

**Terms of Reference: Organisation Capacity Assessment of Key Public Finance Institutions (Office of the Auditor General, Internal Audit, Public Procurement, and Public Accounts Committee of the National Assembly) and Develop a Five-year Action Plan for PFM Reform in Lesotho (2019-2023)**

**Duration of Assignment: 3 Months**

**Location: Maseru, Lesotho**

## **Background**

Lesotho has grown faster than its regional peers over the last decade, partly driven by capital intensive mining and infrastructure projects, although high levels of unemployment, poverty, and inequality persist. GDP growth is expected to be low in FY 2018/19, below the average of 4.1 percent for the past decade, and driven by mining and agriculture. Over the next three years, GDP growth is expected to be led by mining and construction related to the Lesotho Highlands Water Project Phase II. An expansionary fiscal stance has shielded the economy from external shocks recently, but at the cost of shrinking buffers. A steep decline in Southern African Customs Union (SACU) transfers, a major source of government revenue, will result in a fiscal deficit that is likely to exceed 6 percent of GDP for the second year. The government is financing the deficit by using its deposits at the Central Bank of Lesotho (CBL), causing a sharp drop in the CBL's international reserves. The drop in reserves is compounded by weaker remittances and demand for exports, particularly from South Africa. With SACU revenues only expected to recover in FY 2020/21 in line with the cyclical upswing in South Africa, the outlook is fragile. Addressing the fiscal and external challenges remains difficult in an environment of high inequality and weak institutions.

The GoL has embarked on the 2018/19 fiscal year where the forecast SACU revenues are significantly less than those received in 2017/18, government cash reserves largely depleted and access to domestic financing very limited. The government will therefore have to undertake active measures to reduce the deficit, increase revenue, reduce domestically financed expenditures and obtain sufficient financing. Budgeting, expenditure controls, treasury operations and other elements of the PFM system will have to become more effective to help manage the tightening fiscal conditions. The real situation obtaining on the ground as far as Public Financial Management efficiencies is concerned is that despite several decades of PFM reforms and donor support, many PFM practices do not meet international standards. This was confirmed in a recent PEFA assessment. *(For example, lack of budget reliability, i.e. significant deviations between budgets and outturns, is the most obvious sign of weak PFM practices. The PEFA gave the lowest score of "D" against the indicators on aggregate expenditure outturn, and expenditure composition outturn by function and by economic type.)*

The current PFM Reform Action Plan 2012-2017/18 aims to tackle many of these weaknesses in eight reform components. However, as widely acknowledged, progress in implementing the current action plan is delayed and outcomes well behind expectations. Still, with strong leadership, previous and ongoing PFM reforms could be brought to maturity. The senior and mid-level government officials are generally conversant in the objectives and recommended approaches of good PFM.

The current need to manage tight fiscal conditions provides an opportunity for driving forward the PFM reforms. Some departmental heads and officials have a clear perspective for improvements to work practices they wish to achieve in their area of responsibility.

Three major donor-funded projects are coming to an end in June 2019, providing further pressure to achieve results in the short-term. This support came for implementing the PFM Reform Action Plan subsequent to 2012 PEFA assessment which also found many shortcomings in the overall crucial areas of PFM. The donor funded projects support all areas of the current Action Plan.

- The EU funded project extended to June, 2019 provides support for strategic budget preparation, cash flow forecasting and PFM governance, including funding for the IMF resident advisor on Treasury (*this has just ended*).
- The World Bank is supporting an essential upgrade to the IFMIS system; the project has been extended by two years and now ends in June/July 2019.
- The African Development Bank (ADB) is supporting procurement, internal audit, external audit and other oversight functions; it too is being extended to June 2019.

The World Bank supports a separate project (Public Sector Modernisation Project) up to 2020 in building capacity for conducting public expenditure reviews especially in Health and Education sectors, and strengthening human resource management, and national statistical capacity.

Recently, Government of Lesotho through the Ministry of Finance, invited an IMF mission to review the Fiscal situation as well as to recommend further strategy to implement PFM reforms for a period of next five years from 2019/20 to 2022/23. The IMF mission focused on the Budget, Treasury and Macro-fiscal situation of the country both in the near term as well as in long term. The IMF mission did not review the progress made in the procurement, internal audit, external audit, public scrutiny and oversight functions in the existing PFM Reform Action Plan of which these also part.

