

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC90831

Project Name	Sierra Leone Audit Service Capacity Building Support Project
Region	AFRICA
Country	Sierra Leone
Lending Instrument	IPF
Project ID	P161814
Borrower Name	Ministry of Finance
Implementing Agency	Audit Service Sierra Leone
Environment Category	C - Not Required
Date PID Prepared	04-Oct-2016
Estimated Date of Approval	31-Jan-2017
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Since the end of the civil war in January 2002, Sierra Leone has made strong progress in building peace, re-establishing democratic institutions, strengthening core systems, and bringing decisions and resources closer to its citizens through decentralization. Additionally, until the outbreak of the Ebola epidemic in 2014 through 2015, the country was achieving macro-economic stability. The GDP growth rates had averaged an impressive 7%, and inflation had dropped to single digits reflecting a continued tight monetary policy stance, a stable exchange rate, and some moderation of prices. The country's external current account deficit had reduced, and had recorded increased financial reserves at the end of 2013. Strong average growth rate of the economy has coincided with a reduction in poverty as poverty rate had declined from 66.4% in 2003 to 52.9 per cent in 2011. Despite this period of growth, the country remains a low income country and one of the poorest, with a GDP per capita of US\$513 in 2013.

The outbreak of the Ebola in 2014 through 2015 has had a devastating socio-economic impact on the country reversing the prior modest economic gains it has enjoyed. The epidemic was recorded to have caused about 3,953 deaths by early 2016 when it was declared over by the WHO. Additionally, about 8,345 children were orphaned and more than 1,100 households left with single parents. Economically, the outbreak derailed the government economic program as there was persistent pressure to divert government expenditure to deal with the outbreak. Furthermore, since the outbreak, revenue mobilization, overly dependent on exceptional collection from the mining sector (iron ore) and oil exploration licenses, has been affected by fall in commodity prices leading to a significant revenue decrease. Due to the Ebola outbreak, for example, real GDP contracted over the second half of 2014 by an annualized rate of -1.3 percent compared with an impressive annualized growth rate of 11.3 percent of 2014 and 20.7 percent in 2013. While the Government has developed the Ebola Recovery Strategy to address immediate short term effects, there is need to

strengthen post-Ebola growth prospects by supporting key sectors of the country.

The country remains a Fragile State with a Country Policy and Institutional Assessment (CPIA) of 3.26 in Fiscal Year (FY) 2015. Despite the remarkable progress achieved since the end of the civil war, Sierra Leone's state institutions remain weak and marred by limited human capacity and elite capture, and are subject to political interests leading to poor transparency and accountability.

Improving transparency and accountability in the public sector is crucial in building broader consensus around development strategies. While efforts have been made in the country to promote budget openness and public financial management, overall the country, still, has significant weaknesses in the area of spending oversight both at the central and local government levels, as well as the State Owned Enterprises. Building capacity in the country's oversight institutions so as to improve transparency and accountability is, therefore, deemed essential. Accordingly, strengthening the Audit Service Sierra Leone (ASSL), which is the country's Supreme Audit Institution, to provide a strong oversight is key in the Government's Governance and Public Sector Reforms under the Agenda for Prosperity.

Sectoral and Institutional Context

Sector:

Overall, the country's PFM remains weak. Although efforts by donor-partners, through implementation of several reform initiatives, over the years, have yielded some improvements, significant capacity constraints and other concerns still exist in government institutions. The weak PFM environment has resulted to lack of sustained fiscal discipline and inadequate personal accountability in the country. PEFA assessments conducted in the country since 2008 have all emphasized weak budget credibility and predictability, fiscal management challenges, poor expenditure control (particularly development expenditure), and poor transparency as major national concerns requiring immediate attention. Budget execution also faces significant challenges due to limited resources in the midst of expenditure pressures often setting the stage for a tight fiscal envelope in recent years.

