A guide to understanding and implementing the Public Financial Management Act, 2016

SIMPLIFYING THE PUBLIC FINANCIAL MANAGEMENT ACT, 2016

Ministry of Finance

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Abbreviations

BA	Budgetary Agency
BB	Budget Bureau
BCC	Budget Call Circular
BSL	Bank of Sierra Leone
CF	Consolidated Fund
ECF	Extended Credit Facility
EIR	Extractive Industries Revenues
FSS	Fiscal Strategy Statement
ISF	Intergenerational Saving Fund
MTEF	Medium-term Budgetary Framework
NRA	National Revenue Authority
PE	Public Enterprise
PFM	Public Financial Management
SB	State Budget
SSF	Social Security Fund
SVA	Sub-vented Agency
TDSF	Transformational Development Stabilization Fund
TSA	Treasury Single Account

INTRODUCTION

The Government of Sierra Leone in a joint effort with the Development Partners, developed the Public Financial Management (PFM) Reform Strategy 2014-2017 to accelerate PFM reforms and establish an efficient, effective and transparent PFM system that minimises opportunities for corruption.

The Public Financial Management Act, 2016 addresses key gaps identified in the PFM legislation, leading to a repeal of the Government Budgeting and Accountability Act, 2005.

This new PFM legal framework includes a set of robust rules on planning and budgeting; budget execution and expenditure control; audit and inspection (internal and external); reporting and accountability; and oversight arrangements, that are intended to promote and improve budget credibility; fiscal discipline; strategic allocation of resources and services delivery.

This simplified version of the PFM Act was supported by the European Union State Building Contract Technical Assistance Project (EU-SBC TAP), implemented by Linpico SARL. It provides an overview of the Act and it is intended to be used as a quick reference guide for the participants in the different phases of the PFM cycle and Civil Society Organisations to ease their understanding of the law in the day to day conduct of their public finance management duties or advocacy.

1. BUDGET CYCLE AND RESPONSIBILITIES

1.1. The budget cycle

The PFM Act identifies the PFM processes structured around the Budget Cycle. This annual cycle aims to ensure that public resources are well allocated, disbursed, and accounted for. The different PFM processes are identified in the diagram below:

The cycle above generally covers three State budgets that, at any point in time, are at different points in the cycle: for example, between October and December of any year, the budget of the previous year is being audited, the budget of the current year is being executed and the budget for next year is being prepared and submitted to Parliament for approval.

1.2. Institutional responsibilities in budget systems

The PFM Act clearly defines, in Part II, the competencies and functions of key institutions and specifies their role in building an effective and accountable PFM system.

1.2.1 The Parliament (Sec. 3 PFM Act)

Approves: State budget, the Supplementary Estimates; guarantees and loans from the CF. Ratifies: external loans and grants contracted or received. **Reviews:** annual financial statements of the central government, audit reports of the Auditor-General and annual report of the TDSF and ISF.

1.2.2 The Cabinet (Sec. 4 PFM Act)

Approves: FSS; the State budget to be laid before Parliament; Bills to establish new sub-vented agencies, other entities in the general government, social security funds, public enterprises; proposals to Parliament of acquisition of shares and ownership interest in a company or other body corporate which causes the company or other body corporate to be a PE; and proposals to ratify external loans and grants. **Monitors and reviews:** State budget execution and financial management of the central government.

1.2.3. The Minister – Minister responsible for finance (Sec. 5 PFM Act)
Develops government's fiscal policy; **prepares** State budget and monitors and controls its execution; manages TSA, cash flows; evaluates projects; coordinates management of external grants and loans to the State; monitors and manages fiscal risks; formulates policies on and exercises controls over government assets; controls financial management of the general government and PEs; controls EIR.

1.2.4. The Financial Secretary (Sec. 6 PFM Act)
Ensures application of the PFM Act; advises the Minister; and supervises staff.

1.2.5. The Accountant-General (Sec. 8. and 9. PFM Act)
Heads the accounting class within the public service; receives all public monies and ensures secure custody for such public monies; makes disbursements from the CF; monitors TSA; keeps register of general government and PE; compiles financial statistics; compiles, manages and publishes government accounts in accordance with internationally accepted standards; advises the Minister and the Government on accounting matters; specifies accounting standards; determines the chart of accounts; issues instructions on accounting and reporting; ensures development of information technology platforms.

1.2.6. The Internal Audit Department of the Ministry (Sec. 10 PFM Act)
Performs the internal audit function of the Ministry; issues guidelines and instructions on internal audit function of the government and ensures it is performed in accordance with international accepted standards.

1.2.7. The Head of the Budgetary Agency (Sec. 11 PFM Act)
Participates in the preparation of the FSS and the State budget; submits budget proposals; ensures implementation of public investment projects and PPPs; allocates and manages resources of the budgetary agency; oversees, instructs and directs the vote controller; controls entities and PE under his responsibility.

1.2.8. Vote controllers of budgetary agencies (Sec. 12 and 13 PFM Act)
Advise the head of the agency; maintain PFM systems and internal controls; maintain internal audit function; assist NRA to collect revenue; make commitments; ensure proper evaluation of projects and monitor their implementation; certify payments; safeguard and manage assets; keep records; ensure financial reporting; exercise disciplinary action; implement recommendations of internal and external auditors.

1.2.9. The District Budget Oversight Committee (Sec. 14 PFM Act)
Assists in the formulation and monitoring of poverty-related activities; monitors expenditure; focal point at the community level; intermediate between the government and the people; reports on budget execution to the BB.

1.2.10. Vote controllers of sub-vented agencies; other entities in the central government; social security funds; and public enterprises (Sec. 15 PFM Act)
Safeguard and manage resources; set objectives, strategies and policies; approve and submit budget; maintain PFM systems and internal controls; maintain internal audit function; assess and collect revenue; evaluate projects and ensure their implementation; keep records; ensure financial reporting; operate procurement; prevent irregular expenditure; exercise disciplinary action.

1.2.11. Auditor-General (Sec. 16 PFM Act)
Audit the accounts and financial statements of the general government and PEs; reviews or examines operations; submits to Parliament and publishes his audit report; monitors compliance with the PFM Act.

1.2.12. Bank of Sierra Leone (Sec. 17 PFM Act)

Under Minister's instructions: opens and manages main account of the TSA; invests and manages TDSF and ISF.

1.2.13. National Revenue Authority (Sec. 18 PFM Act)

Assesses and collects national revenue, in accordance with the National Revenue Authority Act, 2002.

1.2.14. National Public Procurement Authority (Sec. 19 PFM Act)

Regulates and harmonizes procurement processes; ensures value for money; ensures participation in procurement by qualified participants.

2. MACROECONOMIC AND FISCAL POLICIES

2.1. Fiscal strategy

Part III of the PFM Act addresses the Government's fiscal policy framework and draws the lines for Parliament to ensure that Government makes credible and prudent decisions about its spending and revenue in a transparent manner. The PFM Act requires **the following documents to be submitted to Parliament:**

Documents	When	Period of	By whom	Contents
Fiscal objectives (Sec. 21 PFM Act)	After an election to the Office of the President	5 years	New Cabinet	**Fiscal objectives** in accordance with principles of responsible financial management defined in Section 20 of the PFM Act.
Fiscal Strategy Statement (Sec. 23 PFM Act)	No later than the end of the seventh month of every financial year	1 year	Minister with approval of the Cabinet	**Recent** macroeconomic and fiscal developments; **For the next 3 years** or more: Macroeconomic forecasts; Revenues, expenditures, deficit and debt of the SB; Main policy measures and impact; Fiscal forecasts of general government and subsectors. **Explanation** of methodologies and assumptions; **Comparison** of the macroeconomic and fiscal forecasts with those of international organizations and independent bodies and explanation of differences; **Comparison** of the forecasts of the macroeconomic and fiscal indicators in the FSS with actual outcomes of these indicators and explanation for differences; **Fiscal Risk Statement (see 2.3);** **Ceilings** on total expenditures of the central government disaggregated as determined by the Minister.
Macro-economic and fiscal forecasts (Sec. 22 PFM Act)	In order to meet the FSS and SB submission date to Parliament	1 year	Minister	**Underlying** the FSS and the SB; **Based on assumptions** to take full account of domestic and international economic conditions and developments, including international commodity markets.

