



**PERFORMANCE AUDIT REPORT
ON THE MANAGEMENT OF
PUBLIC DEBT BY THE
MINISTRY OF FINANCE**

JULY 2022

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MESSAGE FROM THE ACTING AUDITOR-GENERAL

In submitting this Performance Audit Report for tabling in Parliament, we refer to Section 119 of the Constitution which clearly indicates the role of the Audit Service Sierra Leone (ASSL) as follows: “To audit and report on all public accounts of Sierra Leone and public offices including the Judiciary, the central and local government institutions, the University of Sierra Leone and other public sector institutions of like nature, all statutory corporations, companies and other bodies and organisations established by an Act of Parliament or statutory instrument or otherwise set up wholly or in part out of public funds.”

Section 11 (2c) of the Audit Service Act of 2014 gives the mandate to the Audit Service to carry out value-for-money and other audits, to ensure that efficiency and effectiveness are achieved in the use of public funds.

Section 65 (6) of the Public Financial Management Act of 2016 states: "Nothing in this section shall prevent the Auditor-General from submitting a special report for tabling in Parliament on matters that should not await disclosure in the annual report."

In line with our mandates as described above, we have the pleasure and honour to submit a detailed performance audit report relating to the Management of Public Debt by the Ministry of Finance.



Abdul Aziz

ACTING AUDITOR-GENERAL

ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
AGD	Accountant General's Department
ASREP	Agricultural Sector Rehabilitation Project
ASSL	Audit Service Sierra Leone
BSL	Bank of Sierra Leone
CAS	Country Assistance Strategies
CP	Conditions Precedent
CPPR	Country Programme Portfolio Review
DeM	Debt Management
DLIs	Disbursement Linked Indicators
DMO	Debt Management Office
DOD	Disbursed Outstanding Debt
DSA	Development Sustainability Analysis
EAD	Economic Affairs Division
ECF	Extended Credit Facility
FMD	Financial Management Department
FY	Financial Year
GDP	Gross Domestic Payment
IDA	International Development Association
IDB	Islamic Development Bank
IMF	International Monetary Fund
LTA	Local Technical Assistant
MAFFS	Ministry of Agriculture, Forestry and Food Security
MDA	Ministries, Department and Agencies
MoF	Ministry of Finance
MPD	Multilateral Project Division
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
NaMED	National Monitoring and Evaluation Department
PCU	Project Coordinating Unit
PDD	Public Debt Department
PDM	Public Debt Management
PDMD	Public Debt Management Division
PEP	Politically Exposed Persons
PFM	Public Financial Management
PIU	Project Implementation Units
PRSP	Poverty Reduction Strategy Paper

PSRU	Public Sector Reform Unit
SAI	Supreme Audit Institution
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SLCB	Sierra Leone Commercial Bank
SLL	Sierra Leone <i>Leone</i>
SOEs	State - Owned Enterprises
WB	The World Bank

GLOSSARY OF TERMS

Terms	Meaning
Arrears	“Expenditure arrears” means payables which have remained unpaid – (a) for 30 days or more after the due date specified under the relevant contract or agreement; or (b) if there is no specific due date; for 90 days or more after the date of the relevant invoice or satisfaction of the terms of the relevant contract.
Arrears Clearance Strategy and Principles, 2020-2025	Outline the approach government will take to clear the verified stock of arrears. It outlines the commitment of the Government to the principles of fiscal consolidation, fiscal discipline, economic growth and financial stability.
Borrowing Plan	A schedule of anticipated debt contraction over the further coming fiscal year indicates the size, type, and repayment term of the anticipated debt.
Roll- over	These are payment within the system at the end of the financial year, for which payments are expected to be made before January to March.
Domestic Debt	Domestic debt, otherwise known as national debt, consists of liabilities that a country's citizens and government owe. For example, domestic debt includes treasury notes, bonds and bills.
Disclaimer Form	The Disclaimer Form was approved in 2002 by the Law Officers Department, Attorney General, and Ministry of Justice and will be used to legalise the arrears clearance process. When signed off and sealed by all the suppliers or contractors, it disclaims any future liability on the Government, upon full receipt of the discounted amount and the payment of their debts.
Ineligible Expenditures	Are expenditures made out of the loans that were not in accordance with the agreement or the applicable laws and regulations governing the use of loans.
Ratification by Parliament	All agreements that concern national legislative matters are subject to parliamentary approval. Approval might be granted through an absolute majority in Parliament.

Terms	Meaning
	The State might not engage in any international agreement that involves the expenditure of public funds, unless Parliament approves the conditions of the agreement.
Sustainable_Public Debt	A country's public debt is considered sustainable if the Government is able to meet all its current and future payment obligations without exceptional financial assistance or going into default.

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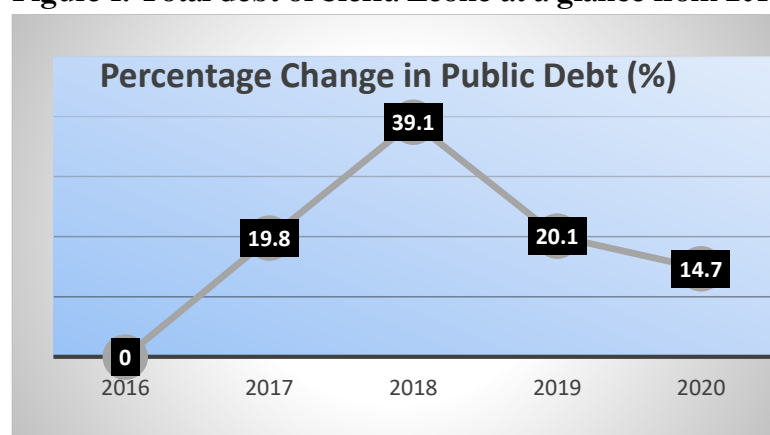
EXECUTIVE SUMMARY

The management of public debt is an important framework used to improve economic growth and development of a country for both current and future generations. Many poor countries in the 1980s secured loans to invest in their economy to propel growth but they did not materialise for one reason or the other.

The Ministry of Finance (MOF) is charged with the responsibility to manage public debt in Sierra Leone and to ensure that debts are maintained at a sustainable threshold

Even though government aims to maintain public debt at a sustainable threshold of not more than 70% in nominal terms and 55% in present value terms, while external debt will not exceed 40% of GDP in present-value terms. The total public debt stock of Sierra Leone at the end of December 2020 amounted to Le30.71 trillion, of which external and domestic debts accounted for Le20.05 trillion and Le10.66 trillion, respectively. The public debt stock increased by 14.69%, relative to its end of December 2019 position as shown in the diagram below.

Figure 1: Total debt of Sierra Leone at a glance from 2016 - 2020



Source: Ministry of Finance, Public Debt Bulletin 2018, 2019 and 2020

In 2020, total public debt was projected at 79.4% of GDP (up from 71 percent of GDP in 2019), largely reflecting the larger fiscal deficit. As of the last Development Sustainability Analysis (DSA) in June 2020, both external and overall risk of debt distress remains “high”.¹

According to the World Bank, Sierra Leone faces risks and challenges, as the main domestic macroeconomic risks are continued high public debt and domestic payment of arrears, slower than expected revenues, and rapid growth in monetary aggregates, including the associated inflationary risks and financial sector weaknesses.²

In light of the above and in compliance with the Auditor-General’s mandate, as detailed in section 119 (2) of the 1991 Constitution of Sierra Leone, the Audit Service Sierra Leone (ASSL) conducts a performance

¹United Nations Sierra Leone Common Country Analysis 2020 Update

² World Bank in Sierra Leone Last Update 27 Oct 2021

audit on the Management of Public Debt. The objective of the audit was to assess the effectiveness of the measures put in place by the Ministry of Finance (MoF) to achieve sustainable public debt.

The audit focused on the Public Debt Management Activities relating to the Legal Framework; Debt Management Strategy; Debt Monitoring Reporting and Evaluation by the Public Debt Management Division (PDMD) within the Ministry of Finance, covering the period 1st January 2018 to 31st December 2021. In order to achieve our objective, we sought answers to the following questions:

- To what extent has the MoF (PDMD) ensure compliance with the legal framework governing public debts?
- Were the debt management strategies implemented as planned?
- Was there a framework for monitoring, evaluating and reporting for an effective implementation of public debts?
- Were loans acquired utilised in accordance with agreed terms and conditions of donor partners/creditors?

What we found out

i. Legal Framework Governing Public Debt

Annual Borrowing Plan

The Public Debt Management Division did not prepare borrowing plan for the period 2018-2021 which should have been used to guide the liquidity, investment decisions and monitor the debt situation. This is to ensure that it remains a sustainable strategy; implementation of the budget, taking into account any specific market characteristics or creditor behaviour, and the underlying volatility in government cash flows. Section 24 (b) of the Public Debt Management Act of 2011 emphasises the preparation of an annual borrowing plan.

Public Debt Regulation and Procedural Manual

According to section 2.1 of the IMF and the World Bank guidelines on the Public Debt Management, it is not explicitly stated that there should be a procedural manual. However, for departments to function effectively there should be clarity of roles, responsibilities and objectives of government institutions responsible for debt management as enshrined in the manual. Section 3.2a outlines the management of internal operations and legal documentation.

The importance of the Public Debt Regulation and the Procedural Manual is to minimise the operational risks for sound business practices, including well-articulated responsibilities for staff, clear monitoring and control policies and reporting arrangements.

We noted that there is a procedural manual drafted in 2011, and has not been finalised to date. It also came out clearly during our request for documents that there is no public debt regulation to simplify the implementation of the Act.

Debt Management Strategy

Arrears Clearance Strategy

The Arrears Clearance Strategy and Principles of 2020-2025 outlines the approach government should take to clear the verified stock of arrears. Point 8 requires: “All-new accumulation of domestic arrears should be cleared in the first quarter of the subsequent year.” A review of the minutes of the committee on arrears revealed the following:

- The contractors and suppliers refused to accept the 30% discount on the accrued amount of arrears that are above 1 billion Leones.
- Contractors/suppliers were not consulted during the preparation of the strategy, to sound their opinion relating to the options in the strategy.
- Further review of a minutes dated 11th December 2022, of the Arrears Clearance Negotiation Committee revealed that, during the preparation of the strategy, the committee did not envisage that the contractors/suppliers will not accept the discount on their arrears.

It came out clearly that the guiding principles on the arrears clearance were not followed, as negotiations were not done with these contractors to reach an agreement before preparing the strategy. The strategies were therefore prepared based on assumptions.

Monitoring Evaluation and Reporting

Monitoring

Section 24 (t) of the Public Debt Management Act of 2011 states: “The Public Debt Management Division is responsible to monitor the disbursements of loans raised by the Government and followed agreed disbursement schedules.”

From the review of the report on monitoring of loans and grant-funded projects nationwide titled; “Country Programme Portfolio Review Documents (CPPR)”, done by the donors and in collaboration with the National Monitoring Evaluation Department (NaMED) revealed delays in the implementation of the project due to lack of proper monitoring by the responsible ministries and other stakeholders.

We noted from the report that the delays in the project implementation were as a result of the following:

- Lack of proper system in the procurement process
- Inadequate strategies in place by Project Implementation Units (PIUs) to speed up reviews of proposals
- Lack of coordination between the PIU staff and the Ministries, Department and Agencies (MDAs) staff to foster the smooth implementation of projects/ programmes.
- Lack of effective monitoring of project loans by the central government.

The failure to monitor the implementation of these projects has led to the non-achievement of the set goals and objectives for which these loans were acquired as per the CPPR report, which clearly shows that some of these project should have been completed long ago.

Evaluation

A review of the domestic arrears database maintained in excel spreadsheet disclosed that the database submitted was not fully maintained to provide complete public debt management information in accordance with the regulation stated above and data transparency.

From the review of 265 samples of payment vouchers on the payment of Public Debt, we noted that 34 payment vouchers for domestic arrears which totalled Le64,027,894,366 were made to suppliers without verification reports or minutes from the PDMD.

We observed that allocations and grants for MDAs which were not paid during the previous year are committed and paid as domestic arrears. These allocations and grants are not tied to any specific contract or invoice, but should be used as their operational running cost such as imprest.

Reporting

No formal public debt reports were sent to Parliament by the Ministry of Finance as stated in section 21 (1) of the Public Debt Management Act requiring a report to Parliament on debt issues not later than three months after the end of the financial year. In an interview with the Director of Public Debt, it revealed that they were unable to meet the mandated reporting date of 31st March for the submission of these reports as public debt figures should be properly confirmed by the International Monetary Fund (IMF) before reported and published. The IMF always comes in after the reporting deadline. The non-submission of the report to Parliament has limited their knowledge on the debt status, ongoing debt projects, and their current status for monitoring.

ii. General Observation

Refund of Ineligible Expenditure

From a review of ineligible expenditure vouchers and supporting documents, it was disclosed that, the Government of Sierra Leone made three payments of ineligible expenditures to multilateral donor partners for a total of US\$2,173,767.62 and Le358,311,317.90, as a result of un-utilisation of funds, mismanagement, or non-compliance with the financial and contractual procedures in the signed loan implementation agreement. It was disclosed that there were key indicators or deliverables that were not achieved during the implementation of the loans as shown in Appendix 4.

