. WAYFORWARD/NEXT STEPS**

**To quickly restore and sustain the reform momentum, the IMTR Taskforce suggests the following immediate steps** after the presentation of the report to the Minister of Finance:

- (a) Articulate reform vision and update the PFMRAP based IMTR proposals by 30<sup>th</sup> of April 2017;
- (b) Organise a joint meeting of all departments and components to discuss and agree the wayforward on the outcomes of the IMTR and PEFA by 5<sup>th</sup> of May 2017;
- (c) Present the IMTR report to the IRSC for PSMP and PFMRP by 15<sup>th</sup> of May 2017;
- (d) Organise a joint reform components and departmental workshop to update component output-based activity plans by 31<sup>st</sup> of May 2017;
- (e) Develop detailed component activity implementation plans by 15<sup>th</sup> of June 2017;
- (f) Update the Results Logical Framework and further develop the project M&E framework, reporting guidelines and templates and update risk matrix by 30<sup>th</sup> of June 2017; and
- (g) Organise a series of properly targeted PFM reform process, ownership and leadership sensitisation workshops from 30<sup>th</sup> of June 2017 to October 2017.

## 9. ANNEXES

### Annex 1: Key Issues from the Desk Review of the PFMRAP

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
<b>Introduction</b>					
Introduction	1	While the introduction in the reform strategic action plan provided an impression of how the PFM reform ought to be approached under prevailing circumstances, it does not sufficiently articulate the relevance of the dynamic reform environment and its implications for the success of the reform. In particular, it does not recognize the recent developments since 2015 including lessons that have been learnt during the reform process to set the tone of the reform agenda.	It is easy to lose sight on the reform contextual issues and more importantly the recent developments having an adverse impact on the reform such.	It is proposed that in light of the recent developments, the changes in the constitution of the IRSC and the lessons learned the introduction is refined to the extent that these developments are recognised and flagged upfront. It is also critical that the introduction put much emphasis on the relevance of the reform contextual and dynamic environment which has very important implications for the success of the reform. It is important that the introduction is couched in a manner that accurately presents the current situation and the prevailing and broader macro-fiscal issues that require attention in the medium to long term.	
Context/ Situational analysis	2.1	The part does not fully recognize the recent changes in the PFM system context, but rather focuses on the current and future reforms as well as the situation analysis at the time (at the time of the reform design).  General budget support funding has been discontinued.	Key developments and the ever evolving context and more particularly the outcomes of the recent PEFA assessment (refer to PEFA extract provided in the delegate pack) may not be considered having impact on the reform success which would subsequently neglect important context issues to be considered in the reform process.  In addition, Inability of GoL to carry out all planned activities?	The recent PFM reforms remain the same and should be retained in the action plan. However, the PFM context has changed since the development of the original action plan and more particularly with the outcomes of the recent PEFA assessment (2016) (refer to PEFA extract provided in the delegate pack) which recommend additional scope and point to some slippages that ought to be considered going forward. Therefore, it is important that these developments since 2012/13 and PEFA outcomes are captured in the revised reform strategic action plan to provide relevance and the need of the changes and improvements required. This should mostly be addressed in the situational analysis GoL need to re-prioritise planned activities according to available resources.  Re- prioritisation of activities in PFMR Action Plan as appropriate to make improvements to meet the requirements to regain Budget Support	