2.2 Policy costing

In accordance with Section 24 of the PFM Act, a budgetary agency introducing a new policy or a change to an existing policy, with financial implications, may be required by the Minister to submit to him the policy costing information, prior to approval of such policy or policy change.

2.3. Management of fiscal risks

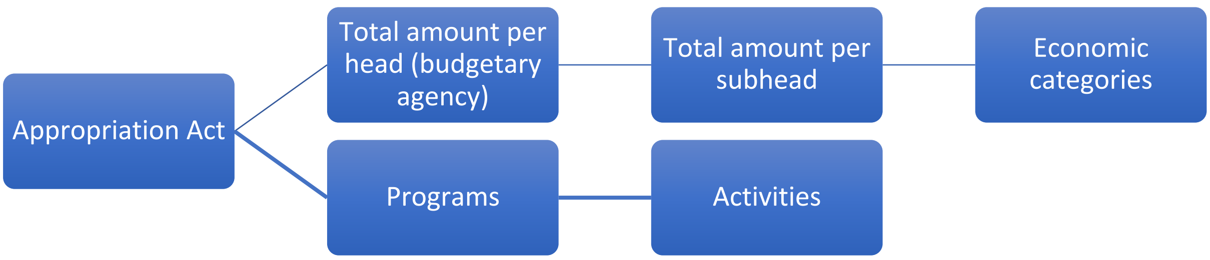
Fiscal risks are factors outside government's control that cause the fiscal outturn to be different from the fiscal forecasts or projections. These may arise from unforeseen developments or events such as real GDP growth, changes in inflation, commodity prices, exchange rates, interest rates and donor inflows or contingent liabilities from government obligations, including those arising from guarantees, losses on pending court cases, loans and advances. In accordance with Section 25 of the PFM Act, the Minister shall submit a Fiscal Risk Statement to Parliament as part of the FSS.

3. THE PREPARATION AND APPROVAL OF BUDGET

Every year the Government's forecast of planned revenue and expenditure is laid out in its budget. The budget is enacted into a law by the Parliament, which authorises the Government to spend funds in accordance with a set of appropriations under an Appropriation Act (Sec. 26 PFM Act). Part IV of the PFM Act specifies how the budget should be prepared and what information budget documents must contain.

3.1. Budget structure

Section 27 of the PFM Act determines how the State budget should be structured. The structure is represented in the diagram below:

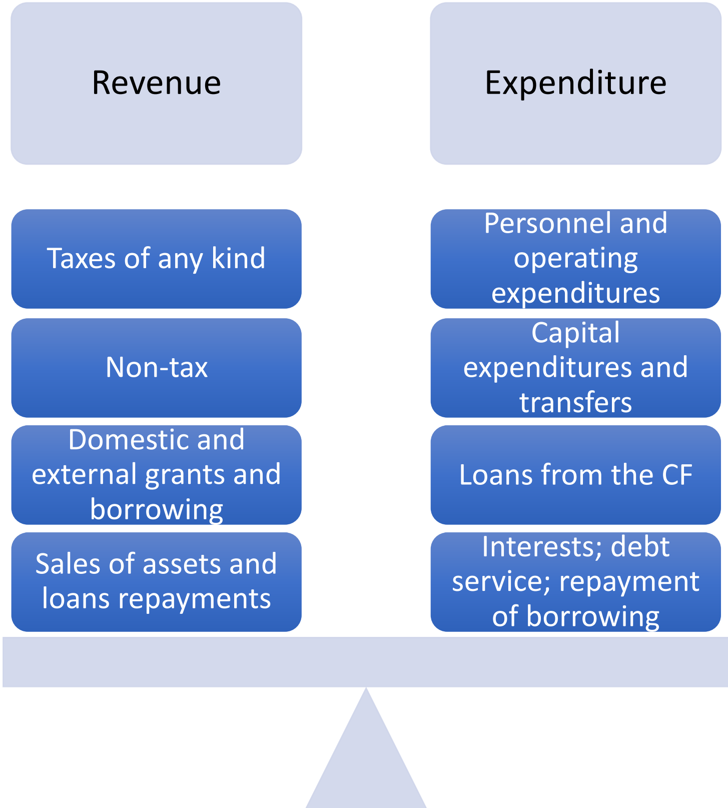


3.2. Revenues and expenditures to be presented in the Estimates

In accordance with Section 28(2) of the PFM Act, **revenues** are to be presented in the Estimates **on a gross basis without being netted with any expenditure.** On the other hand, Section 29(2) of the PFM Act determines that revenues **may not be earmarked for a specific expenditure or retained by a budgetary agency**, unless such earmarking or retention is authorised by an Act of Parliament. Finally, on the revenue side, Section 29(4) of the PFM Act states that the **amount of revenue expected to be raised by a budgetary agency and the external grants that it is likely to receive from donors** should be presented **separately in the Estimates.**

On the expenditure side, the rule is specified in Section 29(3) of the PFM Act: **expenditures are presented in the Estimates without being offset by revenues.**

The diagram below identifies the State revenues and expenditures to be presented in the Estimates in accordance with Sections 28(1) and 29(1) of the PFM Act:



3.3. Budget Call Circular

The budget preparation process is triggered by the issuance of the **BCC by the Financial Secretary**, as soon as practicable **after the FSS is approved**, providing information to guide budgetary agencies in the preparation of their budget proposals. The BCC is issued in accordance with Section 31 of the PFM Act.

The BCC **prescribes ceilings on expenditure** from the State budget for the next three years or more broken down at the level of detail as determined by the Minister; **the budget calendar** which **sets out the time frame in respect of preparation and approval of the State budget**; and includes **instructions to be complied by budgetary agencies** in the course of preparation of budget proposals.

3.4. Medium-term budgetary framework

Although the State budget is approved on an annual basis it includes a multi-year outlook. This is because many projects and programs take more than one year to implement or may have future financing implications, and such costs should be indicated in the budget and factored into the budget debate.

As determined by Section 30(1) of the PFM Act, the Minister shall establish a Medium Term Budgetary Framework, which includes:

- Fiscal objectives to be established by a newly elected Government;
- Macroeconomic and fiscal forecasts for at least three years, underpinning the fiscal planning and the State budget;
- Multiannual ceilings on expenditures for at least three years prescribed in the FSS and BCC;
- Guidance to budgetary agencies on estimates of the fiscal impact of existing and new policies and multiannual policy prioritization;
- Reconciliation of the macroeconomic forecasts and expenditure ceilings with the outcomes achieved for the relevant indicators.

3.5. Budget proposals

In accordance with Section 32 of the PFM Act, on the date specified by the BCC the **head of every budgetary agency** shall **submit to the Financial Secretary** a **budget proposal containing estimates of revenues and estimates of expenditure, for the next three years,** and other matters required by the PFM Act and referred to in this chapter. **Budget proposals shall be submitted to a public consultation**, as prescribed by Section 33(3) of the PFM Act.

3.6. Public Investment Programme

The State budget distinguishes between current and capital investments. This is because capital projects tend to have a longer lifespan, higher unit costs, recurrent cost implications and high returns. The PFM Act gives special consideration to capital investments through the submission of a Public Investment Programme (PIP). The **Minister shall annually prepare and submit as part of the State budget documents, a PIP** in accordance with Section 35 of the PFM Act.

3.7. State budget submission and documents

The State budget preparation process ends with the State budget presentation to the Parliament. In accordance with Section 33 of the PFM Act, the Minister shall obtain **approval of Cabinet and lay the budget before Parliament, no later than two months before the beginning of the financial year** to which it relates. The **State budget shall be accompanied by the information** referred to in Section 34 of the PFM Act. The **Minister shall publish the State budget documents in the Gazette and the website of the Ministry.**

3.8. Use of Contingencies Fund

In accordance with Section 37 of the PFM Act, the Contingencies Fund may only be used **in case an urgent and unforeseen need for expenditure** for which **no other provision exists** under the Estimates has arisen, such expenditure **may not be met through a virement** procedure, it **cannot, without serious injury to the public interest; be postponed** until provision can be made by a Supplementary Estimate and the amount used **does not increase the aggregate amount of withdrawal** from the Contingencies Fund during the financial year, **above 2% of the non-EIR** presented in the Estimates of the Financial year.