There was no formal investigation by the implementation unit to confirm the reasons for the claims and it has not been their practice to report ineligible expenditure to the Minister of Finance or the Public Accounts Committee of Parliament.

Payment of ineligible expenditure has resulted in a loss/reduction of government funds available for the implementation of other government projects or programmes for service delivery that should have benefited the lives of citizens. This has also reduced the confidence of donor partners in the disbursement of funds for the implementation of projects.

OVERALL CONCLUSION

The overall conclusion of this audit is that, the measures put in place by the Ministry of Finance (MoF) to manage public debt has not been effective. During the audit, it came out clearly that the principle of participation, transparency and accountability is lacking. The MoF which is responsible for debt management has not been able to ensure that:

- i. develop an annual borrowing plans;
- ii. develop Medium Term strategic and ensure that due diligence consider going forward to achieve the arrears clearance strategy and principles;
- iii. effective in monitoring, reporting and evaluating public debt activities.

The following are specific conclusions on the gaps identified in the management of public debt that have resulted in the refund of ineligible debt, overpayment to suppliers, and failure to submit debt reports to Parliament.

Legal Framework

Though there are clear legal requirements that the Ministry should follow in the management of public debts, it clearly showed that PDMD did not comply with these requirements which have a direct effect on the overall sustainability of public debts. The Ministry does not seem to comply with the preparation of annual borrowing plan which is an effective tool in public debt management. This indicates non-compliance with the provisions in the sections stated above.

Debt Management Strategy

In general, the PDM strategy was not successful during the period under review as highlighted above; the Ministry was not consistently preparing the medium term debt management strategy annually, on a three-year rolling basis. Even the arrears clearance strategy that was developed could not achieve its objective of suppliers/contractors, disclaiming any future liability on the Government upon full receipt of the discounted amount.

Debt Monitoring Reporting and Evaluation

The Ministry is responsible to submit public debt report to Parliament not later than three months after the end of the financial year; however, this has not been done. This is evident in our findings as there are no formal public debt reports sent to Parliament by the Ministry except for the public debt annex included in the budget and the bulletin produced on an annual basis. As such, Parliament might not be aware of the debt status, borrowing limit, ongoing debt projects, and their current status for oversight.

Ineligible Expenditure

The un-utilisation of funds, mismanagement, or non-compliance with the financial and contractual procedures in the signed loan implementation agreement has resulted in ineligible expenditures payments and refunds by the Government to multilateral donors. We noted that due diligence was not followed before the repayment of these loans according to section 274 of the Financial Management Regulations of 2018, which explicitly outlines the steps to be followed before making payment of ineligible expenditure.

The consequence of the above problems has significantly affected the management of public debt. In order to alleviate such problems, the public debt division should therefore collaborate with stakeholders to address the issues raised in this report by ensuring that laid down regulations and policies are effectively followed.

OVERALL RECOMMENDATION

The Ministry of Finance should address the above stated issues and implement the undermentioned recommendations relating to the cause of these issues as follows:

- The Financial Secretary should collaborate with the Minister to ensure that all external loan agreements are taken to Parliament for approval before they are signed by the Government or the creditors in accordance with section 10 of the Public Debt Management Act of 2011.
- The Director of Public Debt should ensure that borrowing plans are prepared in line with the medium-term Debt Management Strategy, implementation of the budget; taking into account any specific market characteristics or creditor behaviour, and the underlying volatility in government cash flows.
- The Arrears Clearance Committee should continue to engage the contractors/suppliers for a thorough revision of the strategy, and prepare action points on how to implement subsequent arrears.
- We recommend that the Director of Public Debt ensure that the division takes full responsibility to monitor the implementations of projects relating to public debt.
- The Director of Public Debt in collaboration with the Deputy Financial Secretary and the Head of Multilateral Donor Projects ensure effective monitoring and supervision of the IPU project to enhance the utilisation of funds according to the signed financial agreement and the implementation manual, to avoid the payment of ineligible expenditure.

1 INTRODUCTION

1.1 Background

The management of public debt is an important framework used to improve economic growth and development of a country for both current and future generations. Many poor countries in the 1980s secured loans to invest in their economy to propel growth but they did not materialise for one reason or the other.

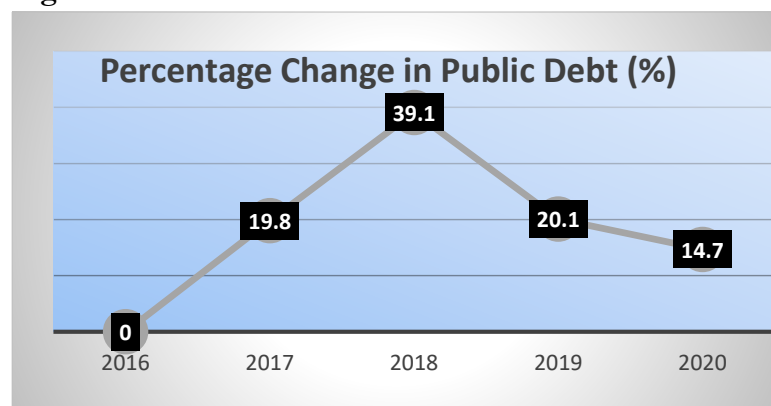
Public Debt Management is defined as “the process of establishing and executing a strategy for managing the Government’s debt to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. It should also meet any other public debt management goals the Government may have set, such as developing and maintaining an efficient market for government securities.”³

Goal 17.4 of the Sustainable Development Goals (SDGs) encourages partnership among nations and institutions to assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief, and debt restructuring, as appropriate and addressing the external debt of highly indebted poor countries to reduce debt distress.⁴

This was further translated in the Government of Sierra Leone’s Medium-Term National Development Plan 2019–2023, where the Government aims to maintain public debt at a sustainable threshold of not more than 70% in nominal terms and 55% in present value terms, while external debt will not exceed 40% of GDP in present-value terms.

According to the Public Debt Bulletin 2020, the total public debt stock of Sierra Leone at the end of December 2020 amounted to Le30.71 trillion, of which external and domestic debts accounted for Le20.05 trillion and Le10.66 trillion, respectively. The public debt stock increased by 14.69%, relative to its end of December 2019 position as shown in figure 1 below.

Figure 1: Total debt of Sierra Leone from 2016 - 2020



Source: Ministry of Finance, Public Debt Bulletin 2018, 2019 and 2020

³ World Bank and IMF Guidelines for Public Debt Management of 2001, revised in 2014

⁴ <https://indicator.report/goals/goal17>

Public Debt Management Activities are charged within the Ministry of Finance (MOF) with a directorate that is responsible to manage public debt in Sierra Leone and to ensure that debts are maintained at a sustainable threshold.

1.2 Motivation of the Audit

Total public debt was projected at 79.4% of GDP in 2020 (up from 71% of GDP in 2019), largely reflecting the larger fiscal deficit. As of the last Development Sustainability Analysis (DSA) in June 2020, both external and overall risk of debt distress remains “high”.⁵

According to the World Bank, Sierra Leone faces risks and challenges, as the main domestic macroeconomic risks are continued high public debt and domestic payment of arrears, slower than expected revenues, and rapid growth in monetary aggregates, including the associated inflationary risks and financial sector weaknesses.⁶ A publication done by the African Development Bank (ADB) in 2021, disclosed that Sierra Leone’s debt is classified as being at high risk of debt distress, largely due to heightened solvency and liquidity risks arising from the COVID–19 pandemic.

According to the Sierra Leone Government Budget and Statement of Economic and Financial Policies for FY 2020, it was stated that the debt situation in the country was compounded by the huge stock of arrears owed to domestic suppliers and contractors. These were accumulated primarily during 2016 and 2017. The payment of these arrears, together with the high debt service payments on domestic debt, which were also accumulated during the past 10 years, have constrained the fiscal space for spending on the productive sectors and infrastructure. This has undermined the public sectors’ capacity to create jobs.

The Sierra Leone Government Budget and Statement of Economic and Financial Policies for the financial year 2019 states: “The situation was compounded by the inability of the government to take corrective measures, which led to the derailment of the Extended Credit Facility (ECF) programme with the International Monetary Fund (IMF). Consequently, most development partners withheld budget support to Sierra Leone from 2017 to date. These developments culminated in a sharp increase in domestic debt and related high debt service payments as well as the build-up of huge arrears owed to suppliers and contractors. The exposure of these suppliers and contractors to overdraft and loan facilities from the commercial banks as well as loans to Politically Exposed Persons (PEP), contributed to the rise of non-performing loans in the domestic banking system.”

There have also been series of publications, radio discussions by civil society organisations, parliamentarians; and documentation on the increase in Public Debt in Sierra Leone.

The Audit Service Sierra Leone during the Audit of the Public Accounts noted irregularities in the confirmation of public debt figures by the creditors against that which is published in the General Purpose Financial Statement account. In 2018, a special audit on Domestic Arrears revealed the following:

⁵**United Nations** Sierra Leone Common Country Analysis 2020 Update

⁶ World Bank in Sierra Leone Last Update 27 Oct 2021

- i. Poor record keeping of accountable documents
- ii. Procurement processes not followed for contracts awarded to predetermined contractors
- iii. Arrears were overstated
- iv. Arrears were duplicated

Therefore, it is against this background that the Audit Service Sierra Leone (ASSL) decided to conduct a performance audit on the Management of Public Debt in Sierra Leone for the period of 2018-2021.

2 AUDIT DESIGN

2.1 Audit Objective

The objective of the audit was to assess the effectiveness of the measures put in place by the Ministry of Finance (MoF) to achieve sustainable public debt.

2.2 Audit Scope

The audit focused on Public Debt Management activities relating to the Legal Framework; Debt Management Strategy; Debt Monitoring, Reporting and Evaluation and the refund of ineligible expenditure by the Public Debt Management Division (PDMD) within the MoF from 1st January 2018 to 31st December, 2021. The audit did not cover treasury bill/ bond based on the scope of the audit.

2.3 Audit Questions

- To what extent has the PDMD ensured compliance with the legal framework governing public debts?
- Were the debt management strategies implemented as planned?
- Was there a framework for monitoring, evaluating and reporting for an effective implementation of public debts?
- Were acquired loans utilised in accordance with agreed terms and conditions of the donor partners/creditors?

2.4 Methods of Data Collection

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 3000) which were issued by the International Organisation of Supreme Audit Institutions (INTOSAI). Those standards require that the audit is planned and performed to obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions, based on the audit objective.

During this engagement, we collected data through interviews of key personnel of the MoF, and other stakeholders in the public debt management process. We also obtained from the Ministry and other stakeholders documents and electronic database relating to public debts. We reviewed and analysed the documents and statistical data available to the team during the audit.

Interviews

We interviewed stakeholders that were involved in the management and implementation of public debt in order to get a thorough understanding of their roles and responsibilities in the management of public debt (See Appendix 1 for the list of stakeholders that we interviewed).

Document Review

We reviewed the relevant policies, laws and regulations to assess the degree of the procedures and processes. We further reviewed loan agreements, reports and other project documents to adequately understand the responsibilities of each party involved in the management of public debt. (See Appendix 2 for the list of documents we reviewed)

2.5 Sample Selection

In order to capture a sample for our audit that is representative of the total public debts acquired by the government, we used various sampling methods including purposive and monetary unit sampling methods. A purposive method based on judgement and the objective of the study which consider the materiality (by value and nature), creditors or MDA and the refunds of ineligible expenditure. From the database provided by the Director of Public Debt Management Division, we sampled 265 domestic arrears out of the 926. This sample was selected taking into consideration the monetary value and the nature of the domestic arrears. We reviewed 43.3% of the value of the total domestic arrears which is also 28% of the number of domestic arrear transactions (265). We further reviewed all the 20 external debts which represents 100% of the external debts acquired for the period under review. Details of the sample are shown in tables 2.

Table 2: Sampled domestic debt December 2020-December 2021

Year	Total Domestic Arrears (Le)	Number of Transactions Selected (Sample)	Monetary Value of Sample Selected (Le)	% of Sample
2020	416,670,556,030	189	219,514,670,603	52.68
2021	393,032,055,619	76	131,269,850,693	33.4
Total	809,702,611,649	265	350,784,521,296	28.60

Note: Information relating to 2018 and 2019 for domestic debts were not submitted.