GoL has accepted the IMF report in principle and now intends to prepare and implement the next phase of PFM reform action plan. For envisaged PFM reform to be complete the areas of procurement and oversight are also required to be reviewed and if needed included in the new PFM Reform Action Plan for coming five years (2019-2023). Since there are still a number of areas within procurement and oversight functions which do not meet the international standards. The deficiencies in the PFM systems and practices in the country were identified in 2017 PEFA report. In view of this, the Ministry of Finance plans to engage a short-term technical assistance to assist with the organisational capacity assessment and development of a medium term action plan to address major deficiencies and weaknesses in the areas of public procurement, internal audit, external audit, and public scrutiny and oversight functions.

Further, the GoL is also about to launch the next phase of its National Strategic Development Plan (NSDP). Thus the new phase of PFM reforms should also align with the objectives and targets of the new NSDP.

## **Description of Assignment**

### **Global Objective**

The overall objective of the assignment is to enable PFM systems to contribute to the implementation of Lesotho's national development agenda as is being embodied in the coming NSDP-II, through the promotion of macro-fiscal stability in Lesotho and the improved allocation, efficiency, effectiveness, transparency and accountability in the use of public resources.

### **Specific Objective**

The specific objective of the assignment is to review the real progress of the following components of the current PFM reform action plan for 2012-2017/18 and develop a new five-year reform programme for 2019-2023 covering the following components:

1. Internal Controls and audit functions across government.
2. Public Procurement aligned with international best practice in efficiency and transparency;
3. External Audit in accordance with INTOSAI Standards (ISSAI); and
4. Public scrutiny and oversight functions with emphasis to public accounts committee of the national assembly.

These components are led by the following offices: Internal-Audit Department (IAD), Office of the Auditor General (OAG)the National Assembly – (Public Accounts Committee - PAC), and the Public Procurement and Advisory Department (PPAD) within the Ministry of Finance. The comprehensive analysis would also involve reviewing of the documents, reports etc., which speak to the ongoing PFM, reforms in Lesotho. The outcome of the assignment will be a detailed organisational capacity assessment and diagnostic report, and medium term action plan which will be incorporated into the comprehensive PFM reforms plan for 2019/20 to 2022/23 for funding either within GoL resources or through donor funding.

### **Required Services**

The assignment is to be completed by a team of consultants sourced through a firm: a Team Leader, Senior PFM Consultant and a TProcurement Specialist/Consultant.

It is expected that consultants will discuss and analyse the specific issues relating to the context of PFM reform and the new NSDP and bring forward a converging view of next phase of reform of all the stakeholders including donors.

The task might involve conducting Workshops or group discussions with a number of stakeholder within or outside the Government of Lesotho. The expense, if any, of such activities will be borne by the client.

The Senior PFM consultant is expected to adopt an assessment methodology that are widely accepted including the AFROSAI-E Supreme Audit Institutions (SAI) Performance Assessment Frameworks and Guidelines for SAI assessment methodology. The Senior Procurement Consultant is expected to adopt the OECD tool for assessment of procurement systems such as the Methodology for Assessment of Procurement Systems (MAPS) to assess the quality and

effectiveness of public procurement systems and based on the identified strengths and weaknesses to develop strategies to implement reforms.

### **Scope of Work or Main Tasks/Activities**

The main responsibilities of the Consultants will be following:

- Desk review of all the existing PFM programme literature available in the Ministry of Finance regarding recent PFM reform programmes, their assessment, PEFA reviews, Aid-memoires etc.
- Participate and actively engage in a preliminary inception meetings with the client prior to start of the consultancy to obtain the common understanding of the aims, objectives and deliverables of the assignment.
- Undertake a review of the relevant documents covering the areas of Internal-Audit and Auditor General, Public Accounts Committee of the National Assembly, and Public Procurement for taking forward their reform needs
- Discuss with existing reform programme implementing team and the departmental agencies within the MoF or outside such as the Parliament, donors etc.
- To undertake an independent assessment of the quality and performance of PFM systems in Lesotho with emphasis on public procurement, internal audit, external audit, public scrutiny and oversight. This analysis will reveal the strengths and weaknesses of existing systems, including both the legal and institutional frameworks as well as practical implementation and organizational capacity.
- Examine in detail the institutional, organizational, human, and stakeholder engagement and performance of the IAD, OAG, PPAD, and PAC, identifying areas for improvement and potential actions and reforms necessary to improve the efficiency, effectiveness, and competency levels of these institutions.
- Undertake a procurement capacity assessment in line with the OECD tool and methodology for assessment of procurement systems (MAPS)
- Undertake organisational capacity assessment of the OAG in line with the SAI performance assessment methodology.
- To develop a medium term actions and reforms to be implemented in order to address the weaknesses identified in accordance with a sequenced action plan together with key performance indicators for the next five years (2019-2023). This action plan will be used as both a roadmap for future PFM reforms and actions as well as a basis for resources mobilization and monitoring.
- Undertake a review of the public procurement bill and promote a comparative analysis and advantage and disadvantage of the decentralised and centralised procurement regime in Lesotho by drawing experience from Namibia, Botswana, and Zambia.