Only the Minister, **on the request of the head of a budgetary agency** may withdraw from the Contingencies Fund.

When the withdrawal from the Contingencies Fund is made, Section 37(5) of the PFM Act applies as follows:

- The amount has to be paid into the Consolidated Fund;
- The Contingencies Fund has to be replenished by the Minister;
- The expenditure for which the withdrawn amount is used is classified under a Supplementary Estimate.

In accordance with Section 36(2) of the PFM Act, an Appropriation Bill shall include an appropriation, not exceeding 2% of the non-EIR presented in the Estimates, for replenishment of the Contingencies Fund.

3.9. Special warrant of the President

In accordance with Section 38 of the PFM Act, a special warrant of the President is issued in the following conditions:

- **No provision** exists for the expenditure;
- President considers that there is such an **urgent need** to incur the expenditure that **it would not be in the public interest to delay** the authorisation of the expenditure until a State budget or Supplementary Estimate;
- The amount authorized by warrants **does not exceed 1% of the non-EIR** presented in the Estimates;
- The **expenditure** made under the President's warrant **is classified** under a Supplementary Estimate.

In accordance with Section 38(2) of the PFM Act, **an Appropriation Bill of a financial year shall include an appropriation**, the amount of which shall not exceed 1% of the non-EIR presented in the Estimates, for issuance of a warrant by the President of Republic.

3.10 Unallocated head of expenditure

In accordance with Section 39 of the PFM Act, the State budget may include an unallocated head of expenditures to set aside the CF, provided that:

- **Expenditures are authorized by the Minister**, on his initiative or the request of the head of a budgetary agency;
- It is used to **meet an unspecified need or purpose**;
- The amount of unallocated heads of expenditure **do not exceed 1% of the non-EIR** presented in the Estimates;
- Expenditures are **necessary for public interest**;
- The **expenditure** charged against the unallocated head of expenditure, under the Minister's warrant, **is classified** under a Supplementary Estimate.

3.11. Temporary budget

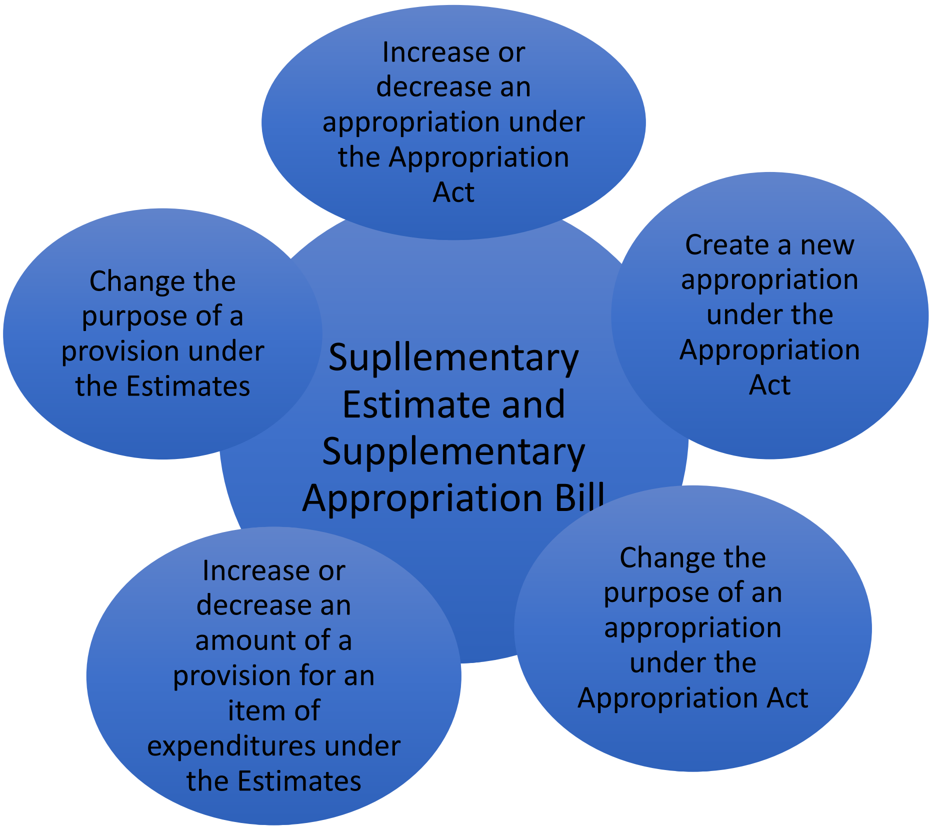
In accordance with Section 41 of the PFM Act a temporary budget is intended to **cover a situation where an Appropriation Act** of a financial year **does not come into force by the beginning of the financial year**. If this happens, the following procedure applies:

- Expenditure is **approved by Parliament and authorised by the Minister**;
- **Not exceeding four months from the beginning of the financial year** or on the coming into operation of the Appropriation Act;
- Expenditure is regarded as forming part of the appropriation for the financial year to which the Appropriation Act relates.

3.12. In-Year Adjustments

3.12.1. Supplementary Estimate and Supplementary Appropriation Bill

A **supplementary expenditure** is an expenditure which **cannot be funded through virements**, it **cannot be postponed to the next financial year** and **it was not foreseen by the vote** at the time of budget preparation. In accordance with Section 42 of the PFM Act, the **Minister may lay before Parliament** for approval, a Supplementary Estimate, **before the start of the seventh month of the financial year** and **no more than twice within a financial year**, to meet the needs described in the chart below:



3.12.2. Virements

Virements are **administrative transfers of public funds from one part of the budget to another**. All virements shall follow the requirements of Section 43 of the PFM Act.

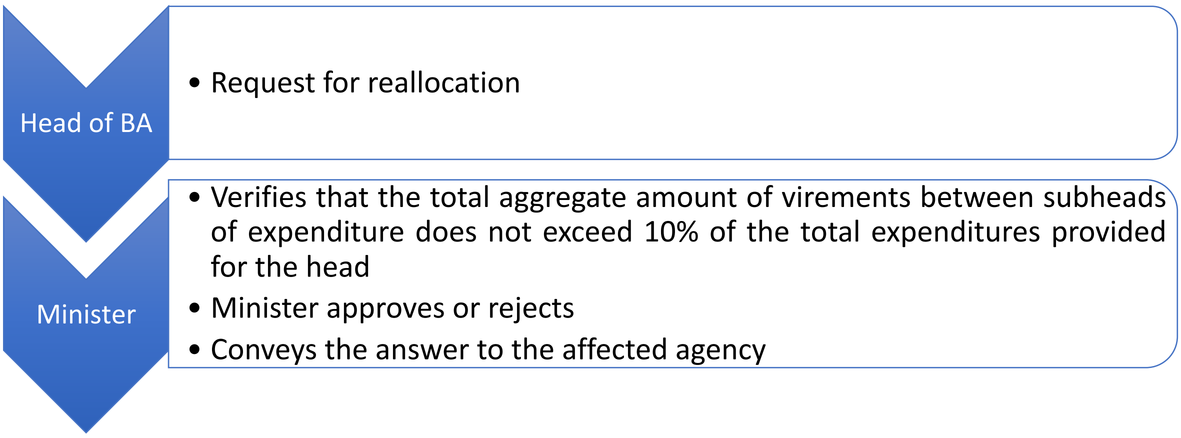
Virements not allowed

Virements **between heads of expenditure** and those **from capital expenditures to current expenditures** and to **increase wages, salaries, emoluments, allowances or other personnel expenditures are not within the competency of the executive**, in accordance with Sections 43(1) and 43(5) of the PFM Act. These adjustments are only possible through a Supplementary Estimate approved by Parliament.