2.6 Source of Assessment Criteria

The criteria used to assess the measures that the MoF has put in place were obtained from the relevant Acts, regulations and policies as mentioned in Appendix 3.

3 DESCRIPTION OF THE AUDIT AREA

This section gives an overview of the Public Debts in Sierra Leone such as legislation, organisation of public entities, funding arrangements, budgets, roles and objectives of public undertakings and other stakeholders.

3.1 Regulatory Framework

The statutory instruments that regulate the activities relating to the Public Debt Management are as follows:

The Constitution of Sierra Leone

Section 118 (4a) of the 1991 Constitution of Sierra Leone states: “An act of Parliament enacted in accordance with sub section 3 shall provide that the terms and conditions of a loan shall be laid before parliament and shall not come into operation unless it has been approved by a resolution of parliament.”

The Public Financial Management Act, 2016

Sections 133-139 of the Public Financial Management Act of 2016 states: “The Minister shall, in accordance with this Act and any other enactment, coordinate the management of external grants and loans made to the State; monitor and manage fiscal risks and prepare fiscal risk statements; monitor and exercise control over the financial management of entities included in the general government and public enterprises. This law confers authority on the Minister responsible for finance to discharge his responsibilities, may require any information from any budgetary agencies, other entities included in the general government, public enterprises, and any other persons receiving from the State grants, guarantees, or loans.”

The Bank of Sierra Leone Act, 2000 (Act No. 3 of 2000)

This Act empowers the central bank to act as a banker of the Government and its MDAs. Payment of public debt is made through the central bank and loan obtained from creditors and received through the central bank.

The Public Debt Management Act, 2011

The Public Debt Management Act of 2011 provides a comprehensive framework for the management of public debt in Sierra Leone. The Act is divided into 10 parts and addresses issues such as authorisation and borrowing purposes; debt management objectives and strategy; procedures for borrowing and other debt management operations; borrowing by local councils and public enterprises; and the establishment of a Public Debt Management Division.

3.2 Functions and Structure of the Public Debt Management Division

The Public Debt Management Division (PDMD) located at the Ministry of Finance was established under the Public Debt Management Act of 2010 and has the primary responsibility to lead the process of managing and coordinating public debt in Sierra Leone. Its specific functions are as follows:

- i. Participates in the mobilisation of external loans
- ii. Evaluates loan conditions and facilitate decision making on loan choices

- iii. Loan negotiations and participation in the preparation of loan agreements
- iv. Monitors credit effectiveness and ensure disbursements are carried out promptly.
- v. Prepares repayments forecasts and updates
- vi. Records disbursements
- vii. Prepares updates on interest and principal payments forecasts
- viii. Ensures timely payments to creditors
- ix. Advises on on-lending and guaranteed loans
- x. Assesses risks associated with on-lending and guaranteed loans
- xi. Maintains public debt data through appropriate debt management system(s)
- xii. Prepares monthly, quarterly and annual debt management reports
- xiii. Prepares and publishes auction calendars
- xiv. Participates and makes decisions on auction outcomes
- xv. Prepares liquidation plans for supplier's arrears

Public Debt Authorisation Process

The Public Debt Management Act of 2011 (Act No. 2 of 2011) provides the following:

- Before any loan becomes effective, the terms and conditions of the loan must be laid before Cabinet and later Parliament for approval.
- Money received in respect of a loan/government security should be paid into the Consolidated Fund or some other public fund of Sierra Leone existing or created specifically for that purpose.
- The authority to contract debt, issue guarantees and government securities for and on behalf of the Government is vested solely in the Minister responsible for finance or any other person(s) designated by the Minister. Public enterprise⁷ and local council may borrow funds only within Sierra Leone and up to such limit as may be determined by the Minister responsible for finance. Borrowing beyond such a limit requires the prior approval of the Minister responsible for finance.

Public Debt Borrowing Purposes

The Public Debt Management Act of 2011 further provides the following:

- Loans might be raised upon such terms and conditions as to interest, repayment, or otherwise as could be negotiated by the Minister but, mainly for the following purposes:
 - i. Financing government budget deficits;
 - ii. Maintaining a credit balance on the treasury main account at a level determined by the Minister;
 - iii. Providing such government loans or credits to local councils, public enterprises, and any other entity as approved by Parliament
 - iv. Honouring obligations under outstanding government guarantees
 - v. Refinance outstanding debt or repay a loan before its date of repayment
 - vi. Protecting, mitigating, or eliminating effects caused by natural or environmental disasters or any other national emergency
 - vii. Replenishing the international reserves

⁷ Public Enterprise as defined in the Public Debt Management Act, 2011

- viii. Meeting requests by the Bank of Sierra Leone to issue government securities for the sole purpose of supporting monetary policy objectives; and
- ix. Any other purpose as Parliament may by resolution approve

The Framework of the Public Debt Management Division (PDMD)

The Public Debt Management Division (PDMD) is divided into the following:

Front Office- This office mobilises external and domestic resources for the Government within the applicable legal and policy frameworks. This involves contracting loans, issuing guarantees, and government securities.

Middle Office – This office undertakes analytical functions that would enable the Government to meet its financing needs and its debt service obligation at an efficient trade-off of risk and cost.

Back Office – This office maintains accurate, timely, and consistent public debt data.

3.3 Roles and Responsibilities of Key Players

Other departments and agencies also provide a supportive role in ensuring the smooth and transparent management of public debt such as Parliament, Ministry of Finance, Accountant General's Department, Bank of Sierra Leone (BSL), Attorney General's Office, and other line ministries. Each of these departments and supporting agencies have specific roles to play to have effective debt management systems as stated below:

Parliament

- i. Enacts legislation on public debt
- ii. Ratifies terms and conditions of all loan agreements before effectiveness

Ministry of Finance

- i. Signs all external loan agreements on behalf of the Government
- ii. Supervises the finances to provide/ intending to provide full account thereof to Parliament
- iii. Spearheads negotiation and renegotiations of terms and conditions of external loans and credit
- iv. Appraises all loans to be acquired by State corporations or private entities for which a Government guarantee is required
- v. Integrates debt variables into broad macroeconomic and financial aggregates
- vi. Prepares and submits annual debt strategy and report to Cabinet for information and approval
- vii. Presents borrowing requirements to Cabinet and Parliament for approval when necessary in accordance with the Public Debt Management Act of 2011
- viii. Spearheads the conduct of debt sustainability and strategy analysis
- ix. Monitors loan disbursements
- x. Submits annual reports on debt management activities to Parliament
- xi. Prepares medium-term debt management strategy

Accountant General's Department

- i. Manages Government's liquidity
- ii. Reports on loan disbursements

- iii. Obtains details on all financial assets of the Government to compute the country's net debt position
- iv. Processes debt service payments

Bank of Sierra Leone

- i. Settles debt service payments on behalf of the Government
- ii. Maintains secured and efficient payment and settlement system
- iii. Participates in the development of the financial market (money and capital market)
- iv. Provides advice on debt management
- v. Participates in debt sustainability and strategy analysis
- vi. Monitors and advises Government's sovereign risks (financial assets and liabilities)
- vii. Maintains a registry of treasury securities

Attorney General's Office

- i. Gives legal opinion on all instruments that may commit Government;
- ii. Participates in the negotiations of external loans
- iii. Verifies that projects for which loan guarantees are issued qualify for such guarantees
- iv. Drafts all legal documents related to borrowing, on-lending and guarantees
- v. Drafts legislative framework for debt management

Line Ministries

- i. Prepare project proposals and submit them to Cabinet for approval
- ii. Prepare and submit loan withdrawal application to the Ministry of Finance
- iii. Participate in all consultations and negotiations of all loan agreements for projects and programmes under their jurisdiction
- iv. Provide regular progress reports on all projects/ programmes to the Ministry of Finance and Cabinet
- v. Provide comments on loan agreements in respect of projects under their jurisdiction

Multilateral and Bilateral Creditors

Sierra Leone's Multilateral and Bilateral Creditors include; the International Monetary Fund, the World Bank, the African Development Bank, the Non-Paris Club and others. Their main functions are to provide loan financing to bridge gaps in necessary funding resources for development.

They serve as an instrument in granting assistance, especially for social infrastructures such as health and education, humanitarian assistance, and other social programmes.

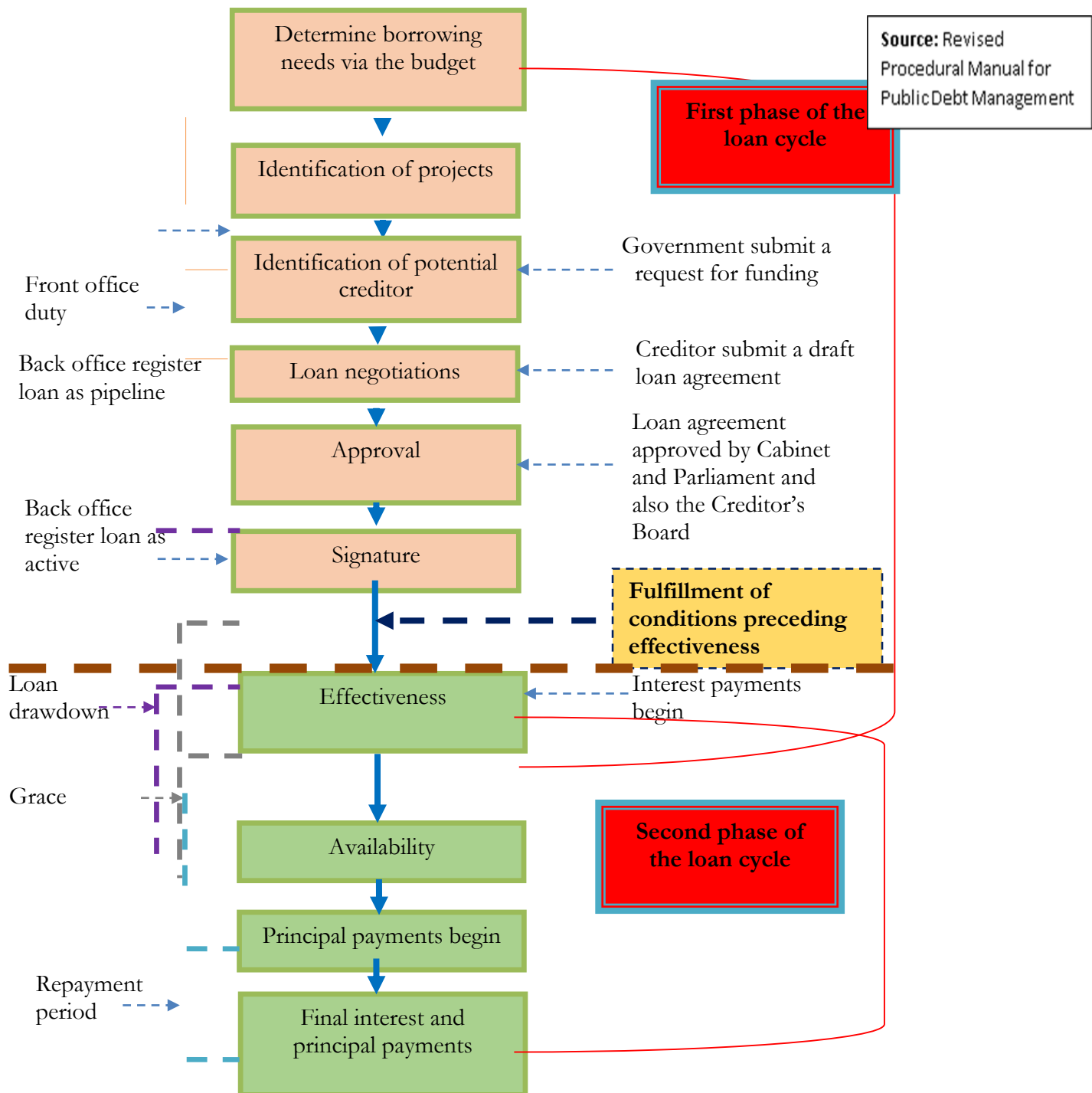
And as an instrument for technical assistance in delivering professional expertise and managerial skills in health, education, agriculture, forestry and others.

3.4 Procedure for Obtaining Public Debt

In this section, the basic sequential procedures of the external loan and domestic debt cycles are briefly discussed. More details on the procedures are available in the later sections.

External Loan Cycle

The diagram below shows a typical loan cycle from loan identification to final principal payment.



The First Phase of Loan Cycle – Project Identification to Effectiveness

Step 1: The Country develops a Poverty Reduction Strategy Paper (PRSP) in which all relevant projects and programmes are identified. These programmes and projects are executed within the Medium Term Expenditure Framework (MTEF).