<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
PFM Reform Action Plan	3	Although the guiding principles for the reform in the original plan, especially in relation to the existing capacity, pre-empted that any inconsistency between capacity and implementation would have adverse implications, the lessons since June 2015 show that particular care has to be exercised in deciding the immediate activities of the reform.	It would be difficult to precisely nail down on the specific issues—constraints that ought to be addressed.	<p>It is therefore, very critical that this is observed and that the revised action plan flags this in very precise terms. <i>Footnotes are proposed to clarify the existing capacity and other constraints.</i></p> <p>It is possible to identify the constraints and implications in each component. - Identify lessons learned. Revise Action Plan to take account of lessons learned and shortcomings, e.g. sequencing of activities to add value.</p>	
Guiding principles	3.1 (a)	There has been limited demonstrated political and senior management support and commitment of the PFM reforms. To some extent because the wording of this principle is more general than explicitly requiring how this should be achieved in the reform institutional implementation arrangements	Difficulties to secure their unwavering support and hold them accountable if they are not fully involved or not assigned specific responsibilities within the implementation arrangements of the reform process	<p>Adding to the text to '<i>reflected through defined governance and institutional implementation arrangements</i>'</p> <p>Agree Need to address clearly who is responsible for implementation in better defined governance and implementation arrangements stating implementation responsibilities and roles at senior management and political levels.</p> <p>There is a separate PFM Reform Institutional Implementation Framework document and this needs to be updated in line with the Action Plan (or incorporated into it).</p> <p>The Reform Steering Committee to include the Director General DCEO and the Auditor General, OAG. Consider also including other Chairpersons of Parliamentary Committees (or more effective ways of engagement with them on reform).</p> <p>Prioritise continuous sensitization of political and senior management in their reform leadership role, expectations and challenges and reflect this in all component activities.</p>	
	3.1. (b)	The principle clearly emphasises on the need to seriously consider existing capacities and constraints in prioritizing and sequencing of the reform activities. However, it does not explicitly mention these constraints including those that have emerged during the reform implementation process	<p>If these constraints which were existent and most of which still are not specifically identified it might be easy to lose sight on them. In other words,</p> <p>If the other constraints are not identified and listed it is not clear what mitigation measures may be taken, if any.</p>	<p>It is suggested that perhaps a footnote is included to support the principle that lists all key constraints identified then and those that have emerged during the process.</p> <p>Also identify any mitigating measures that may be taken or have been taken.</p>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
Guiding principles	3.1 (d) and (e)	Component Leaders are not departmental heads as originally intended and this has been one of the recognised challenges. The specific responsibilities and accountabilities of Component leaders to Heads of Department and vice versa were not therefore defined in the original Action Plan.	Unclear and limited ownership and accountability of the Component reform activities from the Heads of Departments	<p>It is suggested that that Heads of Departments become the component leaders. This would require inserting wording to the effect so that the structure is rather streamlined.</p> <p>Alternatively we need to insert wording to require '<i>Heads of Departments actively supporting and being accountable for Component leaders and the work of components</i>'.</p>	
		The PFM Coordinator does not have executive authority over Components or departmental resources available to them. The remit of The Secretariat as stated in the PFMRAP is to 'be responsible for the management, coordination and monitoring the technical implementation of the PFM Reform Action Plan and would report to the PS, MOF in his capacity as the chairperson of the IRSC.' The PFM RP Institutional and Implementation Framework document July 2015 provides that "The coordinator will not be directly responsible for the activities and roles expected of the component leaders. The coordinator will lead the PFM Reform Secretariat so that it provides a high-quality support and advisory service to the IRSC, the PFM Reform Technical Committee, the Component leaders and other relevant internal and external partners. The coordinator will ensure that the PFM Reform Secretariat together with Component Leaders establish and maintain a robust M&E framework that will ensure regular, accurate and timely reporting on the progress towards achieving full implementation of the PFMRAP". However the coordinator has been called to account for performance of Components.	The impression has been given that the PFMR Coordinator rather than HoDs is responsible for the outputs and performance of Components which was not intended to be the case, and this detracts from the accountability of HoDs, DPS and PS.	Clarify and re-affirm the intended role of the PFMR and the Coordinator, and accountability of HoDs to all key stakeholders.	
Structure and content of the identified actions	3.2	Some names of the reform components do not sufficiently reflect and address their intended objectives and expected outcomes i.e. component 8. It might be useful to review all components and perhaps rename most of them.	It might be difficult to easily determine if they adequately address their intended objectives and scope of the reform interventions as well as associated results.	It would be useful that all components critically review the names and outputs in order to ensure that they fully reflect their intended objectives and scope of the reform interventions going forward in the light of experience.	Structure and content of the identified actions