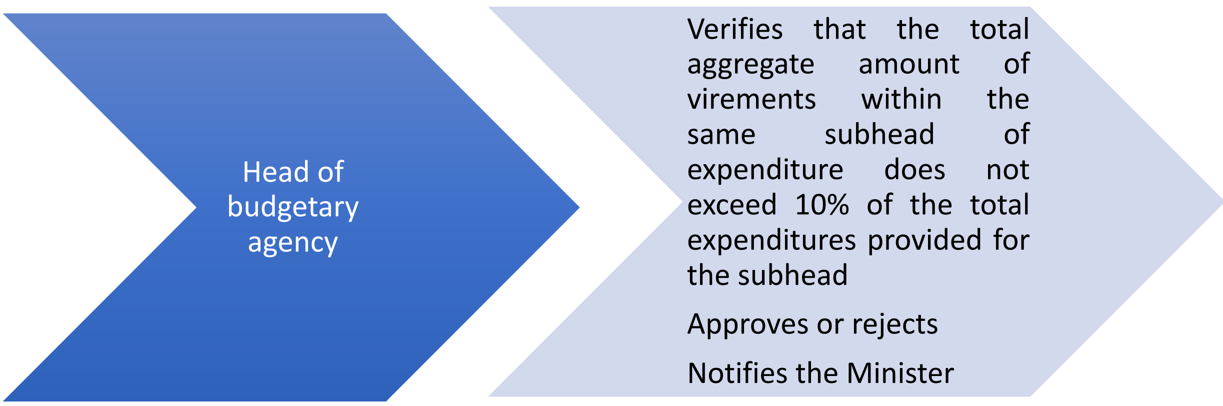
Virements allowed and virement procedure

Virements between **different subheads but within the same head** and **virements between different items of expenditure but within the same subhead** are allowed and should follow the processes below:

Virements between subheads within the same head



Virements between items of expenditure within the same subhead



3.12.3. Complementary period

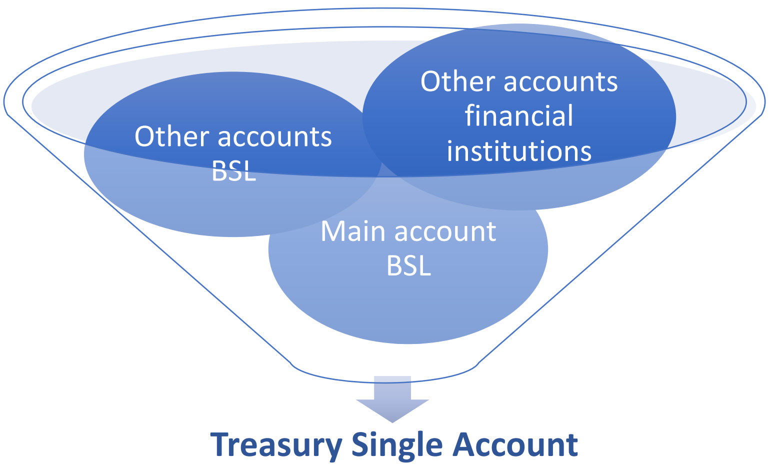
Both the appropriations included in an Appropriation Act and the authority to spend public funds, lapse at the end of the financial year. All expenditures of a BA, committed by the end of the financial year, shall be paid before 1st of January of the following financial year. This is also applicable to revenue collection. Any revenue of a BA on account of a financial year shall be collected before 1st of January of the following year. In accordance with Section 44 of the PFM Act, **any revenue collected or expenditure paid after the 31st of December of a financial year shall be treated as revenue and expenditure of the following year.**

4. BUDGET EXECUTION AND TREASURY MANAGEMENT

Once the State budget has been approved by the Parliament, the Government shall start the State budget execution. Budget execution is spread across the entire year, from January to December.

4.1. Treasury Single Account

A TSA is a tool for consolidating and managing Government's cash resources. In accordance with Section 47 of the PFM Act, the Government of Sierra Leone shall use a TSA, established by the Minister, comprising:

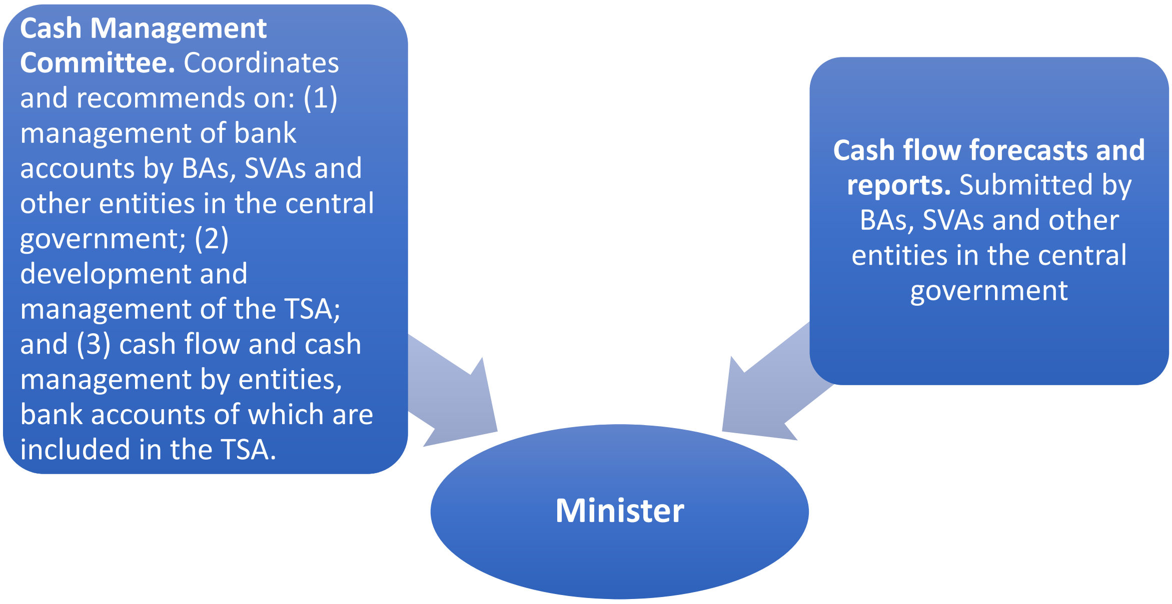


Only under the **authority of the Minister** with the **signature of the Accountant-General,** a bank account of a budgetary agency, sub-vented agency or other entity in the central government **may be opened or closed**.

4.2. Cash Management

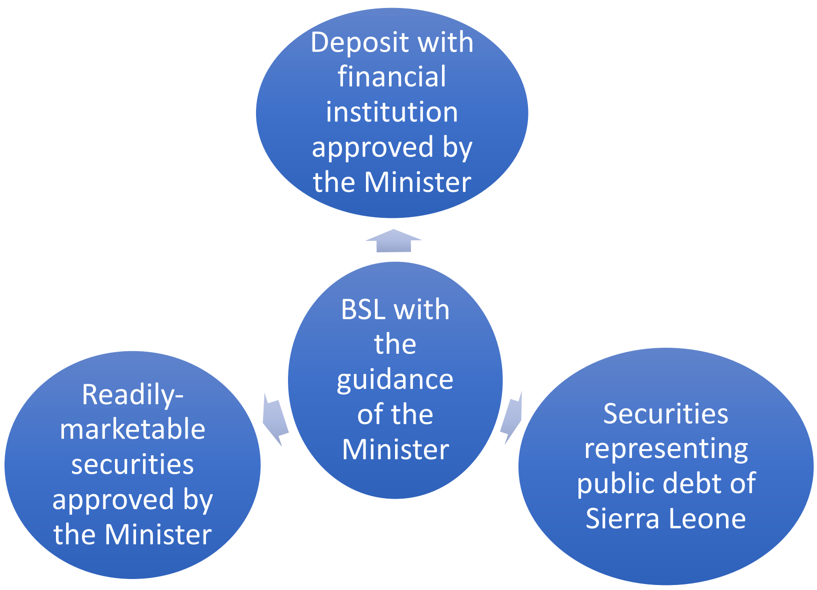
Cash management is an extremely important tool **to ensure that funds are available in time** to meet payment obligations, while **preventing arrears accumulation**, **reducing the need for Government borrowing** and **maximizing returns** on cash balances.