Step 2: Major creditors prepare medium-term Country Assistance Strategies (CAS) to determine their area of intervention.

Step 3: Projects are identified by line-ministries, consistent with the PRSP. At this stage, line ministries could request assistance from potential creditors to undertake project appraisal/feasibility. PDMD is informed of the potential project loan.

Step 4: If the project is assessed as feasible, the creditor drafts the Financing Agreement which is examined by PDMD, EAD and Law Officers' Department to ensure it is in-line with the borrowing policy and conditions, and also consistent with the laws of Sierra Leone.

Step 5: If the terms and conditions are not consistent with the policies and debt management strategies of the Government (for example grant element of the loan less than 35%), the Government will continue to engage the creditor to ensure the required financing terms are agreed upon.

Step 6: After negotiating the terms and conditions, the Financing Agreement is taken to Cabinet and later to Parliament for approval. Cabinet also gives their authorisation for the Minister responsible for finance to sign the Agreement. These approvals, in addition to the legal opinion of the Attorney General, are sent to the Creditor's Board for approval.

Step 7: After the Creditor's Board approval, the signing of the agreement takes place between Government and the Creditor.

Step 8: Copies of the final loan/credit agreements are sent to the PDMD, the Accountant General's Department and the Bank of Sierra Leone.

Step 9: Before credit/loan effectiveness or first disbursement, Conditions Precedent (CP) are fulfilled. Each creditor has its own time, but usually, up to two months is given to fulfil the stipulated conditions. There are two types of CPs. The first is primary, which includes Parliamentary Approval, etc. The second is related to Project Implementation Units that need to set up project offices, accounts and other financing arrangements. Broadly, these conditions include: legal, administrative, financial and environmental.

Step 10: After satisfying these conditions, credit effectiveness takes place. PDMD would record the disbursement and prepare the schedule of projected debt service payments in CS-DRMS. The original copy of the agreement would then be kept in a safe and secured environment.

The Second Phase of Loan Cycle - Disbursements to Final Repayments

Step 1: Disbursement starts with the effectiveness of the credit.

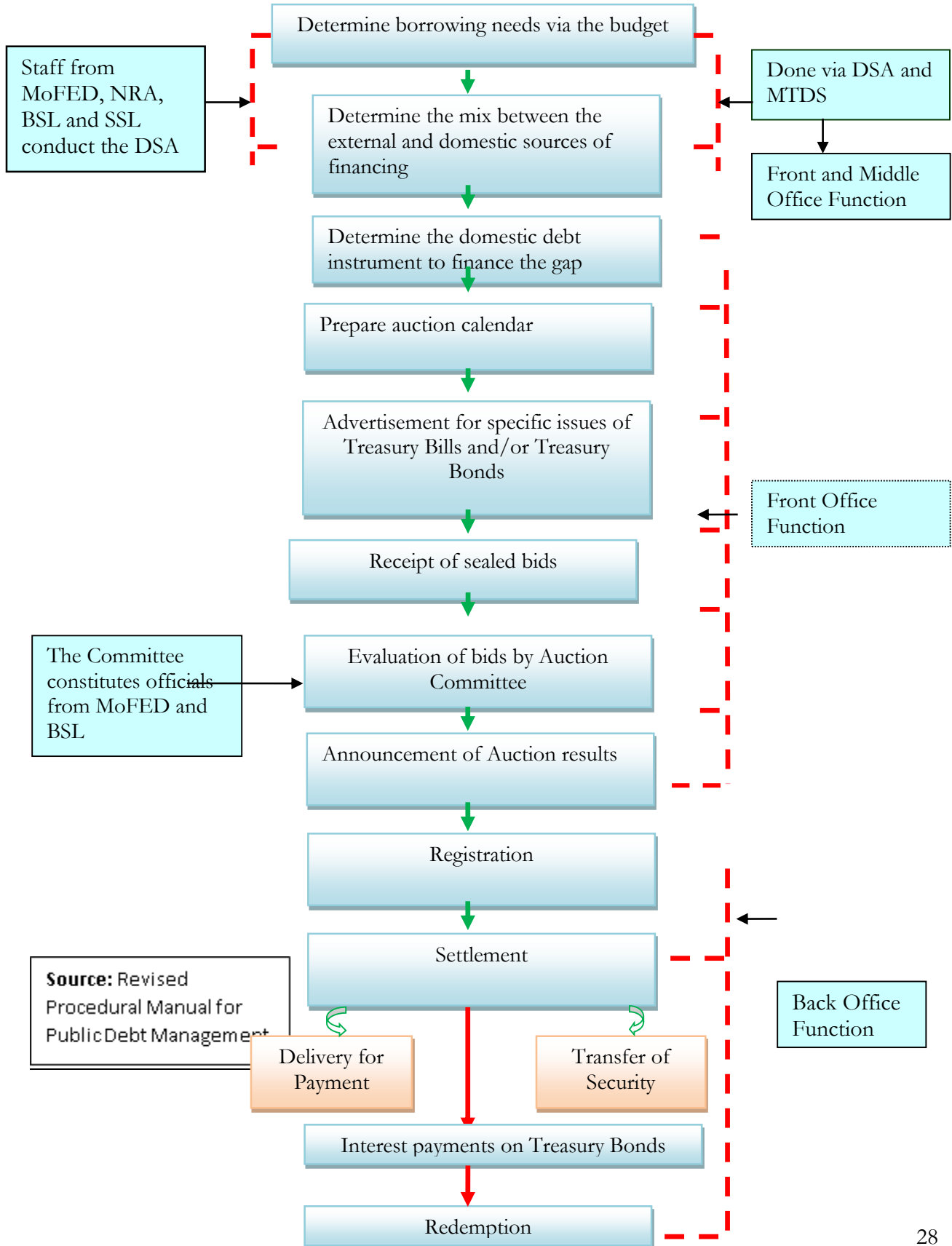
Step 2: Interest starts to accumulate as soon as the loan becomes effective

Step 3: Principal payments or amortisation take place after the grace period.

Step 4: The loan cycle is completed when the final repayment of the principal amount is made.

Step 5: An alternative to this normal process is when countries face payment difficulties, they enter into restructuring agreements with different terms and repayment schedules.

Domestic Debt Cycle



Step 1: A financing gap is established via the budget process and Medium Term Expenditure Framework (MTEF). This includes the principal payments as well.

Step 2: Determine the mix of external and domestic financing and estimate the annual domestic borrowing plan required to finance the annual gap.

Step 3: Prepare an auction calendar for each domestic debt instrument.

Step 4: Tendering advertisements for each type of domestic debt instrument - 91 days, 182 days, and 364 days treasury bills and two-year bonds. Since 91 days treasury bill is also used for liquidity 'mopping up' process, the purpose for tendering must be laid out.

Step 5: During auctions, sealed bids will be put forward to the Auction Committee for evaluation and successful bidders will be informed of the auction outcomes.

Step 6: This will be followed by delivery of certificates and payments, registration and interest payments due.

Step 7: Finally, at redemption, payments due are made to the holders of treasury bills and treasury bonds.

Debt Instrument

The following instruments are debt instruments:

Special Drawing Rights (SDRs) - are international reserve assets created by the International Monetary Fund (IMF) and allocated to its members to supplement reserve assets.

Currency and Deposits - Currency consists of notes and coins that are of fixed nominal values and are issued or authorised by the central bank or government.

Debt Securities - are negotiable financial instruments serving as evidence of a debt.

Loans - is a financial instrument that is created when a creditor lends funds directly to debt and/or receives a negotiable document as evidence of the assets.

Account Payable/Receivable - consists of trade credits and advances and miscellaneous items due to be paid or received.

3.5 Resource (Actual Debt Status)

Public debt consists of all liabilities that are financial claims and requires payment of interest and/or principal by the debtor to the creditor at a date or dates in the future. Public debt in Sierra Leone comprises publicly guaranteed disbursed and outstanding debt owed to residents and non-residents as shown in the table below. However, data relating to 2021 has not yet been published.

Table 3: Public Debt Profile from 2018-2020 (Millions Le)

Debt Type	2018	2019	2020
	(Le)	(Le)	(Le)
Domestic Arrears	3,287,607.75	3,585,506.01	2,507,779.85
Multilateral	10,175,927.20	12,553,881.20	15,744,754.01
Bilateral	1,575,755.46	2,154,192.79	2,467,535.66
Commercial	1,598,481.89	1,830,254.42	1,836,366.37

Source: Public Debt Bulletin, 2018, 2019 and 2020

4

FINDINGS

This chapter presents detailed audit findings on the measures for effective Public Debt Management by the Ministry of Finance. It also brings out the causes and effects associated with the findings and provides reasonable recommendations that could mitigate or eliminate the identified weaknesses in the debt management process.

4.1 Legal Framework

4.1.1 Annual Borrowing Plan

An annual borrowing plan should be developed, consistent with the medium-term Debt Management Strategy, implementation of the budget, taking into account any specific market characteristics or creditor behaviour and the underlying volatility in government cash flows. Section 24 (b) of the Public Debt Management Act of 2011 emphasises the preparation of an annual borrowing plan.

During the audit, it was noted that no borrowing plan was prepared for 2018-2021, even though it was one of the action points in the 2020 strategic plan. In an interview with the Director of Public Debt, the auditors enquired why the annual borrowing plans were not prepared for 2018 to 2021, but no reason was provided. We therefore concluded that this might have arisen due to negligence on the part of the public debt management division. The ASSL 2020 Financial Audit Report revealed overspending between the revised budget and actual expenditure. This might have arisen due to the non-preparation of a plan to guide the limit of borrowing. We however acknowledged the preparation of an annual borrowing plan for 2022.

Recommendation

We recommend that the Director of Public Debt ensure timely preparation of the borrowing plan in line with the medium-term Debt Management Strategy, implementation of the budget, taking into account any specific market characteristics or creditor behaviour and the underlying volatility in government cash flows. The absence of a borrowing plan might affect the implementation of both fiscal and monetary policies.

Management's Response

The Public Debt Management Division through the annual budgets for 2018 to 2021 included the planned domestic and external borrowing for the relevant fiscal year in the statement of Government Budget and Statement of Economic and Financial Policies for 2018 to 2021. The Public Debt Management Division, in line with best practice and recommendations of debt management review missions, has commenced the publication of Annual Borrowing Plan in 2022 on the ministry's website.

See link to the document: <https://mof.gov.sl/documents/publication-of-annual-borrowing-plan-for-2022-and-treasury-auction-calendar-for-quarter-q1-2021-1/>

Auditor's Comment

Your response regarding the audit finding is noted. We however implore that the plan is prepared in a timely manner.

4.1.2 Public Debt Regulation and Procedural Manual

According to the IMF and the World Bank guidelines on section 2.1 of the Public Debt Management, it is not explicitly stated that there should be a procedural manual. However, for departments to function effectively there should be clarity of roles, responsibilities and objectives of government institutions responsible for debt management as enshrined in the manual. Section 3.2a outlines the management of internal operations and legal documentation.

The importance of the Public Debt Regulation and Procedural Manual is to minimise the operational risks for sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting arrangements.

We noted that there is a procedural manual that was drafted in 2011, and has not been finalised to date. It also came out clearly during our request for documents that there is no public debt regulation to simplify the implementation of the Act.

From a review of the internal audit report in 2019, we noted the need for a Public Debt Manual. The finalisation of the manual was also a target point within the Strategic Plan for 2020. The Director of Public Debt in his interview explained that due to the COVID-19 pandemic, they were not able to achieve this action point. Considering the time when the draft was developed by an ADB consultant (more than eight years) to current date, the team noted lapses in the operation of the Public Debt Division and waste of resources.

In effect, there were challenges in the segregation of duties, which constrained staff and led to inconsistent processes and procedures in public debt operations, especially for domestic arrears.

Recommendation

The Director of Public Debt should ensure that the procedural manual and all relevant working tools that will guide the smooth running of the division are finalised, approved and made available to staff.

Management's Response

The PDMD was awaiting the drafting and ratification of public debt management regulations to reflect emerging processes and procedures for debt management, prior to finalizing the procedures manual. PDMD is committed to finalise the procedures manual and get cabinet to approve the procedures manual in 2023. The PDMD will also work with the IMF, World Bank and other donor partners to support Government to review the existing Public Debt Management Act (PDMA) of 2011, to catch-up with the Public Financial Management Act of 2016 (and its 2018 Regulations), before developing the Public Debt Regulations. We believe that it would be more strategic to upgrade the PDMA of 2011, before preparing a new regulation for the existing.

Auditor's Comment

We note your response. The progress will however be verified in follow-up reviews.