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
<b>4. Components of the Action Plan</b>					
Component 1: Modern PFM Regulatory Framework Implemented	4	<p>While the presentation of this component in the original action plan fairly provides a good basis for the need to develop and implement a new legislative framework that effectively underpin the new PFM system, it does not fully recognize the fact that both legal and regulatory aspects of the PFM are required to underpin the PFM system.</p> <p>The current name gives an impression that the focus should be on the secondary legislation which is the regulations while reforms are made to both aspects of the PFM legislative framework.</p> <p>The word ‘Modern’ in the title of the Component may be taken to indicate a framework that is ‘fit for purpose’ taking account of the PFM Reform agenda and not only was what current at the time the project commenced.</p>	<p>The importance of laws as primary legislation is obscure and may not be considered as a part of the priorities, but rather regulations which forms the secondary legislation of the PFM legal and regulatory framework</p> <p>It may also be inappropriate to associate outputs and outcomes of the legal framework reforms to regulatory reforms which should ideally be the subsidiary part of the entire PFM legislative framework</p> <p>Lack of emphasis of compliance would mean the focus is on implementation and introduction of the new laws and regulations but not understanding/monitoring their effectiveness.</p>	<p>It is suggested that the name of the component be tweaked to: <i>Implementation of the Modern Legal and Regulatory Framework or Modernisation of the PFM Legal and Regulatory Frameworks</i>. It would also be more appropriate that the outputs and outcomes of the component are revisited in light of the changes.</p> <p>In relation to the above, it suggested that the Legal Department looks into the text of the component and propose what additional information should be included in the revised action plan, also in relation to new legislation and regulations being introduced. But this should be limited to the capacity and extent of what is feasible in the remaining project period.</p>	
		In addition, although enforcement is mentioned in the original action plan under the component, it does not underscore the importance of understanding their application—to what extent are they being complied with which is very crucial to their effectiveness	Concentrating only on the framework that was current at the start of the project will not deliver a ‘modern’ framework talking account of improvements.	In addition, it would be useful to introduce a paragraph on compliance management in the revised plan to underscore the fact that laws can be good, but the effectiveness of such laws is in the extent of their application.	
Component 2: Transparency and effectiveness of policy orientation of the budget assured	4	The original action plan also fairly provides basis for the need for effective linkages between policy, planning and budgeting, and the transparency in the budget process. However, the text does not recognize certain aspects which are currently being addressed under the Public Sector Modernisation Project as well as its synergies i.e. development of sector working groups and sector budgets as one such example.	Areas of complementarity may not be recognised when sequencing the reforms and it is even difficult to effectively assess the results. In addition, as a result of this lack of recognition, certain reform areas in the PSMP and PFM overlap, for instance the sector planning and sector budgeting which have initially been addressed under one result area or project.	<p>It is suggested that in light of the new Public Sector Modernisation Project (PSMP) and its synergies with the PFM, the developments in the PSMP should be flagged in the revised plan together with progress made since June 2015.</p> <p>The tweaked name of the component could be: <i>Transparency and Effectiveness of Policy Orientated Annual Budgets</i>.</p>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
		While it is understandable that this was not envisaged, it would be still useful to consider reflecting the existent of a complementarity in this and PSMP project and more particularly any important elements of synergy in the paragraph.			
Component 2: Transparency and effectiveness of policy orientation of the budget assured Cont'd		On third paragraph that discusses program based budgeting (PBB), there is an impression that programme based budgeting has been implemented when in fact it is a framework which has been attempted to be developed, but more has to be done to fully implement the reform	This would establish a misconception that PBB reform is already implemented when there are several aspects that have yet to be developed to underpin its successful implementation	It is also suggested the text of programme based budgeting reflect the fact that this reform area is still under development and more work is required to further develop and institutionalise it.	
		Furthermore, there are a number of areas that were not exhaustively considered during the design of this component. Among others they include but not limited to: strengthening the implementation of MTBF (MTEF & MTFF)—multiyear perspective of planning and budgeting; strengthening of the budget planning and preparation process i.e. strategic phase (process for determining budget ceilings based on MTFF, national budget consultations; capital budgeting; in year and annual spending reviews); budget execution monitoring, analysis and reporting; mid-year budget reviews; the need for pre-budget policy statements etc.; fiscal risks analysis, management and reporting; public debt management regulatory frameworks (regulations and policies); public debt analysis and reporting; reclassification and database of SOEs including performance monitoring framework etc;	Missing out other critical reforms which could support the achievement of the component objectives. It is also difficult understand the interdependences of these reforms and therefore even more challenging to properly prioritise and sequence them.	In relation to this, it suggested that the Budget Department looks into the text of the component and propose what additional information should be included in terms of scope of the reforms under the component the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.	
Component 3: Cash flow forecasts a major determinant of internal debt and financial investment	4	The original plan tends to suggest that the cash management function was not a priority for government given the cash surpluses that government enjoyed prior to 2010/11 financial year.	The importance of establishing cash management institutional arrangements as a prerequisite to effective cash flow planning and management could be undermined resulting into focusing on effects than fundamentals.	It is proposed that the text in the revised action plan emphasize the need for cash management as an institutionalised function, whether government runs surpluses or deficits.	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
			To some extent, this has already resulted in some difficulties in prioritisation and sequencing of the reform under the component	<p>The section should also reflect progress made since January 2016 and preparations for putting the Treasury Single Account (TSA) in place. The tweaked component name could be: <i>Establishment of a Cash Management Function with reliable Cash Flow Forecasts as a Major determinant of Internal Debt and Financial Investment.</i></p> <p>In relation to the above, it suggested that the Treasury Department looks into the text of the component and propose what additional information should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.</p>	