Sections 48 and 49 of the PFM Act establish the pillars for an efficient cash management as shown in the following diagram:



4.3. Investment of public money

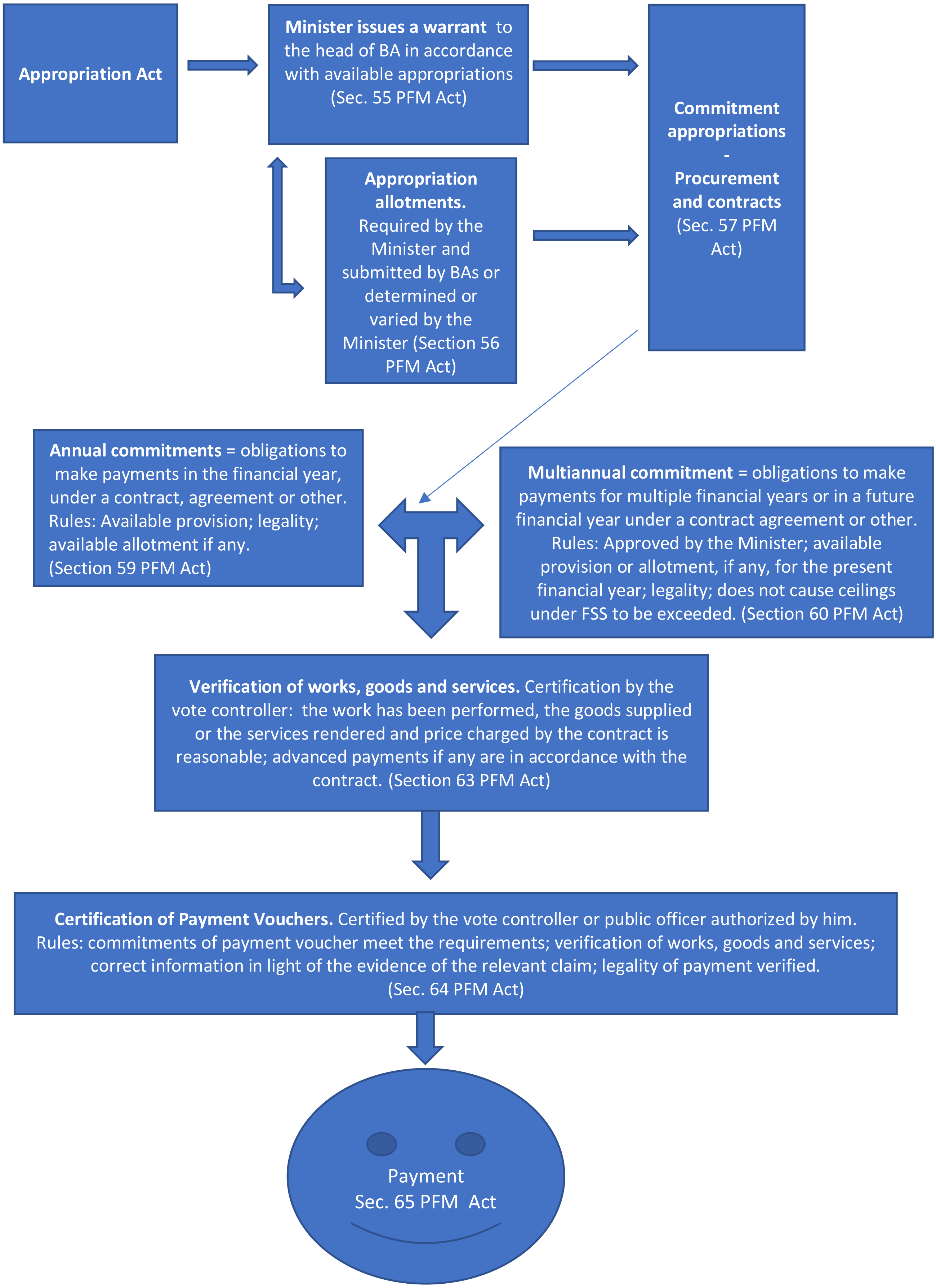
In accordance with Section 50 of the PFM Act, public money held in the TSA and **not immediately required to be paid to meet any obligation** of the Government may be invested in Sierra Leone or elsewhere. The **interest earned** from the investment **and the principal sum** of the investment **shall be accounted in the Consolidated Fund**. Public money may only be invested as follows:



4.4. Receipt and deposit of public money

In accordance with Section 51 of the PFM Act the following rules shall apply in relation to receiving and depositing public money: (1) **Only an authorised person** to do so may collect, receive or have the custody of public money; (2) Every person who collects public money shall **deposit it, promptly, into a bank account** as **prescribed by the Accountant-General**; and (3) Every person collecting public money shall **issue receipts and keep a record of receipts and deposits** in such a form and manner as determined by the Accountant-General.

4.5. Budget expenditure execution process



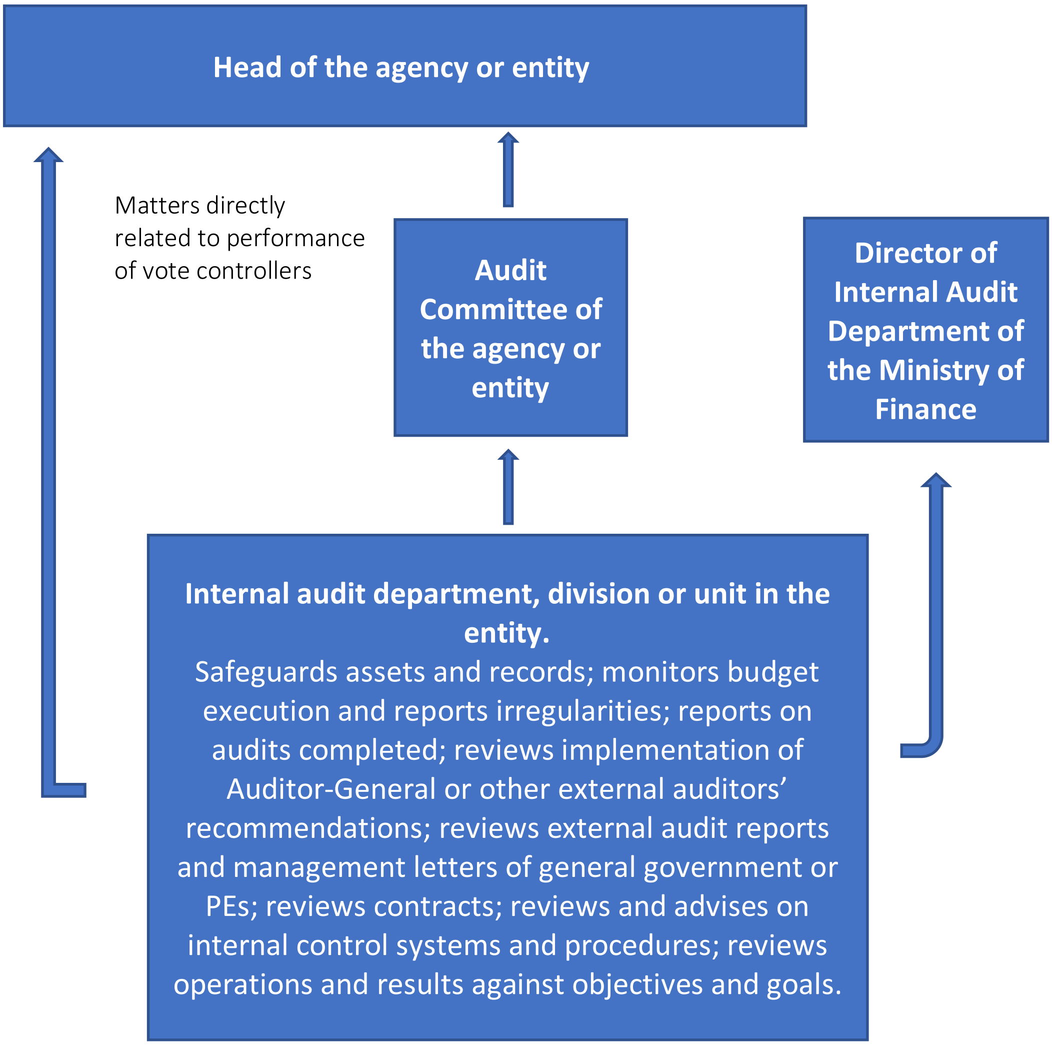
4.6. Borrowing, guarantees, advances, loans and donor funds and grants

The table below identifies the authority and the conditions under which loans, guarantees, advances, and grants may be taken or given by the State:

Sections PFM Act	Action/operation	Authority	Conditions
67	Borrowing on behalf of the State	Minister under the authority of an Act of Parliament	• Authorised by Parliament; • Negotiated and signed by the Minister; • Paid into the Consolidated Fund.
68, 69 and 72	Guarantees on behalf of the State	Minister after Parliament's approval	• Approved by Parliament; • Negotiated and signed by the Minister; • Charged to the Consolidated Fund; • Money paid by the State becomes a debt to the State: recoverable in court; may be paid over any period of time; may be written off or set off; • Register requirements: contractual terms and conditions; performance of obligations; and others specified by the Minister.
70	Advances from the Consolidated Fund	Minister	• Prior-approval of the Minister; • Advanced payment is able to be repaid or regularized within the same financial year through delivery of goods, services, or works or deduction from subsequent payments; • Interest may be charged.
71 and 72	Loans from the Consolidated Fund	Minister under the authority of an Act or resolution of Parliament	• Authorised by Parliament; • Agreement negotiated and signed by the Minister and approved by Parliament; • Register requirements: contractual terms and conditions; performance of obligations under contracts and underlying loans; and others specified by the Minister.
73 and 74	Loans or grants from donors	Loans: Minister under the authority of an Appropriation Act Grants: Minister or vote controller authorised by him, under the authority of an Appropriation Act	• Authorised by an Appropriation Act; • Result of costing and appraisal of all projects included in the budget proposal by the head of the budgetary agency; • Under requirements, procedures and controls prescribed by the Minister.

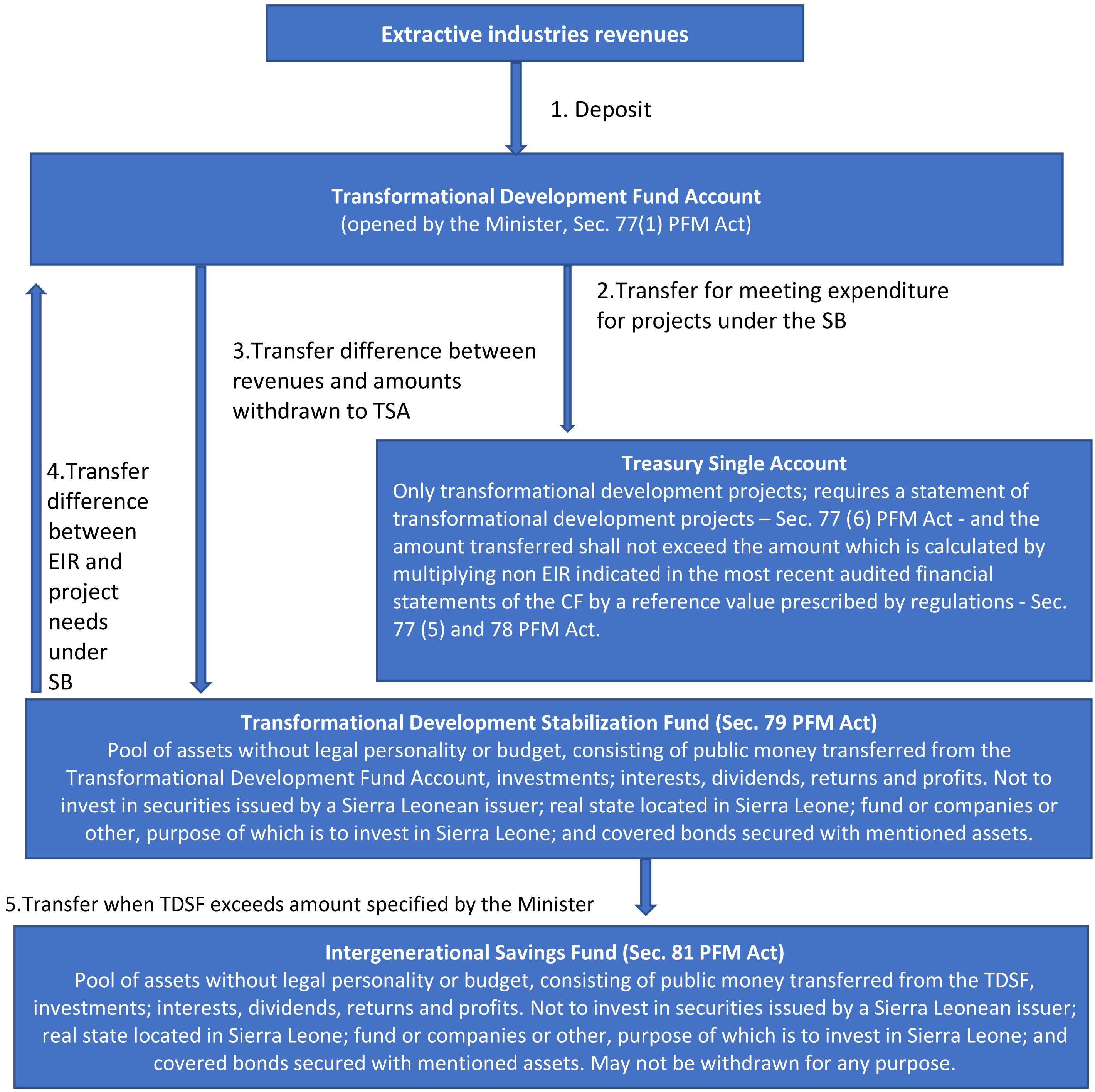
4.7. Internal audit

The internal audit function is a tool used by management to ensure the entity achieves its objectives and complies with laws and regulations in force. The diagram below shows the internal audit function and report requirements, in accordance with sections 75 and 76 of the PFM Act:



5. MANAGEMENT OF EXTRACTIVE INDUSTRIES REVENUES

Part VI of the PFM Act establishes the Transformational Development Fund Account, the Transformational Development Stabilization Fund and the Intergenerational Savings Fund. The diagram below details the processes structured around the management of extractive industries revenues:



6. FINANCIAL REPORTING - ACCOUNTING - AUDITING

6.1. Financial reporting and reporting requirements

Financial reporting is an important tool for internal and external actors to assess government performance and budget compliance. The table below shows the reporting requirements under the PFM Act:

Section of PFM Act	Document(s)/requirements	Responsible	Submission to/other requirements	Time
66(1)	Statements of the CF	Accountant-General	Published in the Gazette and Ministry of Finance' website	Every month
66(2) (3)	Statements of the central government	Accountant-General	Published in the Gazette and Ministry of Finance' website	Every quarter
		Minister	Parliament	Every quarter
103	Budget execution report of local councils	Local Council	Minister and Minister responsible for local government	Every quarter
105(2)	Budget execution reports of Chiefdom Administration	Chiefdom Administration	Minister and Minister responsible for local government	As specified by the Minister
112	Budget execution report of SVAs, other entities in the central government or SSFs	Vote controller of the entity	Minister and responsible authority	Every quarter
86(1)	Annual Financial Statements of SVAs; other entities in the central government; local councils; Chiefdom Administrations; other entities in the local government; SSFs.	Vote controller of the entity	Auditor-General	3 months after closing accounts of the financial year
86(2)	Audited Annual Financial Statements of SVAs; other entities in the central government; local councils; Chiefdom Administrations; other entities in the local government; SSFs, together with the audit report of the Auditor-General.	Vote controller of the entity	Minister and Accountant-General	9 months after the end of the financial year
87(1) (4)	Annual Financial Statements of the CF, together with Accountant-General's explanatory report.	Accountant-General through the Minister	Auditor-General Published in the Gazette and Ministry of Finance' website	3 months after the end of the financial year
88(2)	Audit report on the Annual Financial Statements of the CF.	Auditor-General	Minister and Parliament Published in the Gazette and Auditor-General' website	12 months after the end of the financial year
89(1)	Annual Financial Statements of the central government	Accountant-General	Auditor-General	10 months after the end of the financial year
89(2)(3)	Annual Financial Statements of the central government together with audit report of the Auditor-General	Accountant-General	Minister	12 months after the end of the financial year
		Minister	Parliament Published in the Gazette and Ministry of Finance' website	On their submission by the Accountant-General
117	Financial Report of PEs	Vote controller of PE	Responsible authority and Minister	Every quarter
118 (2) (3)	Audited Report and Annual Financial Statements of PEs	Vote controller of PE	Responsible authority and Minister; Published in the Gazette and Ministry of Finance' website	6 months after the end of the financial year

6.2. Accounting

Accounting is the practice of recording, classifying and summarizing financial transactions. Public accounting assures compliance with budget rules and demonstrates that public money is being spent for its intended purpose.