- Assess the current state of procurement systems and functions including procurement business process and procedures as well as the ongoing IFMIS upgrade with the aim to develop a roadmap for automation of procurement process in the medium term, and moving towards e-procurement in the long-term.

### Required Outputs

The key outputs required from this assignment include the following:

- (a) Inception Report: A short inception report will be produced within 7 working days of commencement of the assignment, detailing the proposed methodology, schedule and performance (including performance barriers/obstacles) for the entire assignment.
- (b) Draft Diagnostic Reports on the (i) Procurement Capacity Assessment, and (ii) Internal and External Audit and Public Oversight Capacity Assessment together with the five year action plan. After submission of the Draft Report, the consultant will collate comment from stakeholders and present it for stakeholder validation and a Power Point presentation within 10 days of receiving comments on the first draft.
- (c) Final Report incorporating the comments and recommendations from the authorities which can be incorporated into the comprehensive PFM Action Plan Strategy developed by the IMF mission
- (d) Submit a paper for the Minister on the comparative analysis of the decentralised and centralised procurement regime.
- (e) Submit a paper for the Minister on the automation of procurement business process and procedures to improve transparency and efficiency, and roadmap for moving to e-procurement in the longer term.

### Language of the assignment

The language of assignment will be English.

### Location and Duration

Location of the assignment will be Maseru.

### Duration of the Assignment

The assignment will be for a total period of three months working days. **The starting date of the assignment will be end February 2019.**

### Reporting

The experts will work in close collaboration with the stakeholder departments within Ministry of Finance and the office of the Auditor General and National Assembly, and closely cooperate with them in finalising the next phase of PFM Reform Programme Action Plan inputs. The Consultants will administratively report to the Acting PFM Reform Coordinator.

### Submission/comments timing

Except where specifically indicated, the Client will provide comments on the reports within five (5) working days of receipt. The report shall be deemed to have been approved in the event that no comments are provided by the client within this period.

### Number of report(s) copies

Two (2) copies of the reports and outputs stated above shall be provided. The reports shall also be forwarded in electronic format to the Project Coordinator.

### Experts Profile/Expertise required

#### Qualifications

Master's Degree in Accounting, Public Finance or equivalent.

#### General Professional Experience

- Professional skills in project planning and report writing
- Capacity to follow strict schedule
- Ability to use standard computer applications such as MS Office etc
- Ability to communicate in English.
- Ability to work in different cultures and contexts in developing countries

#### Specific professional experience of the Team Leader and Senior PFM Consultants

- At least 15 years professional experience working with the Ministry of Finance, Supreme Audit Institution, and Parliament in developing countries in the areas of Internal Audit, External Audit Office, Public Accounts and or Economic Cluster parliamentary portfolio Committees etc.
- Minimum of 10 year experience in delivery of PFM reforms in developing country contexts
- Extensive experience in preparation of similar project plans addressing PFM issues
- Familiarities with project planning and execution

#### Procurement Consultant

MCIPS Internationally recognised professional qualification in procurement (Chartered Institute of Purchasing and Supply).

Masters or equivalent in Public Procurement.

#### Specific professional experience of the Procurement Consultant

- At least 10 years professional experience in the area of public procurement
- Minimum of 5 year experience in improvements in public procurement, especially in developing country contexts
- Experience with e-procurement
- Extensive experience in preparation of similar procurement development plans
- Familiarities with project planning and execution