<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
Component 4: Internal controls ensure strengthened operational efficiency and effectiveness	4	The original action plan presents a fair depiction of the internal audit situation in Lesotho, but does not put focus on the criticality of the internal audit function as a prerequisite to the strengthening of the internal control framework.	Failure to reflect this could mean failure to recognize the importance of the institutional capacity strengthening as a priority to establishing an effective internal control environment.	<p>It is proposed that the revised content of the component should emphasise the criticality of the internal audit function as a management tool that requires support from the Chief Accounting Officers. The revised version should also flag the developments in the audits of the payroll system and the planned biometric census, given the size of the wage bill of government. To note that the biometric census is however part of the PSMP project. There is synergy between this, the PFMR project and the Internal Audit Department. Internal Audit Department will assist and collaborate with the biometric census activities in order to avoid audit fatigue.</p> <p>The tweaked component name could be: Effective Internal Controls that Ensure Strengthened Operational Efficiency and Effectiveness.</p> <p>In relation to the above, it suggested that the IA Department looks into the text of the component and propose what additional information should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.</p> <p>Reviewed and text to be updated as follows.</p> <p>Page 11 penultimate paragraph second sentence needs to reflect the fact that internal audit is now incorporated into the PFMA Act and Treasury Regulations but this legislation does not incorporate the establishment of Audit Committees.</p> <p>There is a need for amendment of PFMA Act to incorporate establishment of Audit Committees to enhance professional independence of IAD.</p> <p>Last sentence to be amended to show COSO as an example of an international risk framework not the only one.</p>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
		Capacity to conduct specialised audits such as auditing an IT environment is a crucial issue.	Not able to conduct specialized audits such as IT environment audits effectively, thus not able to identify some major internal control weaknesses that may require attention of senior management for improvement.	Prioritisation and sequencing of training are being considered to ensure participants have required foundation knowledge to benefit.  Need on-the job- training and mentoring to apply the training practically. 1-year resident TA – ToRs already done. Includes developing and implementing an IT Auditing manual.	
		Repeated audit findings have not led to remedial action. IA Reports only to the CAO being audited and copy to OAG. No Audit Committee operational because not reflected in the law although is in Treasury Regulations.	Remedial action not always taken so weaknesses not addressed.	It is now part of the proposed amendment to the PFMA Act.	
Component 5: Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards	4	While the original action plan fairly discusses the situation as it obtained in 2012/13, several circumstances have emerged such as the criticality of recruiting the accounting staff which is not given the clout it deserves.	Staff capacity is one of the prerequisite to developing an effective accounting and fiscal reporting system as such if not explicitly captured, it can be easily be overlooked in terms of prioritisation of the reform process	It is proposed that the revised action plan should reflect the developments since June 2015 and the criticality of recruiting the accounting personnel as this has dire implications for the reforms. The tweaked name of the component could be: <i>Accounting and Fiscal Reporting which is Fully Compliant with the Regulatory Framework and Accounting Standards.</i>	