Accounting standards shall follow such **internationally accepted accounting standards as specified by the Accountant-General in consultation with the institute of Chartered Accountants of Sierra Leone** (Section 83 of the PFM Act).

The Chart of Accounts provides a system for classifying and numbering transactions and events.

In accordance with Sections 84 and 85 of the PFM Act, the **Accountant-General, in consultation with the Auditor-General shall determine and publish in the Gazette and in the Ministry of Finance' website the Chart of Accounts of the central government, local government and social security funds.** The Chart of Accounts shall be **consistent with the budget classification system.**

6.3. Auditing

The Auditor-General is responsible to assure, through his independent audit functions, that the budget was executed in accordance with the law and the public services were delivered.

6.3.1. Powers of the Auditor-General (Sec. 90, 93, 94, 95 and 96 of the PFM Act)

When conducting audits the Auditor-General may:

- **Require any person** to provide him or any auditor appointed by him, information, evidences, books, records, returns and documents and to answer questions, either orally or in writing;
- **Enter and remain on any premises of a person** subject to his audit with full and free access to any documents, property and bank accounts of the person.

When auditing the accounts of the Consolidated Fund, the Auditor-General shall:

- **Draw the attention** of the appropriate authority to **any irregularity** disclosed during the examination;
- **Make queries and observations** addressed to the Accountant-General or any other person and call for accounts, vouchers, statements, documents and explanations.

The Auditor-General may also:

- **Disallow any item of expenditure** accounted for in the Consolidated Fund which is contrary to law;
- **Surcharge the amount of an illegal payment or the amount of any loss or deficiency in public money upon the responsible person,** specifying the appropriate vote controller, the amount due from the person and the reasons of the surcharge and report the circumstances to the Minister;
- **Direct the withholding of an officer' emoluments and allowances,** in case he fails or refuses to reply to an audit query or observation, for so long as the officer fails to reply;
- **Submit a special report to Parliament on matters that should not wait disclosure** in the annual report;
- **Inquire into and report on any matter relating to the financial affairs** of any public entity and any person or organization in receipt or soughing financial aid from the State.

Annual report to Parliament

The Auditor-General shall submit his **annual report to Parliament within 12 months of the end of the immediate preceding financial year.** In his report, the Auditor-General draws attention to irregularities in the accounts audited and to other matters to be brought to the notice of the Parliament, specially: **omission of public money receipt or collection; public monies not duly accounted for or paid into the Consolidated Fund or other funds; appropriation and use of public money against the law; unauthorised or not properly vouchered or certified expenditure; loss or**

deficiency of public money through fraud, default or mistake. The report shall be published in the Gazette and the website of the Auditor-General.
This report is referred by Parliament to the Public Accounts Committee that reviews it and publishes its own report.

7. OVERSIGHT OF SUB-SECTORS AND EXTRABUDGETARY ENTITIES

Part VIII of the PFM Act specifies the oversight powers of the Minister responsible for finance in relation to local government, sub-vented agencies, other entities in the central government, social security funds and public enterprises.

The following diagram shows the **oversight powers** of the Minister, **in relation to local government**, in consultation with the Minister responsible for local government:

Local government
Sec. 97 to 104 PFM Act

- Approval of borrowing.
- Prescribes ceilings; rules for fiscal deficit or stock of outstanding debt or both; budget preparation; submission of draft budget and budget execution; preparation of development plan; quarterly submission of budget execution report; and annual financial statements; other reports and information.
- Imposition of financial corrective actions.

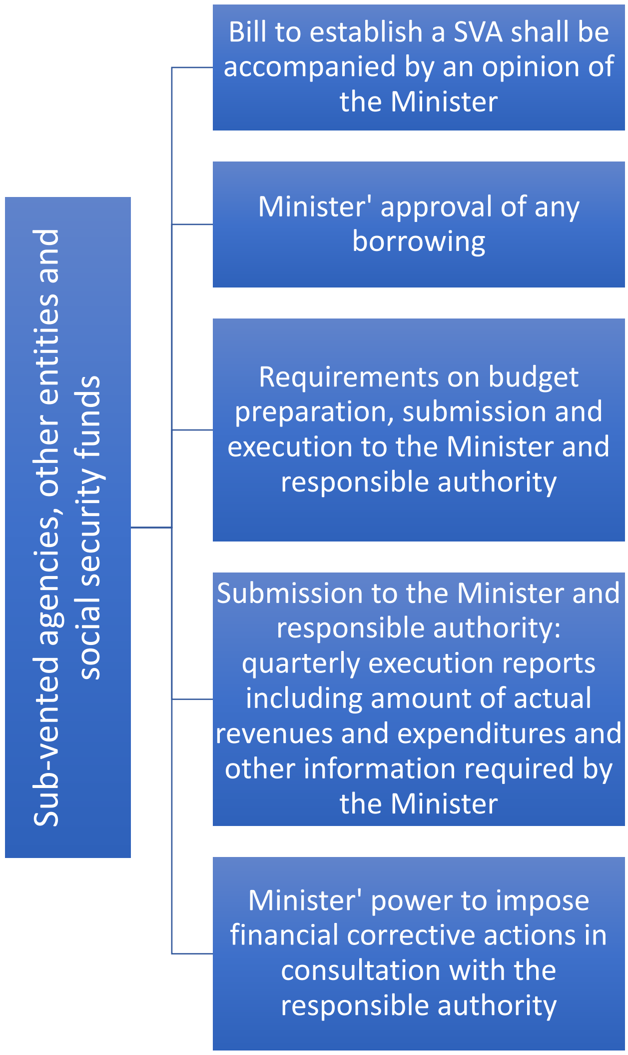
Chiefdom Councils
Sec. 105 PFM Act

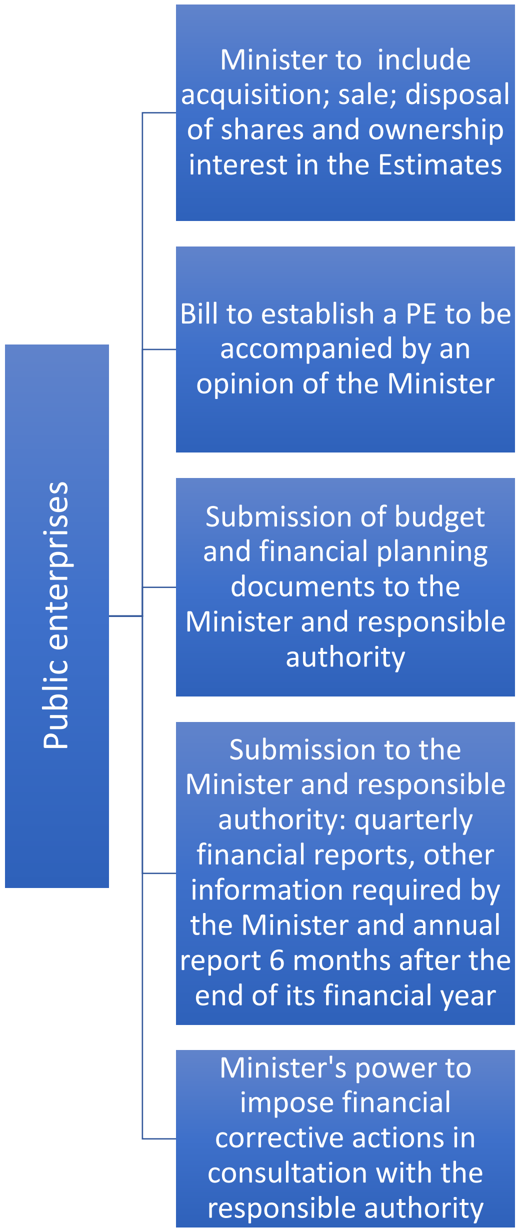
- Specifies submission of budget approved by relevant local council and in-year budget execution reports; any other reports and information.
- Prescribes ceilings; rules for fiscal deficit or stock of outstanding debt or both; submission of in-year budget execution reports; and annual financial statements; budget preparation and execution.

