



# Public Expenditure and Financial Accountability PEFA Self-Assessment 2024

Final Report  
Issued January 2025



Ministry of Finance and Development Planning, Government of Lesotho

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## Abbreviations and Acronyms

AFROPAC	African Organization of Public Accounts Committees
AFROSAI	Organisation Africaine des Institutions Supérieures de Contrôle des Finances Publiques
AFROSAI-E	African Organization of English-Speaking Supreme Audit Institutions
AFS	Annual Financial Statements
AG	Auditor General
APAC	Association of Public Accounts Committees
AUSC	African Union Sports Council
BCG	Budgetary Central Government
BFD	Budget Framework Paper
BFR	Big Fast Result
BSP	Budget Strategy Paper
CAO	Chief Accounting Officers
CBL	Central Bank of Lesotho
CBMS	Central Budget Management System
CG	Central Government
CHAL	Christian Health Association of Lesotho
CIT	Cooperate Income Tax
COAs	Chart of Accounts
COFOG	Classification of the Functions of Government
COVID	Coronavirus Disease
CSO	Civil Society Organizations
DP	Development Partner
DPO	Development Policy Operation
DSA	Debt Sustainability Analysis
EBU	Extra-Budgetary Unit
EPC	Economic Portfolio Committee
EPICOR	Enterprise Resource Planning
FA	Financial Affairs
FP	Financial Programming
FPAS	Forecasting and Policy Analysis System
FPP	Financial Programming and Policies
FY	Financial Year
GAMF	Government Asset Management Framework
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GoL	Government of Lesotho
HR	Human Resources
HRMIS	Human Resources Management Information System

IA	Internal Audit
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Standards for Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
LESPAF	Lesotho Empirical System for Policy Analysis and Forecasting
LIPAM	Lesotho Institute of Public Administration and Management
LNDC	Lesotho National Development Corporation
LRA	Lesotho Revenue Authority
LSL	Maloti
M&E	Monitoring and Evaluation
MCC	Maseru City Council
MDA	Ministry Department Agency
MoAF	Ministry of Agriculture and Food Security
MoD	Ministry of Defence
MoET	Ministry of Education and Training
MoFDP	Ministry of Finance and Development Planning
MoH	Ministry of Health
MoLGCHAP	Ministry of Local Government, Chieftainship, Home Affairs and Police
MoLJ	Ministry of Law and Justice
MoM	Ministry of Mining
MoNR	Ministry of Natural Resources
MoPS	Ministry of Public Service
MPMD	Macroeconomic Policy and Management Department
MSME	Micro, Small and Medium Enterprises
MTDMS	Medium-Term Debt Management Strategy
MTDS	Medium-Term Debt Strategy
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
MWG	Macro-Economic Working Group
NGO	Non-Governmental Organization
NSDP	National Strategic Development Plan
OAG	Office of the Auditor General
OD	The Organizational Development Department
OECD	Organization For Economic Co-Operation and Development
OPM	Office of the President
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PBB	Program-Based Budgeting
PCED	Portfolio Committee on Economic Development



PCM	Project Cycle Management
PDAMD	Public Debt and Aid Management Department
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management and Accountability
PMP	Performance Management Policy
PPAD	Procurement Policy and Advisory Division
PPP	Public/Private Partnership
PSC	Public Service Commission
PSD	(Department of) Private Sector Development
PSD&FA	(Department of) Private Sector Development and Financial Affairs
PSIC	Public Sector Investment Committee
PSIP	Public Sector Investment Programme
RSL	Revenue Services Lesotho
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCOPAC	Southern Africa Development Community Organization of Public Accounts Committees
SAI	Supreme Audit Institution
SARB	South African Reserve Bank
SGO	Statement of Government Accounts
SNG	Sub-National Government
SOE	State-Owned Enterprise
TOR	Terms of Reference
TSA	Treasury Single Account
TWG	Technical Working Group
UNICEF	United Nations Children's Emergency Fund
VAT	Value Added Tax
WASCO	Water and Sewerage Company
ZAR	South African Rand



The Public Expenditure and Financial Accountability (PEFA) Self-Assessment (SA) 2024 was led by the Budget Department, of the Ministry of Finance and Development Planning, Government of Lesotho

In collaboration with



National University of Lesotho  
Department of Economics



Lesotho Institute of Public  
Administration and Management

With Technical Assistance support from



Funded by the  
European Union



The Capacity-building TA Assignment is implemented by Consortium led by DAI Global Belgium and Austria



as part of the



Lesotho and European Union Partnership

## Executive Summary

### Rationale and Purpose

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of Public Financial Management (PFM) using quantitative indicators to measure performance. PEFA is a tool that helps governments achieve sustainable improvements in PFM practices by providing them with a means for measuring and monitoring their performance against a set of indicators across a range of important public financial management institutions, systems, and processes.

Following two PEFA Assessments in 2012 and 2017, and a participatory needs assessment carried out in March 2024 by the Ministry of Finance and Development Planning (MoFDP) and the EU Cooperation Facility Technical assistance (CF-TA) Project, it was concluded that an updated PEFA Assessment could streamline the Government of Lesotho (GoL) PFM Reforms Agenda and strengthen its PFM implementation capacity.

A major lesson learned from the two previous PEFA exercises was that Government ownership of the PEFA findings is crucial for stimulating the effective implementation of a Government-driven PFM Reforms Agenda. It was therefore decided that PEFA 2024 would be **conducted as a PEFA Self-Assessment (SA)**, to systematically develop datasets in a participatory manner, mobilizing a critical mass of Government officials and counterparts to fully own “their” data sets, and allowing them to drive the Government’s PFM Reforms more effectively, advance financial governance practices, and better serve the citizens of Lesotho.