4.2 Debt Management Strategy

4.2.1 Public Debt Management of the Public Debt Management Division

Strategic plans of the Public Debt Management Division provide direction for the actions and activities the division will undertake for a period of time to achieve debt sustainability in the economy.

Section 6 (1) of the Public Debt Management Act, 2011 states: “A medium-term public debt management strategy shall be formulated annually on a rolling basis by the Minister and approved by cabinet.”

The auditors requested the strategic plans from the Director of Public Debt for fiscal years 2018 and 2019. These documents were however not submitted. Interviews conducted with the Director of Public Debt revealed that these strategic plans were not prepared and made available for review and as a result, the team cannot assess the division’s achievement on the strategic plans for 2018 and 2019.

During the review of the strategic plan for 2020, the team noted the following inconsistencies:

- i. The Division indicated in the milestone that they will update and publish the Medium-Term Debt Strategy (MTDS) 2019 and 2020, and upload the completed document on the Ministry of Finance website. However, this was not done. We acknowledge the preparation of the Medium Term Debt Strategy for 2021-2025
- ii. The Division indicated that “sensitise markets, Cabinet Ministers, Vote Controllers and Heads of Department on conditionality (i.e. percentage of grant) on loans”. This was also not done.

Interview held with the Director of Public Debt Management revealed that the above milestones were not achieved by the Division, especially the Medium Term Debt Strategy for 2018-2020 which is one of the functions of the public debt management division as stated in section 6 (1) of the Public Debt Management Act of 2011.

Recommendation

The Minister should ensure that the Public Debt Management Division develops Medium-Term Debt Management Strategy in accordance with section 6 (1) of the Public Debt Management Act of 2011.

Management’s Response

The PDMD prepared a Medium-Term Debt Management Strategy (MTDS) in 2018, covering 2018 to 2023, but a domestic arrears strategy was not included. In 2021, the PDMD prepared an MTDS, covering 2021 to 2025, in line with Section 6(1) of the PDM Act, 2011. The MTDS document was cleared by the Bank of Sierra Leone, approved by cabinet and published in the Ministry’s website with the following link: [Sierra Leone Medium-Term Debt Strategy 2021-2025 - \(mof.gov.sl\)](https://mof.gov.sl/Sierra-Leone-Medium-Term-Debt-Strategy-2021-2025).

Auditor’s Comment

We acknowledge the preparation of the Medium Term Debt Strategy for 2021-2025 as stated in your response.

4.2.2 Arrears Clearance Strategy and Principles

The Arrears Clearance Strategy and Principles 2020 to 2025 is a document prepared by the Ministry of Finance; it outlines the approach government will take to clear the verified stock of arrears. The plan was not working as envisaged, as some of the contractors and suppliers refuse to accept the MoF proposed

discount. Point 8 of the arrears clearance strategy and principles 2020 to 2025, requires all-new accumulation of domestic arrears should be cleared in the first quarter of the subsequent year.

The following guiding principles applies:

- i) Pari-passu principle combined with growth poverty nexus ('equal footing' that describes situation where two or more parties are equally managed without preference)
- ii) time-bound commitment,
- iii) fiduciary principle and transparency,
- iv) arrears payment principle—revealed preference of government,
- v) negotiation principle,
- vi) general consideration on the impact of arrears on the financial sector,
- vii) the long-run golden target of government—no further accumulation of arrears beyond 2025.

A review of the minutes of the Committee on arrears revealed the following:

- The contractors and suppliers refused to accept the 30% discount on the accrued amount of arrears that are above 1 billion Leones. The discount applied to the arrears may hinder the financial stability of the suppliers/contractors, as some of these creditors finance their businesses with loans from the banks. However, imposing a 30% discount/cut from their monies deprived them of settling their financial obligation with the banks. This action will affect their businesses and creditworthiness with the banks.
- Contractors/suppliers were not consulted during the preparation of the strategy, as a way of sounding their opinion relating to the options in the strategy.

Domestic arrears for the fiscal year 2020 have not been cleared, contrary to the arrears clearance strategy and principles 2020. These domestic arrears should have been cleared by 31st March, 2021.

Further review of a minutes dated 11th December 2022, of the Arrears Clearance Negotiation Committee revealed that during the preparation of the strategy, the Committee did not envisage that the contractors/suppliers would reject the discount on their arrears. As a result, the Committee planned to review the Arrears Clearance Strategy for it to align with most of the responses from the vendors. It came out clearly that the guiding principles on the arrears clearance was not followed, as negotiations were not done with these contractors to reach an agreement before preparing the strategy. The strategies were prepared based on assumptions.

Failure to adhere to the guiding principles before preparing the strategy has resulted in an increase in stock of arrears that should have been cleared. This may also affect the confidence/relationship between the Government and the suppliers.

Recommendation

We recommend that the Arrears Clearance Negotiation Committee should continue to engage the contractors/suppliers for a thorough revision of the strategy and prepare action points on the way forward to implement subsequent arrears.

Management's Response

Negotiating with the contractors before preparing the strategy would be like putting the cart before the horse. The Government needed to first set the rules of engagement and identify possible principles and

likely challenges before engaging contractors. Despite the challenges, (most of which were identified as risk to the strategy), the Ministry of Finance was commended for developing the Arrears Clearance Strategy and Principles 2021-2025, before engaging contractors. The Arrears Clearance Strategy and Principles was developed with support from the World Bank and IMF, whose preparation and approval by cabinet was one of the agreed benchmarks under the ongoing Extended Credit facility (ECF) Programme with the IMF and World Bank Budget Support. The strategy was developed based on Government's projected resource mobilization capacity and was therefore realistic. Similar to the 'debt-buy-back' strategy for domestic arrears that was implemented by Government in 2001 and 2002, government did not seek the prior consent of suppliers on the level of discounting applied before finalizing the strategy. The strategy was just a plan of action by government whose implementation was met with challenges. Government is committed to review the strategy in line with resource availability as is expected of any strategy to address similar challenges in the future.

Auditor's Comment

We note your response on the implementation of the strategy. We however advise that the strategy is in line with resource availability.

4.3 Debt Monitoring, Evaluation and Reporting

4.3.1 Monitoring of Projects

Section 24 (t) of the Public Debt Management Act of 2011 states: "The Public Debt Management Division is responsible to monitor the disbursements of loans raised by the Government and followed agreed disbursement schedules."

Best practice requires the need to have a robust mechanism to monitor project loan funds implemented in order that the impact on the economy, the efficiency and effectiveness of these huge project loans could be realised.

From the review of the report on monitoring of loans and grant-funded projects nationwide titled: "Country Programme Portfolio Review (CPPR)" documents done by the World Bank, the African Development Bank (ADB), the Islamic Development Bank (IDB) in collaboration with the National Monitoring Evaluation Department (NaMED) revealed delays in the implementation of the project due to lack of proper monitoring by the responsible ministries and other stakeholders.

We noted from the report that the reasons for the delays in the project implementation were as a result of the following:

- Lack of proper system in the procurement process
- Inadequate strategies in place by Project Implementation Units (PIUs) to speed up reviews of proposals
- Lack of coordination between the PIU staff and the Ministries, Department and Agencies (MDAs) staff to foster the smooth implementation of projects/ programmes.
- Lack of effective monitoring of project loans by the central government. See Appendix 4 for details of projects that were not on target during the review mission.

Interviews with key stakeholders in the Public Debt Management Division revealed that due to their workload, it is very difficult for them to monitor loan projects. However, NaMED in collaboration with donor partners carried out CPPR review. This was also confirmed during interviews with stakeholders in the Multilateral Division within the MoF, that these donor partners reported on the poor implementation of these projects.

The failure to monitor these projects implementation has led to the non-achievement of the set goals and objectives for which these loans were acquired as per the CPPR report which clearly shows that some of these projects should have been long completed.

Recommendation

We recommend that the Director of Public Debt ensure that the division takes full responsibility to monitor the implementations of projects relating to public debt, in accordance with section 24 (t) of the Public Debt Management Act of 2011.

Management's Response

Reference to Section 24 of the Public Debt Management Act which states that, “the PDMD is responsible to monitor the disbursement of loans raised by Government and follow agreed disbursement schedules” implies that the PDMD should track the disbursement of loan resources as far as recording and reporting disbursement data is concerned, and to ensure that disbursements are effected in line with agreed schedules as captured in the loan agreements, and in the Commonwealth Debt Recording and Management Systems (CS-DRMS). It does not impose on PDMD to monitor the performance and the quality of delivery of the numerous projects country-wide. Such monitoring exercises involve various sector experts and skilled professional in various fields including engineers, agriculturists etc. for which such competencies cannot be found in the PDMD. There is a dedicated National Evaluation and Monitoring Department (NaMED) in the Ministry of Planning and Economic Development, charged with the responsibility to monitor projects and not PDMD. In addition, the Multilateral Project Division (MPD) at the Ministry of Finance has the mandate to provide disbursement data and review loan withdrawal applications for approval.

Auditor's Comment

We note that your division should ensure that disbursements of loans are monitored, and must be in line with agreed schedules. We however advise that prior to disbursements of loans, there is collaboration with NaMED to enhance value-for-money in the implementation of government projects.

4.3.2 Evaluation of Public Debt

The creation and accumulation of arrears reflect serious financial management issues such as weaknesses in the internal control environment and public financial management inefficiency.

The continuous creation of arrears jeopardises the overall credibility of the budget, and the country's financial reputation, and perpetuates the perception of an inadequate system of governance. Section 5 of the Public Debt Management Act of 2011 states: “The objectives of public debt management are to ensure that Government's financing needs and its payment obligations are met at the lowest possible cost over

the medium to long term, with a prudent degree of risk, and to promote the development of the domestic debt market.”

We noted from the review of the arrears database, payment vouchers, and other corresponding documents the following issues:

i. Public Debts Database Management

Section 24(m) of the Public Debt Management Act of 2011 states: “To keep timely, comprehensive, and accurate records of outstanding government debt, guarantees, and lending in an appropriate database.”

Section 138. (1) of the Public Financial Management Regulations, 2018 requires public debt management to have a consolidated database to include the following information: (i) a copy of the loan or grant agreement; (ii) a copy of the parliamentary ratification; (iii) an updated disbursement schedule from the donor for the subsequent three years; (iv) amount of actual disbursements from the donor for every quarter.

Effective data management is an important component of public financial management, overall good governance and poverty reduction. However, the international community, including the G20, has serious concerns about the overall outlook for external debts sustainability in developing countries and the related problem with data transparency.

A review of the domestic arrears database maintained in excel spreadsheet disclosed that the database submitted was not fully maintained to provide complete public debt management information in accordance with the regulation stated above and data transparency. For example, a copy of the loan or grant agreement; an updated disbursement schedule from the donor for the subsequent three years; and amount of actual disbursements from the donor for every quarter were not in the database submitted. We further observed that the spread sheet was not secured with a password to protect the data from unauthorised changes.

During interviews with the Director of PDMD, we disclosed that the division was using Script-less security and settlement system to manage the external public debt data. He stated that this system cannot produce report. He further informed us that the ministry was on the verge to procure a new secured system (meridian system) with the help of the IMF, which will address the limitation of the existing systems.

ii. Verification for the Payment of Domestic Debt

Section 24(r) of the Public Debt Management Act of 2011 states: “The Public Debt Management Division shall compile, **verify** and report on all Government domestic arrears and design a strategy for the settlement of those arrears.”

From the review of 265 samples of payment vouchers on the payment of Public Debt, we noted that 34 payment vouchers for domestic arrears which totalled Le64,027,894,366 were made to suppliers without verification reports or minutes from the PDMD. **See Appendix 5 for details.** In an interview with the Director of PDMD, it was clearly explained that all payment vouchers relating to domestic arrears should

be verified and authorised by the PDMD, except for payment vouchers relating to carried-over allocations due to MDAs. The non-verification of domestic debts before payments might create room for over-payments, incorrect data or creating fictitious suppliers within the system.

We noted that, there was no proper reconciliation done between the AGD and the PDMD in respect of public debt figures. For example, the evidence of reconciliation submitted to us did not show the figures captured by the AGD and how they are reconciled with the figures recorded in the PDMD database. The lack of proper reconciliation between the AGD and the PDMD might create room for duplicating or over-payment of payment in respect of public debts.

iii Disclaimer Forms

The Arrears Clearance Strategy and Principles 2020-2025 clearly explained a disclaimer form that was approved in 2002 by the Law Officers' Department could be used to legalise the arrears clearance process.

This would be signed off and sealed by all the suppliers or contractors disclaiming any future liability on the Government, upon full receipt of the discounted amount and the payment of their debts. Therefore, upon payment, suppliers/contractors are required to sign and return the disclaimer forms as it serves as a legal document to avoid future obligations on Government.