<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
Component 5: Accounting and fiscal reporting fully compliant with the regulatory framework and accounting standards  Cont'd	4	On IFMIS Implementation background information reference is made to Epicor 7.3.5 as it was not envisaged that it there would be another version. However, since the adoption of the original Action Plan, GOL has decided to upgrade IFMIS to Epicor 10, and not the originally planned Epicor 9. The reason for the upgrade is still the fact that the existing version is tied to Windows 2003 which is outdated and would not have the vendor support going forward.	Considering the magnitude of the anticipated system changes, it might be worth reflecting the current situation to avoid confusion.	In relation to the above, it suggested that the Treasury Department looks into the text of the component and propose what additional information should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.  On IFMIS, it is suggested that the text make reference to the upgrade version of the IFMIS Epicor solution as well as the issues with version 7.3.5 and any peculiarities of version 10 for consideration.	
<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue (if any)</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
Component 6: Public Procurement aligns with international best practice in efficiency and transparency	4	The original action plan had not sufficiently elaborated on the limited capacity of the procurement personnel across government.  The ongoing public procurement reforms require highly skilled procurement staff that will be able to implement and sustain them.	Staff capacity in PPAD and Procurement units is one of the prerequisite to implementing an effective procurement system as such if not explicitly captured, it can be easily be overlooked in terms of prioritisation of the reform process.  It has serious implications for value-for-money and government's ability to deal with the country's development challenges.  The declining government revenues are putting tremendous pressure on Lesotho's public expenditure operational efficiency and effectiveness, which are increasingly becoming more critical than ever before.	It is proposed that the revised action plan should include progress made since June 2015, especially relating to the drafts of different important documents and that the DCEO has been is a sub component to address procurement related corruption together with the Procurement Tribunal. The tweaked component name could be: <i>Alignment of Public Procurement with Best International Practice for Efficiency and Transparency</i> .  In relation to the above, it suggested that the PPAD and DCEO looks into the text of the component and propose what additional information and outputs should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.	

<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
Component 7: External audit and oversight compliant with INTOSAI standards (ISSAI)	4	The component in the original action plan fairly presented the external oversight situation and what needed to be done to improve it.		<p>Since June 2015, considerable progress has been made under the component, especially in relation to the new Audit Act and capacity building of the audit personnel and the Public Accounts Committee (PAC). These developments should be included in the revised action plan to set stage for what requires to be done going forward. DCEO has since been moved to component 6 given the nature of the associated reform. The tweaked name of the component could be: <i>External Audit and Oversight Compliant with International Standards such as Organisation of Supreme Audit Institutes (INTOSAI) Standards (ISSAI) and best international practices for Parliamentary Oversight and Scrutiny Committees</i></p> <p>In relation to the above, it suggested that the Office of the Auditor General looks into the text of the component and propose what additional information should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.</p> <p>OAG reviewed text and no changes are proposed.</p> <p>Cross reference C4 – Internal Auditors to be based in Parliament as a management tool and this is according to the law.</p>	
		The situation and challenges in respect of PAC is understated.	If the challenges are not outlined in the Action Plan it may impede the identification of necessary remedial activities.	<p>The Action Plan text to be amended in relation to PAC by adding the following description:</p> <p>‘The PAC has been operating with little expertise of the Members and Support Staff who do not have accounting (audit) background, hence hampering proper scrutiny of the accounts. Furthermore, institutional memory is easily lost due to the high turnover on MPs. It is therefore important that the department of committees is restructured such that it accommodates upward mobility and the support staff be capacitated for purposes of retaining the institutional memory.</p>	