Despite the gains made in the audit reform arena in Sierra Leone, quite a number of problems still remain. These include corruption in contract management, problems in auditing the justice sector institutions in totality given the core function they provide and general leakages of resources through embezzlement. Further, inconsistencies in records, wrong postings, missing supporting documentation as well as salary payment irregularities are key issues that the ASSL faces year in year out. More broadly, there continues to be lapses in the financial management system in Sierra Leone which has ultimately resulted into the loss of funds and reduction in the quality of service delivery in key ministries. For instance, serious procurement malpractices exist despite existence of Procurement Law supported by procedural manual and a directorate in MOFED. These procurement lapses in public institutions dominate concerns expressed in qualified audits by the ASSL with common problems being lack of supporting documentations and poor transparency. A strong and capacitated audit outfit would unearth these anomalies to ensure appropriate reform and resultant actions taken to address them.

Internal audit and internal controls are weak at MDAs and other government institutions. For instance, only few MDAs have internal auditors but these internal auditors lack capacity to provide any meaningful internal audit services consistent with international standards. Their work are

mainly confined to pre-audits of transactions, and lack the capacity to undertake audits in the IFMIS environment which is much needed. Due to limited scope and poor quality of work, the Audit Service does not place reliance on their work. Additionally, whilst Audit Committees have been formed in the MDAs, only few are actually functioning.

Institutional Context:

The Audit Services Sierra Leone, the Supreme Audit Institution of the country, is mandated by law to be the auditor of Government as espoused in Section 119(2) of the 1991 constitution. This section also empowers the Auditor General to audit all government ministries, departments, agencies, educational institutions and any other statutory body and report on matters deemed fit to Parliament. The Act further provides for establishment of Office of the Auditor-General, and an Audit Service Board (ASB). The ASB is an Advisory Board empowered to appoint persons other than the Auditor-General, to hold or act in offices as members of the Audit Service. The Board also exercises disciplinary control over officers of the Audit service. The ASSL thus was created as an independent body with administrative and functional autonomy.

Although, the ASSL is responsible for auditing the central and local governments and SOEs, in practice some of these audits are contracted out to privately owned audit firms. In such cases, however, ASSL retains responsibility for such audits and submits reports on them to the Parliament as part of its annual report. The Government Budgeting and Accountability Act 2005 (GBAA) spells out the Auditor-General's responsibilities to include conducting financial, compliance, and performance audits.

Under the country's Agenda for Prosperity (2013-2018), the work of the ASSL is included under Pillar 7-entitled Governance and Public Sector Reform. Under the country's overarching Agenda for Prosperity, specific objectives highlighted for the ASSL include to; i) build capacity to cover at least 90% government expenditure by 2015 (this could not be achieved); ii) build capacity to enable ASSL move into specialized audits such as IT, forensic, and environmental audits whilst being grounded into performance audits (target is to publish 20 performance audits by 2017; iii) work with other stakeholders to spread awareness of the ASSL roles and responsibilities; and iv) conduct annual surveys to gauge public perception on the relevance and quality of published audit reports.

Despite the important roles expected to be played in the Government's PFM Reform Strategy, the ASSL is significantly constrained. The ASSL audit reports reveal significant capacity constraints including lack of up-to-date audit standards, and inadequate human and financial resources. The audit scope is limited, and coverage is exclusively focused on review of budget execution reports and compliance issues. Although it has established quality assurance unit, it is not yet operational and its working papers are not consistent with INTOSAI and International standards. The National Anti-Corruption Strategy 2014-2018, for example, emphasizes some of the constraints of the ASSL to include perceived lack of capacity to conduct systems, performance, and forensic audits; persistent allegations about auditor corruption; and lack of due attention given to ASSL's reports by the Public Accounts Committee.

Lack of public awareness of the existence of the ASSL and its expected oversight roles and responsibilities is also a concern. There is limited civil society engagement by ASSL leading to inadequate knowledge of its roles and what it exists to contribute to the country. This often results

to lack of cooperation from stakeholders and non-appreciation of services rendered. The complexity of its reports also discourages the public from reading and understanding these important reports.

Successful implementation of PFM reforms in the country, however, demands a stronger and better equipped ASSL that can efficiently fulfill its mandate, and be appreciated by all stakeholders. For example, the need for more enhanced capacity for ASSL is heightened as the Government of Sierra Leone, through MOFED, has incorporated sectoral sustainable development goal considerations into its budgetary processes, necessitating ASSL to include, in its audit plans, verification of the implementation of these strategies.