From the review of the disclaimer form register and disclaimer forms returned, we noted that 160 disclaimer forms were issued, but only two forms were submitted to the auditors. We noted that there was no timeframe for these forms to be returned when issued. Interviews revealed that only partly-paid suppliers returned their forms for them to get their balance payment. The non-return of the disclaimer forms was due to negligence on the part of the PDMD to ensure that suppliers return their form on time, as they maintain the database of all suppliers that have been partly or fully paid.

Failure by suppliers or contractors to return and consent to the disclaimer form might indicate outstanding obligations on the Government in future, as the disclaimer forms serve as a legal document of which suppliers/contractors avoid future obligations.

iv. Wrong Posting of Payment Arrears in Database:

Section 24(m) of the Public Debt Management Act of 2011 states: "One of the functions of the PDMD is to keep timely, comprehensive, and accurate records of outstanding Government debt, guarantees and lending in an appropriate database."

We reviewed the database maintained by the PDMD in respect of domestic arrears and also reviewed payment vouchers relating to domestic arrears. We noted that payment transactions in the arrears database are not reflective of the actual details on the payment vouchers, totalling Le284,936,400, made to suppliers as shown in Appendix 6. We observed that these are roll-over payment transactions processed by the Accountant General's Department that are not qualified to be classified as domestic arrears.

This was as a result of improper reconciliation of domestic debt payments between the PDMD and the AGD. Incorrect postings of domestic debt have resulted in the inflation of the public debt figure and therefore, the wrong public debt presented.

v. Payment of Allocations and Grant as Domestic Debt to MDAs

Section 80 of the Public Financial Management Regulations of 2018 states: “Any balance of a commitment ceiling that remains unused at the end of a quarter shall be carried over to the subsequent quarters, but shall lapse at the end of the financial year.”

We observed that allocations and grants for MDAs not paid during the previous year were committed and paid as domestic arrears. These allocations and grants are not tied to any specific contract or invoice but should be used as their operational running cost such as imprest, etc.

In an interview with the Deputy Director of Budget, he explained that they are operating on a Medium Term Expenditure Framework Budget system which is a three-year budget, so tasks unaccomplished in the previous year are been rolled-over to the new year.

This contravenes the definition of arrears stated in section 1 of the Public Financial Management Act of 2016 that: “Arrears should be under a relevant contract agreement, relevant invoice, or of satisfaction of the term of the relevant contract.” No contractual agreement or invoice was found within these payment vouchers; this increased the amount referred to as domestic debt owed by the Government of Sierra Leone.

Recommendation

We recommend that the Director of PDMD should ensure the following:

- i. The acquisition of a Debt Management and Financial Analysis System (DMFAS) with the view to strengthen government capacity to manage the public debt effectively and sustainably in support of poverty reduction development, transparency and good governance.
- ii. The PDMD should do proper reconciliation with the Accountant General’s Department with the view of correcting the database, in order to reflect only payments that consist of domestic arrears. The regular verification of public debts records to ensure that they are accurate and legitimate before payments are made.
- iii. Engage all suppliers/contractors that fail to return the signed disclaimer forms with the view of understanding their reasons for not returning the signed disclaimer forms and try to reach final settlement agreement.
- iv. The amount over-paid should be recovered from the suppliers/contractors and paid into the Consolidated Fund. In future, proper verification should be done to avoid over-payment of arrears.
- v. All payment classified as domestic arrears should meet the definition of expenditure arrears stated in section 1 of the PFM Act of 2016.
- vi. Allocations and grants for MDAs should not be paid or charged as Domestic Arrears because this will reflect the wrong picture

Management's Response

i. Public Debt Database Management

The PDMD demonstrated best care and used the best available information from Internal Audit Department, the ASSL, AGD and PDMD to monitor payment of vintage verified arrears and followed the prudence principle to recognize all payables (cheques in hand at AGD and BSL and commitments/cheques payable) in the system. Given that all ongoing transactions of government are subject to regular annual audit of the ASSL. It would have been counterproductive to exclude ongoing commitments and new cheque payables from the stock of arrears. We have taken into consideration the ASSL recommendation to implement the Government-wide vendor-based reporting to help track payment of arrears within the verified amount and identify new in-year payables.

ii. Verification for the Payment of Domestic Debt

As indicated above, these are legitimate transactions that have already been captured by the ASSL in the regular annual audit of the General-Purpose Financial Statement, for which payments were not made—the so-called carryover. Clearance of such payment is already in the scope of regular audit. As recommended, during our exit meeting, we proposed that a separate Account Code be created in the FreeBalance Financial Accountability System, for payment of carryovers to prevent misclassification of these payment under arrears. Because not all carryovers can become arrears. Transactions can only graduate into arrears if they remain unpaid for over 90-days, or based on lapse of time as stipulated in the procurement contract as specified in Part I, Section 1 (1) of the PFM Act of 2022.

iii. Disclaimer Forms

We note this observation and would like to bring to your attention that suppliers were reluctant to sign-off on forms prior to actual receipts of payment from government, particularly when there could be delays in payments due to cash flow difficulties faced by government. The suppliers committed to return the forms after actual receipt of payments. The PDMD will go after suppliers to return the forms before the end of 2022.

We discussed this with the ASSL during the exit meeting and underscored that the onus to return disclaimer forms is on the suppliers, and failure of which would result in the issuance of a terminal letter by the MoF following payment to relieve the Government of future obligations once payment is made.

iv. Wrong Posting of Payments in Arrears Database

The Ministry of Finance routes all outstanding payments rolled over from one fiscal year to the other through vote 509 dubbed as domestic arrears. The payments referred to, were not classed as verified domestic suppliers' arrears, even though they were routed through vote 509, since these were outstanding unpaid cheques or vouchers rolled over from previous fiscal year even though not strictly being verified by the Audit Service Sierra Leone. The PDMD will let the AGD and Budget Bureau strictly charge under vote 509, only verified domestic suppliers' arrears as advised by the Audit Service Sierra Leone.

v. Payment of Allocations and Grant as Domestic Debt to MDAs

This relates to our response in (ii) above. It is a Chart of Account issue and the PDMD recommends that the Accountant General's Department or the Public Financial Management Division should create a new Chart of Account for payment of carryover transactions to prevent misclassification of transactions as arrears.

vi. Verification for the payments of domestic debt - reconciliation

The PDMD and AGD reconcile on monthly basis, domestic debt repayments and domestic interest payments. Evidence of monthly reconciliations statements signed-off by both the PDMD and AGD for 2022 and 2021 are attached as **Annex 1** for ease of reference. We need to extend the reconciliation report to stock of cheques and status of arrears pay-down. Agreement has also been reached with the Internal Audit Department and the ASSL to undertake a second round of verification of arrears.

Auditor's Comment

Management's responses are noted as we look forward to your proposed actions in follow-up reviews.

4.3.3 Debt Reporting to Parliament

According to Section 21 (1) of the Public Debt Management Act of 2011, the Public Debt Management Division is expected to report to Parliament on debt issues not later than three months after the end of the financial year.

During the audit, we noted that no formal public debt reports were sent to Parliament in accordance with section 21 (1) of the Public Debt Management Act, except for the public debt annex included in the budget. In an interview, the Director of Public Debt explained that they have not been able to meet the deadlines for the submission of these reports. The reason he stated was that the public debt figures to be reported needed to be properly confirmed by the IMF before they are published. It came out clearly that, the timing for the IMF confirmation did not synchronise with the date of reporting, as the IMF always comes in after the reporting deadline. The Public Debt bulletins are however published on the MoF website and the public Debt Annex are included in the Annual Budget Reports. The non-submission of the report to Parliament might limit their knowledge on the debt status, ongoing debt projects and their current status for monitoring.

Recommendation

The Minister of Finance should prepare and submit to Parliament an annual debt report regarding the management of public debt in accordance with section 21(1) of the Public Debt Management Act of 2011.

Management's Response

The Public Debt Management Division for the period under review provided comprehensive debt report to Parliament through the statement of Government Budget and Statement of Economic and Financial Policies for 2018 to 2021. In addition, the PDMD has been producing annual public debt bulletins which captures comprehensive review of the public debt portfolio for the preceding fiscal year. The PDMD is committed to provide the specific report referred to in Section 21 (1) of the PDM Act 2011 in 2023.

It is informative to note that beyond reporting to Parliament, debt transparency has improved in Sierra Leone. As a result, the score on debt management under the recent Public Expenditure and Financial Accountability (PEFA) assessment has improved from D+ in 2018 to B+ in 2022. This has been a remarkable progress. Publication of a performance audit report will be at significant variance with independent international assessment.

Auditor's Comment

We note your response and pattern of reporting debts management to Parliament. We however emphasize that the Minister prepares and submits an annual debt report in accordance with Section 21 (1) of the Public Debt Management Act of 2011. This will prompt the attention of parliamentarians with regard to the national debt status.

General Observation

4.4 Refunds of Ineligible Expenditure

Section 274 of the Financial Management Regulations of 2018; procedures in handling ineligible expenditures are:

- “The vote controller shall keep a record of the details of the allegation, together with supporting documents, on the discovery of any ineligible expenditure and initiate an investigation.
- When the investigation confirms the occurrence of the ineligible expenditure, the vote controller of the budgetary or the sub-vented agency shall report the details of the transgression to the Accountant-General.
- Data on disciplinary and other sanctions taken against ineligible expenditures during the financial year; and analysis of the reasons why a particular budgetary or sub-vented agency achieved high and low recovery of ineligible expenditures during the financial year.
- Within one week after receiving an annual report under sub-regulation (1), the Minister shall submit it to the Public Accounts Committee of Parliament and publish it on the Ministry's website.”

From the review of ineligible expenditure vouchers and supporting documents, it was disclosed that, the Government of Sierra Leone made three ineligible expenditure refunds to multilateral donor partners for \$2,173,767.62 and Le358,311,317.90, as a result of un-utilisation of funds, mismanagement, or non-compliance with the financial and contractual procedures in the signed agreement regarding the implementation of the loan.

During interviews with key personnel involved in the payment and the implementation of loans, it was disclosed that there were key indicators or deliverables that were not achieved during the implementation of the loans as shown in Appendix 4.

We also noted that there was no formal investigation by the implementation unit to confirm the reasons for the claims, and it has not been their practice to report ineligible expenditure to the Minister of Finance or the Public Accounts Committee of Parliament. We noted that due diligence was not followed before the repayment of these loans according to section 274 of the Financial Management Regulations of 2018, which explicitly outlines the steps to be followed before making refunds of ineligible expenditure.

Refunds of ineligible expenditure has resulted in a loss/reduction of government funds available for the implementation of other government projects or programmes for service delivery that should have benefited the lives of citizens. This has also reduced the confidence of donor partners in the disbursement of funds for the implementation of the projects.

Recommendation

The Director of PDMD should collaborate with the Deputy Financial Secretary, who is the Head of Multilateral Donor Project Unit, in order to ensure that effective monitoring and supervision of the IPU projects is enhanced for the effective use of funds in accordance with the signed financial agreement and implementation manual.

Management's Response

This happened outside the scope of the audit around 2016/2017 and the damage materialized in 2019 and repayment was made to the World Bank. The PDMD will raise the issue with the leadership of the Ministry and Multilateral Project Division to ensure the effective monitoring and supervision of PIUs overseeing the implementation of projects country-wide to avoid ineligible expenditures which result in serious costs on the national budget.

Auditor's Comment

Your response is noted. We however look forward to your proposed actions in our follow-up review.

5. CONCLUSION

During the audit, it came out clear that the principle of participation, transparency and accountability is lacking. The MoF which is responsible for debt management has not been able to ensure that:

- (i.) loan agreements are ratified by Parliament before they become effective;
- (ii.) an annual borrowing plan is developed;
- (iii.) a strategic plan and arrears clearance strategy and principles are developed;
- (iv.) effective monitoring and reporting is done regularly.

The following are specific conclusions on the gaps identified in the management of public debt that has resulted in the refund of ineligible debt, overpayment to suppliers, and failure to submit debt reports to Parliament.

Legal Framework

There are legal instruments that regulate the management of public debts. These are the 1991 Constitution of Sierra Leone, the PDM Act of 2011, the Financial Management Act of 2016 and the Financial Management Regulations of 2018. Our findings revealed that the Ministry under section 24 (b) of the PDM Act of 2011 requires the PDMD to prepare an annual borrowing plan. This plan helps the Division to manage its liquidity and investment decisions, as well as monitoring the debt situation to ensure that it remains sustainable. The borrowing plan is a very important tool that helps government to bridge the gap between budget revenue and expenditure. We noted that, the PDMD did not comply with the above section to prepare annual borrowing plan for the period under review even though it was one of the action points in the 2020 strategic plan. The non-existence of an annual borrowing plan over the years may have affected the purpose and types of loans secured on behalf of the government. We however acknowledge the 2022 borrowing plan that has been prepared and published on the Ministry of Finance's official website.