<b>Section</b>	<b>Ref</b>	<b>Issues/Challenges/Comments</b>	<b>Implication of the Issue</b>	<b>Options for Consideration</b>	<b>Workshop Resolution</b>
		Generally, parliamentary oversight and scrutiny is compromised by financial constraints. This situation continues to exist irrespective of the provisions of the Standing Order 97(2) which mandate the Committee of Chairperson to determine and agree on the annual budget allocations of the committees and recommend and submit an annual budget for committees to the Clerk for incorporation into the National Assembly budget estimates. Over the years submissions have been made but not incorporated as the Standing Orders so direct. For instance, the PAC has no specific budget of their own.	Adversely affects PAC ability to effectively undertake full oversight and scrutiny activities such as site visits and public hearings so that Parliament can make informed decisions in the enactment of laws.	Allocate budget provision.	
		The Lesotho PAC Members have been attending regional conferences where public accounts committees have been sharing good practices. However, these recommendations have not been given due consideration and put into concrete actions. The PFM RP assisted PAC with a consultant to support improvement. Training Needs Analysis and Assessment has been undertaken and a number of training interventions/courses recommended, but this plan was cut short by the recent dissolution of the ninth Parliament.	Capacity Development of members is not yet effectively addressed to facilitate delivery of their mandate.	Resume capacity development of PAC Members when possible. In the meantime build the capacity of PAC Support Staff.	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
		<p>MPs cannot interpret the terminology and content of OAG reports</p> <p>Standard/quality of the content of OAG Audit Reports and PAC reports – consultant finding that important issues are left out but trivia is included.</p>	<p>Impedes ability of MPs to call CAOs to account in respect of Audit.</p> <p>It has been observed that the PAC receives audit reports that are behind in years and PAC also takes about 6 months to produce a report for discussion in the House due to lack of capacity in report writing and that nature of the content of the OAG report. It is further elongated by the committee's mode of operation or approach which involves consultations with every government ministry and department mentioned in the report.</p>	<p>PAC to have a manual/toolkit from OAG for reference to use when interrogating Ministries on their audit reports. (no the Manual is just for sharing how OAG and PAC work together, it's not a manual that guide the process of audit or when interrogating CAOs, its about working relations between PAC and OAG. I am advised that what could be important here is attachment of PAC staff to OAG for some time) OAG can share this as a presentation</p> <p>Build capacity of PAC staff to participate in sittings of the PAC to advise and explain to MPs.</p> <p>Training for OAG and PAC support staff in effective report writing. Note: A proposal has been made for the above training to be provided by OAG funded by AfDB. ( but OAG seem to be having the same problem as PAC here as they are said to be producing reports with trivial issues, so OAG should also be trained not be trainers)</p>	
		<p>Repeated audit findings have not led to remedial action. (I think no remedial action taken by audited entities lead to repeated audit findings not the other way round) PAC cannot prosecute or force action. Law provides only CAOs accountable. Political will required. Lack of commitment also by legal function in Ministries to take cases forward.</p> <p>Standing orders provide for the Minister to account to Parliament.</p>	<p>Key weaknesses are not addressed. Some criminal activities not addressed.</p> <p>CAO has no obligation to go back to PAC.</p>	<p>Strategy of ensuring CAOs implement and there should be sanctions in case of non-compliance. PAC to have power to follow up on whether sanction are applied adequately.</p> <p>Clause in the law that the CAO is to account to the PAC non-compliance.</p>	
		When Parliament is dissolved there is no continuity unless Speaker provides otherwise. No Constitutional provision.	Affects recommendations made in previous session but not tabled in Parliament and have to start again. Government loses focus on major issues that can damage country. Lengthy reports do not add value, do not achieve the objectives.	Legal provision – link with Constitutional reform.	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
		Delayed submission of OAG Audit reports to Parliament/PAC by MoF. NOTE: The new Audit Law does NOT provide for the tabling of the report by the Speaker in the event that the Minister of Finance does not table within a specified period. I think we can remove this as it will cause confusion. Again from our discussion with Legal officer here this was taken out by the Attorney General so it will never happen, so talking about it here suggests that is how it should happen yet the law does not provide for that. I suggest we remove it totally/we just indicate that the Law does not indicate what should happen in the event the Minister does not table the financial statements.	Impedes effective scrutiny by PAC and potential remedial action. Key weaknesses are not addressed on time.	Address reasons for delay with MoF.	
		Applying OAG training/learning to practical situation	Training alone not meeting full objectives and having the desired impact and performance improvement.	Identify 'entry' requirements for training e.g. foundation training. (this is for Internal Audit not for OAG, for OAG the entry requirements are fine, it was just a matter of difficulty in applying what has been learned from training ) On the job capacity training, mentoring and implementation support for OAG is the new proposed approach. OAG desires a resident TA for 1 year under the project.	