Although ASSL over the years has enjoyed support from several development partners in building appropriate structures and processes to promote transparency and accountability and mitigate the fiduciary risk of utilizing public funds, much support are still needed to achieve desired competency of the Audit Service. Strengthening the capacity of the Audit Service Sierra Leone through this financing being sought will focus on developing core professional staff capacities since other areas are already funded. Such efforts will go towards buttressing development and strengthening audit methods, development of audit manuals, improving the planning and management of professional work as well as strengthening development of quality assurance methodologies which are being funded by the PFMICP.

Once in place, the professional capacity would help deal with organizational capacity where corporate strategic planning, strengthening leadership and management as well as developing skills to better manage resources-financial and human will be improved. Resultantly, the ASSL capacity will be in a stronger position to deal with external environment by having an engaging interaction with Parliament and legislature for oversight purposes, the executive, audited bodies, donors, regional audit bodies, the media as well as professional associations and private sector.

The SAI PFM assessment conducted in 2012 confirmed the weak governance and public financial environment that ASSL operates in the country as mentioned above. The report acknowledged that ASSL over the years has received sustained donor support and has benefited from the availability of INTOSAI regional capacity development progress, but strongly pointed out that the institution's quality of audit work is very low due thus confirming the need for continuous efforts in capacity building of the ASSL.

Relationship to CAS/CPS/CPF

The Country's Partnership Framework (CPF) identifies transparency and accountability in the public sector as a cross-cutting area crucial to building broader consensus around development strategies. During the period of the CPF, transparency agenda supported by the Bank focuses on regularity, government effectiveness, and accountability. As the proposed project intends to strengthen ASSL's capacity to ensure transparency and accountability in public expenditure, it is fully aligned with CPF's focus on transparency and accountability.

II. Project Development Objective(s)

Proposed Development Objective(s)

To improve the quality and efficiency of public sector audit, thereby strengthening external oversight over the management of public resources in Sierra Leone

Key Results

Key Outputs

Key outputs are:

- (¢ Component 1: i) a core team of ASSL auditors trained in Revenue Audits
- (¢ Component 2: i) ASSL trained producing simplified versions of ASSLs reports for the public yearly during project life.

Key Results/Outcomes

Project outcomes include:

- (¢ ASSL's capacity strengthened to conduct and deliver timely and quality revenue audits.
- (¢ ASSL uses its strengthened capacity to undertake at least three revenue audits during the project life.
- (¢ ASSL capacity strengthened to produce simplified version of audit reports including developing pictorial and vocal depictions.
- (¢ Enhanced understanding of audit reports issued by the ASSL by the public

III. Preliminary Description**Concept Description**

The project will consist of the following components:

Component 1- Strengthening Professional Capacity

The objective of this component is to create professional capacity to support strengthening of the financial oversight roles of the ASSL, and submission of timely quality audits to the Public Accounts Committee to ensure transparency and accountability on the use of public funds.

Activities that shall be financed under this component include: i) engagement of a consultant to provide ➤(hands-on ➤(training and development for ASSL in revenue audits. Currently, maximization of revenue collection has become a priority area for Government and donors. As such, the audit of government revenue has become a priority audit focus. As ASSL is limited in capacity in conducting this type of audit, the SAI is seeking support to engage a Consultant to provide hands-on training in this revenue audit to equip skills necessary to undertake this specialized audit on their own in the future; and ii) relevant logistical support.

Component 2: Enhanced understanding of ASSL audit reports issued.

The objective of this component is to make it easier for the public to read and appreciate reports issued by the institution.

Activities that shall be financed under this component include; i) engagement of consultants to train and develop ASSL staff to produce simplified versions of ASSL audit reports including developing pictorial and vocal depictions for the benefit of the public to promote understanding of the audit findings

Component 3: Project management, M&E, and Audit

This component would finance; i) Project Coordinator within the ASSL who would support and facilitate the interaction among different units within ASSL, and interaction with the PMU and overall project monitoring.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	0.27	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Supreme Audit Institutions Capacity Development Fund			0.27

VI. Contact point

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