We noted that much effort has not been made by the Public Debt Management Division in finalising the public debt regulation and procedural manual. This procedural manual was designed as a framework to show clarity of roles, responsibilities, and objectives of the ministry responsible for debt management. In addition, the Public Debt Regulations and Procedural Manual will minimise the operational risks for sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting arrangements.

The absence of a procedural manual has affected clarity of work, decision making and segregation of duties. The non-finalisation of the procedural manual as a target point within the Strategic Plan for 2020, shows ineffective monitoring within the Public Debt Management Division.

We could not ascertain how effective the other areas (the medium-term Debt Management Strategy, implementation of the budget, taking into account any specific market characteristics or creditor behaviour and the underlying volatility in government cash flows) that the borrowing plan should be linked with.

Though there are clear legal requirements that the Ministry should follow for the management of public debts, it clearly shows that PDMD did not comply with these requirements which has a direct effect on

the overall sustainability of public debts. The Parliament which have the constitutional responsibility to scrutinise through debate of the terms and conditions of loan agreements could not do so at the material time because the agreements are taken to parliament for ratification after they have been signed and in some cases implementation has started. The Ministry does not seem to be complying in the preparation of an annual borrowing plan which is an effective tool in public debts management.

Debt Management Strategy

We noted during the audit that, the PDMD was not preparing the debt management strategy in accordance with section 6(1) of the PDM Act of 2011 which states: “A medium-term public debt management strategy shall be formulated annually on a rolling basis by the Minister and approved by cabinet.” This made it difficult to assess the achievement of the Division.

There is a need for the preparation of a medium-term debt strategy and plan as this would provide direction for actions and activities of the Division for a period of time. This would help to achieve debt sustainability.

The Ministry developed arrears clearance strategy which aimed at discounting domestic arrears payable to suppliers/contractors. The formation of the strategy was not properly done as suppliers/contractors did not cooperate in its implementation because they are of the view that the Ministry failed to do consultation with them. It is important for the Ministry through its PDMD to embark on stakeholders’ consultation in preparing strategy for public debt implementation to enhance the sustainability of public debt.

In general, the PDM strategy was not successful during the period under review as highlighted above. The Ministry was not consistently preparing the medium term debt management strategy annually, on a three-year rolling basis. Even the arrears clearance strategy that was developed could not achieve its objective of suppliers/contractors disclaiming any future liability on the Government upon full receipt of the discounted amount.

Debt Monitoring, Reporting and Evaluation

Even though section 24(t) of the PDM Act of 2011 stated that the PDMD is responsible to monitor the disbursements of loans raised by the Government are in accordance with the agreed disbursement schedules, we noted that the PDMD did not monitor disbursement implementation of public debts as required. This was evident in the ‘Country Programme Portfolio Review’ (CPPR) documents. The implementation of projects without proper monitoring has affected the projects in achieving the objectives for which the loans were acquired. The Ministry should establish effective monitoring mechanism within the PDMD to ensure compliance with the above section.

The accumulation of arrears has resulted in financial management issues such as weaknesses in the internal control environment and public financial management inefficiency. The continuous creation of arrears put the budget at risk, which clearly shows inadequate system of governance. We noted the following; no standardised database, verification of arrears not done, disclaimer forms issued not returned, overpayment to suppliers, etc.

The Ministry is responsible to submit public debt report to Parliament not later than three months after the end of the financial year. However, this has not been done. This is evident in our findings as there are

no formal public debt reports sent to Parliament by the Ministry except for the public debt annex included in the budget and the bulletin produced on an annual basis. As such, Parliament might not be aware of the debt status, borrowing limit, ongoing debt projects, and their current status for oversight.

Ineligible Expenditure

The un-utilisation of funds, mismanagement, or non-compliance with the financial and contractual procedures in the signed agreed terms and conditions on how loan should be implemented has resulted in ineligible expenditure payments and refunds by the Government to multilateral donors. We noted that due diligence was not followed before the repayment of these loans according to section 274 of the Financial Management Regulations of 2018, which explicitly outlines the steps to be followed before making payment of ineligible expenditure.

The consequence of the above problems has significantly affected the management of public debt. In order to alleviate such problems, the public debt division should therefore collaborate with stakeholders to address the issues raised in this report, by ensuring laid down regulations and policies are effectively followed.

6.

APPENDICES

6.1 APPENDIX 1: LIST OF DOCUMENTS REVIEWED

No.	Name of Documents	Objective
1	The Public Debt Management Act, 2011	The objective is to ensure that Government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, and to promote the development of the domestic debt market.
2	The Bank of Sierra Leone Act, 2000	To understand the roles and responsibilities of the Bank of Sierra Leone in the management of public debt, and in particular the operations of the financial securities such as treasury bills and bonds in the mobilisation of funds for government expenditure.
3	The Government Budget and Statement of Economic and Financial Policies for the Financial Year, 2019	To determine the status of the public debt of the country and the policies put in place by the monetary and fiscal authorities in order to stabilise the financial position of the economy.
4	The International Monetary Fund (IMF) Policy Paper Revised Guidelines for Public Debt Management	To understand the IMF's new policies, explore options for reform, or reviewing existing IMF policies and operations that should be used for the management of public debt.
5	The Government Budget and Statement of Economic and Financial Policies for the Financial Year, 2020	To determine the status of the public debt of a country and the policies put in place by the monetary and fiscal authorities in order to stabilise the financial position of the economy.
6	The Public Debt Bulletin Financial Year 2020	To know the development partners and other stakeholders of Government debt management operations, the country's debt statistics; including its debt stock, debt service payments; composition and structure of external and domestic debts; risks in the existing debt portfolio; developments in the

No.	Name of Documents	Objective
		domestic debt market and the overall public debt management landscape in Sierra Leone for the FY 2020.
7	The Arrears Clearance Strategy and Principles 2020-2025	To understand the principles and options of strategies applied by the Ministry in solving the problem of accumulated arrears for the period 2010–2020.
8	The Public Debt Bulletin, 2019	To know the development partners and other stakeholders of Government debt management operations, the country's debt statistics; including its debt stock, debt service payments; composition and structure of external and domestic debts; risks in the existing debt portfolio; developments in the domestic debt market and the overall public debt management landscape in Sierra Leone for the FY 2019.
9	WAIFEM Regional Course on Audit of Public Debt Management, June 10-14: Monrovia, Liberia	To get an understanding of the course on the concept of public debt discussed at the international forum and to enable the team to apply a similar concept to the audit of public debt management in Sierra Leone.
10	WAIFEM Regional Training on Audit of Public Debt Management, June 10-14 2019, Monrovia, Liberia	To get an understanding of the training on the concept of public debt discussed at the international forum and to enable the team to apply a similar concept to the audit of public debt management in Sierra Leone
11	Planning Audits of Public Debt Management	To understand the concept and processes involved in the planning of the audit on public debt management
12	Auditing Public Debt Management Strategy	To grasp the methodology involved in the preparation and auditing of the Public Debt Management Strategy
13	Auditing Borrowing Activities	To understand the methodology involved in the auditing of the borrowing activities

No.	Name of Documents	Objective
14	Auditing Determination of Public Borrowing Needs and Borrowing Activities	To get an understanding of how to determine the public borrowing needs and activities when preparing a borrowing plan
15	Auditing Information System of Public Debt Management	To undertake how to audit the Information System used in the management of public debt in the sub-region
16	Auditing on-Lending & Loan Guarantees	To be au-fait with the procedures and methodology of auditing on-Lending & Loan Guarantees and how to determine fiscal risk and the setting of incidental liability
17	Evaluating Internal Controls in Public Debt Management	To understand the methodology involved in the evaluation of internal controls in the public debt management
18	Auditing Information System of Public Debt Management Writing Performance & Financial Audit Reports of Public Debts	To gain an understanding of the methodology and procedure involved in auditing the information system of Public Debt Management, writing performance and financial audit reports of public debts
19	Government Finance and Debt Market Terminologies	To understand the terminologies used in Government finance and the debt market
20	Audit of Public Debt Management A Handbook for Supreme Audit Institutions	To know the guidelines used in the audit of public debt management at Supreme Audit Institutions
21	African Development Bank Group, West Africa Regional Development and Business Delivery Office. Refund of Balances of Special Account	To determine the reasons for the request for unjustified balances on the implementation of the Agricultural Sector Rehabilitation Project (ASREP)
22	Authorization to return US\$2.0 million to the World Bank under The Sierra Leone Pay and Performance Project (Ida Credit No. 51220-SI) between the Republic Of Sierra Leone and The International Development Association (IDA)	To determine the reasons for the authorization for the refund of ineligible expenditure on the Pay and Performance Project.

No.	Name of Documents	Objective
23	Sierra Leone Economic Outlook	To understand the financial status of the country in relation to the COVID epidemic
24	Disclaimer Forms	To confirm whether suppliers/vendors and contractors returned the Disclaimer forms as it serves as a legal document that vendors/suppliers and contractors are required to sign when paid to avoid future obligations to Government.
25	Arrears Database	To verify and confirm whether the Public Debt Management Division is keeping timely, comprehensive, and accurate records of outstanding Government debts. Also to confirm whether proper reconciliation is done with regards to the arrears database.
26	Zero-coupon	To understand the concept and processes involved in the management and use of zero-coupon
27	Minutes of the meetings of the Domestic Suppliers and Contractors Arrears Clearance Strategy and Principles (2020-2025)	To ascertain the decisions reached by the Management of the Ministry of Finance in the settlement of the suppliers and to know the propositions made by the different suppliers.
28	Payment Vouchers of Suppliers	To determine the individual amount accrued to suppliers and how much that amount has been paid for us to be able to reconcile between the amount accrued and the amount paid.
29	Request for the Transfer of Funds to the Escrow Pay and Performance Department Account No. 01222001022	To confirm whether the transfer was done from the Technical Assistance Department to the Escrow account at the Bank of Sierra Leone.
30	Pay and Performance Project (IDA Credit No. 51220-SL) Refund of DLI Payments.	To gain an undertaking to the Disbursement Linked Indicators that were not achieved during the implementation of the Pay and Performance Project and the reasons for not achieving them

No.	Name of Documents	Objective
31	Government of Sierra Leone Minutes Paper. Refund of US\$2.0 Million on the Sierra Leone Pay and Performance Project (IDA Credit No. 51220-SL) Between the Republic of Sierra Leone and the International Development Association.	To understand the reason for the authorisation for the repayment of ineligible expenditure by the Government of Sierra Leone
32	Completion of Handing Over of the Agricultural Sector Rehabilitation Project (ASREP) Assets.	To determine the assets that were transferred after the closure of the project
33	Project Completion Report Preparation Mission Agricultural Sector Rehabilitation Project (ASREP)	To determine the achievement of the project and the financial status, the closing balances of the project during the closure period
34	12 External loan agreement will be sampled	To determine the signed date, amount, and the terms and condition of the loan agreement.

6.2 APPENDIX 2: LIST OF PERSONS INTERVIEWED

LIST OF PERSON'S INTERVIEWED				
No.	Name	Designation	Institution	Reason for the Interview
1	Mathew Sandy	Director of Public Debt Management Division	Ministry of Finance	To gain an understanding of the Management of Public Debts – Planning, Recording, Sourcing of Funding, Repayments and Reporting of Debts.
2	Santigie Charles Conteh	Deputy Director of Public Debt Management Division	Ministry of Finance	To corroborate the information gathered from the director of public debt in gaining an understanding of the management of public debts – planning, recording, sourcing of funding, repayments, and reporting of debts. Also to gain an understanding of the procedures and processes of arrears accumulation.
3	Sam Aruna	Deputy Financial Secretary and Head of Multilateral Project Division	Ministry of Finance	To gain an understanding of the source of funding from creditors for projects implementation
4	Dr. Mansaray	Director of Fiscal Risk	Ministry of Finance	To gain an understanding of the role of the fiscal risk division in the management of public debts states Own Enterprises.
5	Georgiana Kamara	Director of Public Sector Reform Unit	Public Sector Reform Unit (PSRU)	To gain an understanding of the role of the public sector reform unit in the implementation of the pay and performance project and the reason or causes of the ineligible expenditures.
6	Sheila Max Mcarthy	Assistant Accountant General (Financial & Reporting)	Accountant General's Department	To gain an understanding of the process of recording, investigating, and recovery of ineligible expenditure
7	Kandeh Sesay	Director of Internal Audit Department	Ministry of Finance	To gain an understanding of the different audits they have undertaken in relation to the management of public debts and what are their findings.
8	Jacob Sessie	Acting Deputy Director of Budget Bureau	Ministry of Finance	To gain an understanding of the role of the Budget Bureau in relation to the management of public debts.