Component 8: Governance and institutional management of PFM reforms improved to facilitate ownership, monitoring and evaluation of progress	4	The focus of this component as stated relates to the governance and institutional management of PFM reforms that are aimed at facilitating ownership, monitoring and evaluation of progress. The text refers to strong governance and institutional arrangements for communication, coordination and management states that the success of the reforms depends on robust project management arrangements.  However, there is no specific reference to facilitating the implementation of reforms, and insufficient reference on how this may be done and evidenced in performance indicators, given weaknesses in ownership,	Working only to the Component title and output one it would be difficult to recognize and address often most difficult issues associated with implementation that are most dependent on leadership, ownership, effective monitoring and evaluation or progress made	It is proposed that the component in the revised action plan should emphasise the criticality of facilitating the identification and delivery of required improvements (change management) and the risks of weak ownership and leadership of the reforms. It is also important that the revised action plan observes in very definitive terms the danger of an inauspicious environment for reforms.  The tweaked name of the component to reflect sustainability of implementation might be: <i>Governance and Institutional Management of PFM Reforms facilitate Implementation through Leadership and Ownership at all levels Monitoring and Evaluation of Progress.</i>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
		<p>continuity and sustainability of delivering improvements in the previous PFM reforms. There is currently only one put - Output One: Management of PFM reform institutionalised. This does not represent the range of actual desired outputs.</p> <p>The component in the original action plan fairly presents the situation that obtained although there had not been enough emphasis on <i>Change Management</i> given weaknesses in ownership, continuity and sustainability in the previous PFM reforms.</p>		<p>It is also suggested that the component in the revised action plan emphasize the criticality of change management and the risks of weak ownership and leadership of the reforms.</p> <p>It is also important that the revised action plan observes in very definitive terms the danger of an inauspicious environment for reforms.</p> <p>It is also important to consider the following:</p> <ol style="list-style-type: none"> <li>1. The activity plan should be revised and further outputs are added. The current single output is too restricted.</li> </ol> <p>Output One: Key stakeholders are identified and sensitised about the scope, aims, objectives, impact and importance of their involvement in the PFM Reform for engagement and sustainability</p> <p>Output Two Capacity development is focused on the achievement of PFMR objectives.</p> <p>Output Three PFMR Robust Governance and Institutional Arrangements support the effective implementation, monitoring and evaluation of reform activities.</p> <p>See also Inception Report recommendations re the scope of activity for Key Result area 3 as follows:</p> <ol style="list-style-type: none"> <li>2. that the scope of activity in <b>Result #3, PFM Component 8</b> Governance and Institutional Management of PFM Reforms Improved to Facilitate Ownership, Monitoring and Evaluation of Progress in practice be amended as follows.</li> </ol> <p><i>"To assist GoL develop and implement Institutional, Organisational and Individual Capacity Development and Change Management Strategies and activities to implement sustainable PFM Reform Change Management Strategies and activities and specifically assist in the following areas:</i></p>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
				<ul style="list-style-type: none"> <li>• Develop the capacity of the PFMRS to enable it to fully meet its mandated tasks and responsibilities;</li> <li>• Advise on strategic guidance and oversight of the PFMRAP to ensure focus, mobilization, leadership, ownership and sustainability;</li> <li>• Advise on and assist to develop appropriate links with overall public sector strengthening and reform;</li> <li>• Assist the PFMRS to develop and implement a Public Financial Management Reform (PFMR) Roadmap incorporating the following: <ul style="list-style-type: none"> <li>○ stakeholder management, communication and engagement, workforce impact assessment, risk and resistance management along with capacity building events for all stakeholders to sensitise them to the PFM reform changes and engage them appropriately;</li> <li>○ sensitisation of MDA personnel in their PFM roles and Responsibilities and widen this scope to Sub-National Administrations;</li> <li>○ identifying and addressing human resource management and development issues impacting on PFM Reform;</li> <li>○ ongoing monitoring and evaluation of the effectiveness of the strategies and activities in achieving the change required to support the PFM reforms;</li> <li>○ regular monitoring and evaluation reports on the progress in implementing the PFM Reform activities, successes, risks, challenges,</li> </ul> </li> </ul>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
				<p><i>mitigating measures and lessons learned; and</i></p> <ul style="list-style-type: none"> <li>○ <i>alignment, synergy with, and contribution to, the achievement of the MoF Strategic Plan.”</i></li> </ul> <p>In relation to the above, it suggested that all components, HoDs, the Planning Unit of MoF, Secretariat and technical assistance team (TAT) look into the text of the component and propose what additional information including outputs should be included in the revised action plan. But this should be limited to the capacity and extent of what is feasible in the remaining project period.</p> <p>Recommend that institutional, organisational and individual capacity development to achieve sustainable change is explicitly recognised in the mandate of the PFMR Secretariat and through this also to the MoF Planning Department in relation to PFM Reform.</p> <p>Sensitisation workshops. We recommend that a programme of sensitisation on PFM Reform and capacity building on effective change management approaches is developed and implemented including at Parliamentary, Cabinet, Ministerial, PS, Management, PFMRS, PFMRAP Component and other operational levels as identified. This will assist implementation of PFM reform as in the PFMR Action Plan, the MoF Strategic Plan and overall Public Service Reform.</p> <p>The motivating reasons for and benefits of PFM Reform and associated changes are largely identified in the PFMRAP. We recommend that these be reviewed and further developed and tailored to the interests of various stakeholders along with the information on consequences of not reforming. The PFMRS to build on the July 2015 PFMR Communication Strategy to develop overarching and communication and engagement plan and activities.</p>	