Other entities in local government
Sec. 106 PFM Act

- Prescribes ceilings; rules for fiscal deficit or stock of outstanding debt or both; budget preparation submission, approval, and execution; submission of financial satements and information.

The two diagrams below show the **oversight powers** of the Minister **in relation to sub-vented agencies, other entities in the central government, social security funds** (Sec. 107 to 113 of the PFM Act) **and public enterprises** (Sec. 114 to 119 of the PFM Act):





8. FINANCIAL CORRECTIVE ACTIONS, LIABILITY AND OFFENCES

The PFM Act specifies consequences of non-compliance with the PFM Act, including the imposition of financial corrective actions, restitution of public money and offences and penalties, as shown in the following table:

<table>
<tr><th>Non-compliance</th><th>Financial corrective actions</th></tr>
<tr><td>If a budgetary agency, its vote controller, other officer or employee fails to comply with any provision of the PFM Act, regulations, instructions or directives of the Minister or Accountant-General; fails to implement an action plan; made or is likely to make an expenditure significantly in excess of the available provisions; fails to submit or submits with significantly delay its budget proposal, financial statements or other required information. (Sec. 120 PFM Act)</td><td>Minister to:
- Lay before Parliament and publish in the Ministry's website the occurrence and action taken by the Minister;
- Require submission of an action plan to resolve underlying problems and pre-approval for execution of such items of expenditure as specified by the Minister;
- Suspend execution by the budgetary agency of the provisions and the power of its head to reallocate a provision;
- Require the head of the budgetary agency to dispose any financial or other asset under the responsibility of the budgetary agency.</td></tr>
<tr><td>If a local council contravenes ceilings and rules established under Section 97 or other provision of the PFM Act; fails to implement an action plan; fails to submit or submits with significantly delay its financial planning documents, budget, budget execution reports, financial statements or other required information. (Sec. 104 PFM Act)</td><td>Minister, in consultation with the Minister responsible for local government to:
- Require submission or resubmission of an action plan to resolve underlying problems;
- Require Minister' prior approval for key financial decisions as specified by the Minister;
- Reduce or suspend grants or transfers from the SB;
- Appoint for a specific period of time a financial administrator.</td></tr>
<tr><td>If a SVA, other entity in the central government or a SSF contravenes any provision of the PFM Act; fails to implement an action plan; the volte controller fails to submit or submits with significant delay, financial planning documents, budgets, budget execution reports, financial statements or other information. (Sec. 113 PFM Act)</td><td>Minister, in consultation with the relevant responsible authority to:
- Require submission or resubmission of an action plan to resolve underlying problems;
- Require Minister' prior approval for key financial decisions as specified by the Minister;
- Reduce or suspend grants or transfers from the SB;
- Appoint for a specific period of time a financial administrator.</td></tr>
<tr><td>If, in relation to a PE there is a risk that the actual financial outcomes deviate significantly from the financial targets; the PE or its vote controller contravenes any provision of the PFM Act; fails to implement an action plan; causes or is likely to cause a material deterioration in the financial condition; fails to submit or submits with significant delay, its budget, financial planning documents, quarterly financial report, annual report or other information. (Sec. 119 PFM Act)</td><td>Minister, in consultation with the responsible authority to:
- Require submission or resubmission of an action plan to resolve underlying problems;
- Recommend the responsible authority to do whatever necessary to correct underlying problems, including removal of members of the vote controller;
- Require prior approval of any borrowing and for key financial decisions as specified by the Minister (if PE is a body corporate established by a specific enactment);
- Reduce or suspend grants or transfers from the SB.</td></tr>
<tr><th>Liability</th><th>Action</th></tr>
<tr><td>Person who receives public money and does not pay it over, does not account for it or does not apply it to the right purpose. (Sec. 121 PFM Act)</td><td>- Accountant-General's written notice to be served on such person or his representative requiring him to pay over; account for or apply such monies and transmit evidence to the Accountant-General;
If fails:
- Accountant-General causes an account between the person and the State and charges interests. Takes legal action to recover public money.</td></tr>
<tr><th>Offences (Sec. 122 PFM Act)</th><th>Penalty</th></tr>
<tr><td>Vote controller of BA (willfully or gross negligence) does not perform his functions under Sec. 13 (1).</td><td rowspan="3">Fine not exceeding an amount equal to two times his annual remuneration</td></tr>
<tr><td>Any person (willfully or gross negligence) causes the vote controller of an entity to fail to discharge his responsibilities under Sec. 15.</td></tr>
<tr><td>Any person who fails to produce or submit required information; causes (willfully or gross negligence) an illegal payment or loss or deficiency of public money; resits or obstructs any person acting in the discharge of responsibilities.</td></tr>
</table>

APPENDIX

TREASURY SINGLE ACCOUNT

FREQUENTLY ASKED QUESTIONS

What is the Treasury Single Account?

The Treasury Single Account is a system of unified and linked accounts through which the Government receives all revenues and transacts all payments.

At the moment, the Government bank account structure includes multiple but unlinked bank accounts that are scattered at the Bank of Sierra Leone and the commercial banks. There are close to 2000 accounts. These accounts are not linked and not consolidated. The balances in these many bank accounts are not swept at the end of each business day to be managed as part of the aggregate TSA balance.

There is also no hierarchical or pyramid type structure of the account system. A pyramid structure is one where the TSA is at the top (TSA Master Account) with many sub or subsidiary or lower level transaction accounts. The TSA can take any of the following forms:

- The TSA and all transaction accounts should be held at the Bank of Sierra Leone;
- The TSA and the transaction accounts should be held at the commercial banks; or
- The TSA and the major transaction accounts should be held at the Bank of Sierra Leone and most transaction accounts should be held at commercial banks, with the TSA and transactions accounts being linked electronically.

Why only now is Government coming with the Treasury Single Account?

1. The successful implementation of the TSA requires a robust and functional IT system such as IFMIS that is able to interface between the Accountant-General's Department and the Bank of Sierra Leone. Now we have rolled out IFMIS.
2. The Bank of Sierra Leone now has an IT infrastructure that can support the TSA; the T24 Core Banking Application.
3. There is now a software developed by INLAKS that facilitates data exchanges between the commercial banks and the Accountant-General's Department.

So, the bottom line is that technology is now available.

But more importantly, we have come to realize that Government is borrowing its own money sitting in commercial banks. This is because the idle balances in the accounts of public entities, whether revenue or expenditure accounts are not part of the Consolidated Fund at the Bank of Sierra Leone. So, when Government revenues recorded at the Bank of Sierra Leone are less than the expenditures, Government would have to borrow from the Bank of Sierra Leone through Ways and Means or from the commercial banks through the sale of Government securities (treasury bills and bonds).

If all the accounts of Government are consolidated and linked, the cash position of Government will improve and the need for Ways and Means will reduce.

IS the TSA an IMF recommendation?

The introduction of the TSA is a key component of the Public Financial Management reforms, Government is implementing. Given its importance and to ensure that Government implements the TSA, the IMF included it as part of the structural benchmarks under the ECF programme. But it is initially a Government led initiative.

Why is the TSA important to Government and the Economy?

- The TSA would help the MoF to have an aggregate reporting and control of Government cash resources;
- It would significantly reduce Government’s borrowing requirements and transactions costs;
- It would also enhance the Government’s budget credibility and availability of resources.

What is the Treasury Account at the Bank of Sierra Leone?

The Treasury Account at the Bank of Sierra Leone receive revenues collected by the NRA and other entities collecting revenue.

All domestically funded Government expenditures are made from this account. It consists of the following expenditure accounts: (i) salaries; (ii) other charges; (iii) salaries advance account; (iv) pensions; (v) external debt; and (vi) domestic debt service payments. Proceeds of domestic borrowing also go into the Treasury Account.

What are the differences between the TSA and the Treasury Accounts?

- Treasury accounts are not arranged in a hierarchical manner;
- Treasury accounts exclude the departmental accounts at the Bank of Sierra Leone, which also have cash balances. The departmental accounts include agencies’ *imprest* accounts and agencies project accounts including sub-vented agencies.
- Treasury accounts exclude Government agencies accounts at the commercial banks;
- It also excludes project accounts at the commercial banks and at the Bank of Sierra Leone.

In the case of the Treasury Single Account, all these accounts will be linked, and balances consolidated to arrive at the aggregate cash position of Government.