LIST OF PERSON'S INTERVIEWED				
No.	Name	Designation	Institution	Reason for the Interview
9	James Romeo Koroma	Project Coordinator, ASRP	Agricultural Sector Rehabilitation Project (ASRP)	To gain an understanding of the implementation of the agricultural sector rehabilitation project and the causes of the ineligible expenditure incurred during the implementation.
10	John A. Tucker	Assistant Director	Bank of Sierra Leone (BSL)	To gain an understanding of the financial market (the buying and selling of treasury bills and bonds)
11	Ibrahim Musa Bangura	Head of Cash Management	Accountant General's Department	To gain an understanding of the management of cash and the rationale of the cheques payables

6.3 APPENDIX 3: ASSESSMENT CRITERIA FOR THE AUDIT

Audit Question	Sub Question	Source	Description of Relevant Aspects
To what extent has the MoF (Public Debt Management Division) ensured compliance with the legal framework governing public debts?	Were loan agreements ratified by Parliament before been signed and obtained by the government and donor partners?	The Public Debt Management Act, 2011	Parliamentary Approval on Public Debt Section 10 of the Public Debt Management Act of 2011 states: “A loan agreement between Government and an international financial institution or a foreign government or other foreign creditor shall not come into operation unless its terms and conditions have been approved by Parliament.”
	Did the PDMD prepare an annual borrowing plan?	The Public Debt Management Act, 2011	Annual Borrowing Plan Section 24 (b) of the Public Debt Management Act 2011 states: “The functions of the Public Debt Management Division shall be to prepare an annual borrowing plan.”
Were the debt management strategies implemented as planned?	Were institutional and organisational arrangements for PDMD properly documented? i.e., Was there a comprehensive procedures manual?	The IMF and WB guidelines on Public Debt Management	Section 2.1 of the IMF Revised Guidelines for Public Debt Management states: “There should be “clarity of roles, responsibilities, and objectives of government institutions responsible for debt management.” Section 3.2 of the IMF Revised Guidelines for Public Debt Management states: “Management of internal operations and legal documentation.”

Audit Question	Sub Question	Source	Description of Relevant Aspects
	Did staff members have code of conduct guidelines, conflict of interest guidelines, or both? If so, who is responsible for preparing and monitoring these guidelines? Were staff trained on these guidelines?	The IMF Revised Guidelines for Public Debt Management	Code of Conduct Section 3 (3.2) of the IMF Revised Guidelines for Public Debt Management states: “Operational risks should be managed according to sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting Arrangements.”
	Has the Debt Management Office (DMO) followed the strategies planned in the DeM Strategy? How often is the strategy reviewed and updated?	The Public Debt Management Act, 2011	Section 6 (1) of the Public Debt Management Act 2011 states: “A medium-term public debt management strategy shall be formulated annually on a rolling basis by the Minister and approved by cabinet.”
Was there a framework for monitoring, evaluating and reporting for an effective implementation of public debts?	Was there an effective system in place to monitor the execution of project loans?	Public Debt Management Act of 2011	Monitoring of Projects Section 24 (t) of the Public Debt Management Act of 2011 states: “The functions of the Public Debt Management Division shall be to monitor that the disbursements of loans raised by Government are in accordance with agreed disbursement schedules.”
	Was there an effective system in place to evaluate and report on	The Public Debt Management Act, 2011	Debt Report to Parliament Section 21(1-2) of the Public Debt Management Act 2011 states: “ (1) Not later than three months after the end of the

Audit Question	Sub Question	Source	Description of Relevant Aspects
	the execution of project loans?		<p>financial year, the Minister shall furnish Parliament with an annual report on Government debt management activities, guarantees and lending.</p> <p>(2) The annual report shall include—</p> <p>(a) information on the debt management strategy and its rationale and how the strategy has been implemented over the course of the financial year;</p> <p>(b) information on the contribution of the debt management strategy and debt management activities in achieving the debt management objectives;</p> <p>® a list of all outstanding borrowing by Government;</p> <p>(d) a list of all outstanding lending including a classification of the loans according to their probability of default; and</p> <p>e) a list of all guarantees issued by Government including a classification of guarantees according to their probability of being called.”</p>
	Was there an effective system in place to manage the execution of project loans?	The Financial Management Regulations 2018	<p>Ineligible Expenditure</p> <p>Section 274 of the Financial Management Regulation 2018 states: “(1) An employee of a budgetary or sub-vented agency who becomes aware of the occurrence of ineligible expenditure must immediately, in writing, report such expenditure to the vote controller of the agency.</p>

Audit Question	Sub Question	Source	Description of Relevant Aspects
			<p>(2) The vote controller shall keep a record of the details of the allegation, together with supporting documents, on discovery of any ineligible expenditure and initiate an investigation.</p> <p>(3) When the investigation confirms the occurrence of the ineligible expenditure, the vote controller of the budgetary or sub-vented agency shall report the details of the transgression to the Accountant-General.”</p>
Public Debt	Was there an effective system in place to manage the payment of domestic loans?	<p>The Public Debt Management Act, 2011.</p> <p>The Public Debt Management Act, 2011.</p>	<p>Domestic Debt</p> <p>Section 5 of the Public Debt Management Act of 2011 states: “The objectives of public debt management are to ensure that Government’s financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, and to promote development of the domestic debt market.”</p> <p>Section 24(m) of the Public Debt Management Act of 2011 states: “The functions of the Public Debt Management Division shall be to keep timely, comprehensive and accurate records of outstanding Government debt, guarantees and lending in an appropriate database.”</p> <p>Section 138. (1) of the Public Financial Management Regulation 2018 states: “For the purpose of sub-section (3) of section 73</p>

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Audit Question	Sub Question	Source	Description of Relevant Aspects
		The Public Financial Management Regulations of 2018.	and sub-section (3) of section 74 of the Act, the Ministry shall expand the consolidated aid database to include the following information- (a) in respect of each external loan and grant to finance expenditure of a budgetary or sub-vented agency – (i) a copy of the loan or grant agreement; (ii) a copy of the parliamentary ratification; (iii) an updated disbursement schedule from the donor for the subsequent three years; (iv) amount of actual disbursements from the donor for every quarter.”
		Section 24® of the Public Debt Management Act, 2011	Verification for the Payment of Domestic Debt Section 24® of the Public Debt Management Act of 2011 states: “The functions of the Public Debt Management Division shall be to compile, verify and report on all Government domestic arrears and design a strategy for the settlement of those arrears.”
		The Arrears Clearance Strategy and Principles 2020 – 2025	Disclaimer Forms Arrears Clearance Strategy and Principles 2020 – 2025 clearly states: “A Disclaimer form that was approved in 2002 by the Laws Officers Department, Attorney General’s Office, and Ministry of Justice will be used to legalise the arrears clearance process. This would be signed off and sealed by all the supplies or contractors disclaiming any future liability on the Government upon full receipt of the discounted amount and the payment of their debts. Therefore, upon payment, suppliers/ contractors are required to sign and return

Audit Question	Sub Question	Source	Description of Relevant Aspects
			the Disclaimer forms as it serves as a legal document to avoid future obligations on Government.”
		The Public Debt Management Act, 2011	Wrong Posting of Payments in Arrears Database payment of Suppliers Section 24(m) of the Public Debt Management Act of 2011 states that emphasizes one of the functions of the Public Debt Management Division is “to keep timely, comprehensive and accurate records of outstanding Government debt, guarantees, and lending in an appropriate database.”
		The Public Financial Management Regulations, 2018 The Public Financial Management Act of 2016	Payment of Allocations and Grant as Domestic Debt section 80 of the public Financial Management Regulation 2018 states: “A balance of a commitment ceiling that remains unused at the end of a quarter shall be carried over to the subsequent quarters but shall lapse at the end of the financial year.” Section 1 of the Public Financial Management Act of 2016 states: “Arrears should be under a relevant contract agreement, relevant invoice or of satisfaction of the term of the relevant contract.”
Were loans acquired utilised in accordance with agreed terms and conditions of the donor partners/creditors		The Financial Management Regulations 2018	Section 274 of the Financial Management Regulations of 2018 explicitly explains the procedures in handling ineligible expenditures.

6.4 APPENDIX 4: INELIGIBLE EXPENDITURE PAYMENT

INELIGIBLE EXPENDITURE FOR 2018 -2021		
Loan Project	Voucher No.	Amount
Pay and Performance Project	51220	2,000,000
Agricultural Sector Rehabilitation Project (ASREP)	FT2130684080	173,767.62
Unknown Project	FT2127472512	Le358,311,317.90

6.5 APPENDIX 5: LIST OF SUPPLIERS WITHOUT VERIFICATION FROM THE PUBLIC DEBT MANAGEMENT DIVISION

No.	Supplier Name	Cheque No.	Amount Paid (Le)
1	Another Line	00288274	94,500,000.00
2	Another Line Investment	Aggregated CHQ Nos. (00288627, 00288624, 00288623, 00288626 & 00288625)	107,815,050.00
3	Another Line Investment		63,317,835.00
4	Index Enterprise	Aggregated CHQ Nos. (0028922, 00288439, 00288781, 00289224 & 00289223)	77,456,925.00
5	Index Enterprise		68,810,175.00
6	Index Enterprise	00289225	86,212,350.00
7	Stationery Shop Sierra Leone	Aggregated CHQ Nos. (00288348, 00287527, 00287908, 00287524 & 00287526)	66,150,000.00
8	Stationery Shop Sierra Leone		83,651,400.00
9	West Stars General Supplies	00288895	2,362,500,000.00
10	Lasman Holding	00288095	18,900,000.00
11	Lasman Holding	00288092	56,700,000.00
12	Lasman Holding Enterprise	00288093	18,900,000.00
13	Lasman Holding Enterprise	00288094	28,350,000.00
14	Matu & Dondo	00288072	84,105,000.00
15	Matu & Dondo	Aggregated CHQ Nos. (00288367 & 00288361)	51,030,000.00
16	Dozic Enterprises	00289268	12,762,225.00
17	Dozic Enterprises	00288326	109,719,225.00
18	Dozic Enterprises	00288325	43,517,250.00
19	Procurement World	00287404	3,113,449,542
20	Procurement Project Management	00287618	2,167,563,151

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No.	Supplier Name	Cheque No.	Amount Paid (Le)
21	Secon (SL) Ltd. (Fo)	00290033	4,540,522,939
22	Secon (SL) Ltd. (Fo)	00289571	4,540,522,940
23	Sulaimatu Enterprise	00288920	4,326,069,762
24	Sulaimatu Enterprise	00288935	4,326,069,762
25	Winmat Publishers Limited	00288930	4,039,070,154
26	Winmat Publishers Limited	00288926	4,039,070,154
27	Winmat Publishers Limited	00288924	4,039,070,154
28	Winmat Publishers Limited	00288923	4,039,070,154
29	Winmat Publishers Limited	00288932	3,457,502,668
30	Winmat Publishers Limited	00288921	3,457,502,668
31	Winmat Publishers Limited	00288922	4,039,070,154
32	Winmat Publishers Limited	00288925	4,067,372,575
33	Winmat Publishers Limited	00288931	4,039,070,154
34	Shabasco General Merchant	00294914	2,362,500,000
	TOTAL		64,027,894,366.00

6.6 APPENDIX 6: WRONG POSTING OF PAYMENTS IN ARREARS DATABASE

	Date of Payments	Name of Supplier	Description	Cheque No.	PV No.	Amount Verified by MDA (Le)	Amount Paid (Le)
1	15th Apr. 2020	Matu & Dondo	Domestic Arrears iro Marine (Marine Resources)	00288072	0007308	24,634,500	84,105,000.00
2	14th May, 2020 13th May, 2020	Matu & Dondo	Furniture & Equipment & Supply of Stationery	00288367 & 00288361	0001452 0004370	30,000,000	51,030,000.00
1	13th May, 2020, 30th Jan., 2020, 17th Mar., 2020, 30th Jan., 2020, 30th Jan., 2020 & 30th Jan., 2020.	Stationery Shop Sierra Leone	1. PTY For O. Equipment iro MoD 2. Domestic Arrears iro Regis GE 3. Domestic Arrears iro of MSWELF (MoF) 4. Domestic Arrears iro AD RE GEN (Law Officers) 5. Domestic Arrears iro AD REG GO (Law Officers) 6. Domestic Arrears iro ADM REG GE (Admin & Registrar General)	00288348, 00287527, 00287908, 00287524, 00287526 & 00287525	0007108, 0015646, 0009779, 0015637, 0015644 & 0015639	50,000,000.	66,150,000.00
2		Stationery Shop Sierra Leone				55,000,000.00	83,651,400.00
Total							284,936,400.00

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