Section	Ref	Issues/Challenges/Comments	Implication of the Issue	Options for Consideration	Workshop Resolution
				<p>These activities to be supported by the TAT team in relation to their areas of expertise.</p> <p>As well as overall PFMR sensitization, each component to (continue to) undertake ongoing sensitisation, communication and engagement activities in consultation with the PFMRS and each other so that opportunities for synergy, collaboration and joint activities are optimised</p>	
<b>Institutional and Implementation Arrangements</b>					
Institutional and Implementation Arrangements.		While the Institutional and Implementation Arrangements of the original action plan fairly presented the situation that obtained then, it never considered the dynamics that could likely impact of the reform. That can be partly seen in the current situation with the overelaborated structure as already discussed under 3.1 above	Failure to reflect the current situation could result in ignorance and failure to take decisive actions for addressing the current challenges associated with institutional implementation arrangements.	<p>It is suggested that the revised Institutional and Implementation Arrangements should reflect the current situation (and the constitution of the IRSC and the RTC) that includes the PSM P and the staff structure of the PFM secretariat.</p> <p>There may be proposals from components of how improvements should be made to the Institutional and Implementation Arrangements. Please feel free to make such proposals.</p>	
Risks and Mitigation		<p>The Risks and Mitigation section of the original action plan has also fairly presented the situation then, which largely still holds. However, a number of risks and challenges have been identified by the Second and Third Interim Reports of the Resident Technical Team (LINPICO), but are yet to be considered.</p> <p>Continuing political instability</p>	<p>Most of the risks identified in the reports mentioned could be more detrimental to the success of the project if not mitigated. They are based on the prevailing situation which was never anticipated then during the reform design.</p>	<p>It is proposed that the revised section should incorporate the issues raised in the Third Interim Report of the Resident Technical Team, and the lessons learned since June 2015 together with the efforts being made to across the Ministry of Finance.</p> <p>Components are encouraged to identify any further risks and how those could be mitigated.</p> <p>Permanent Secretaries (rather than Principal Secretaries) not to be political appointment, but public servants appointed on merits under performance contracts.</p>	

## **Annex 2: List of Key Documents Reviewed**

The following are the key documents that were reviewed by the IMTR Taskforce:

- (a) The Public Financial Management Reform Strategic Action Plan 2013-2018;
- (b) The Public Financial Management Reform Results Logical Framework;
- (c) The Public Expenditure and Accountability Assessment (PEFA) Assessment, 2012;
- (d) The draft Public Expenditure and Accountability Assessment (PEFA), Assessment 2016;
- (e) The Ministry of Finance Strategic Plan (current);
- (f) The Public Financial Management Reform Progress Reports;
- (g) The African Development Bank Mid-Term Review Report of PFM Reform Components 4 and 6; and
- (h) The World Bank Mid-Term Review Report of PFM Reform Component 5.