**The objectives of the Government of Lesotho PEFA Self-Assessment (SA) in 2024 are (1)** to use PEFA (SA) Methodology as entry point for providing updated evidence and analysis of the PEFA Pillars Assessment Scores that will more effectively trigger the PFM reforms, and **(2)** to institutionalize capacity and capability by involving and mobilizing a critical mass of GoL officials and developing a group of local economists as PEFA Experts who can take this methodology and the momentum of PFM Reform further. The institutionalization of capacity is included in the description of the Way Forward.

### Methodology

The PEFA SA 2024 was based on the revised PEFA 2016 framework of 31 PEFA Indicators. The updated PEFA Pillar assessments were based on the completed fiscal years 2020/21, 2021/22 and 2022/23, and on the PFM reforms context of fiscal year (FY) 2023/24.

The exercise was led by the MoFDP Budget Department, supported by an EU CF TA Project local Non-Key Expert and seven local facilitators who were mobilized for this SA Exercise, as well as by a regional PEFA Expert who quality-controlled the PEFA SA process and results, and ensured that the principles of the PEFA Secretariat Guidelines and Standards were followed.

The assessment covers the budget of the Central Government (inclusive of deconcentrated government, education and healthcare), the Auditor General and Parliament. Sub-national governments have been included insofar as the Government has oversight of the fiscal risks arising from Local Government units.

During the years that were the subject of assessment, there were 38 Ministries and 6 Offices (including the Offices of His Majesty the King, the Prime Minister and the Auditor-General). At the sub-national level, there were 10 District Councils and Maseru City Council, plus 75 Community

Councils. Local Government units are not covered in this assessment, as they are not separate budget heads but are included in the expenditure of the Ministry of Local Government.

Public corporations/enterprises primarily concerned with water and electricity make up an important part of the economy. The Government has shareholdings in a number of commercial or semi-commercial enterprises, and has entered into some financial agreements involving public/private partnerships (PPP). The coverage includes the Government's monitoring of government-owned or government-controlled corporations with respect to fiscal risks and possibly contingent liabilities related to their operations. At the level of the Government's institutional entities, the focus is on PFM practices as evidence of Government performance rather than as a review of specific entities.

## **Impact of PFM Performance on Budgetary and Fiscal Outcomes**

As measured by the performance indicators, PFM performance affects three main fiscal and budgetary outcomes: aggregate fiscal discipline; the strategic allocation of resources; and the efficient use of resources for service delivery (see Figure 0.1 for a summary of the PEFA scores by indicator).

### **Aggregate Fiscal Discipline**

Aggregate fiscal discipline requires that the budget be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The PFM functions that are focused on compliance must work well as measured by relevant PFM performance indicators.

The strengths of the PFM system in supporting aggregate fiscal discipline are evident:

- There is strong control over expenditures, with spending consistently remaining within the approved budget limits.
- Fiscal reliability is further reinforced by consistent revenue performance, where actual revenue collections align closely with forecasts, providing stability and enhancing the credibility of the budget.
- The system's transparency is enhanced by minimal off-budget operations, which limits fiscal risks.
- Comprehensive management of both domestic and foreign debt ensures fiscal stability by maintaining accurate records of obligations.
- Long-term fiscal planning is supported by a clear and well-defined fiscal strategy and a robust Medium-Term Expenditure Framework. This guides the allocation of resources over several years, ensuring consistency and discipline.
- Adherence to established rules for budget amendments strengthens fiscal stability by ensuring that any adjustments to the budget are made within a controlled and predictable framework.

However, there are notable weaknesses:

- Weak fiscal risk reporting, particularly from local councils and state-owned enterprises, undermines the system's ability to fully monitor and control fiscal risks.
- Although expenditure arrears are relatively low at less than 6 percent of total expenditures, their presence signals occasional fiscal strain, indicating that fiscal stress can arise during certain periods.
- Reporting of in-year budget performance is also weak, which hampers timely interventions when spending deviates from the budget.

- The tracking and management of public assets remain ineffective, with incomplete records hindering overall fiscal control.
- Weaknesses in non-salary expenditure controls leave room for inefficiencies, affecting budget execution and fiscal discipline.

## **Strategic Allocation of Resources**

Strategic allocation of resources requires planning and executing the budget to be in line with Government priorities aimed at achieving policy objectives.

The strengths of the PFM system in the strategic allocation of resources lie in:

- The robust budgeting process, with clear documentation and detailed planning that help to ensure that resources are allocated efficiently.
- Comprehensive budget documents that provide clear information for decision-makers, facilitating informed choices about how resources are distributed.
- Strong revenue administration, which ensures that the Government collects the necessary funds to support its expenditures, reinforcing the strategic allocation of resources.

Despite these strengths, there are several challenges:

- Allocations to sub-national governments are often made without clear rules, leading to inefficiencies and a lack of predictability in the distribution of resources.
- Legislative scrutiny of the budget is also weak, with insufficient oversight to ensure that the allocations align with broader policy objectives.
- Frequent reallocations of the budget during the fiscal year undermine the original allocation, diverting resources from priority areas.
- The management of public assets is also weak, with incomplete records and ineffective tracking systems hindering the efficient use of resources.

Strengthening the rule-based allocation of funds, enhancing legislative oversight, and improving asset management are necessary to ensure that resources are allocated more effectively and in line with the strategic priorities.

## **Efficient Use of Resources for Service Delivery**

Efficient service delivery requires that the actual spending matches the budget allocation of the resources available for service delivery as planned, and that the costs are minimised. Non-compliance with the budget may lead to a shift across expenditure categories.

For service delivery to be efficient, it has to be supported by transparent systems that allow the public to access critical fiscal information, thereby fostering accountability and trust. Several weaknesses in Lesotho's PFM system are impeding service delivery:

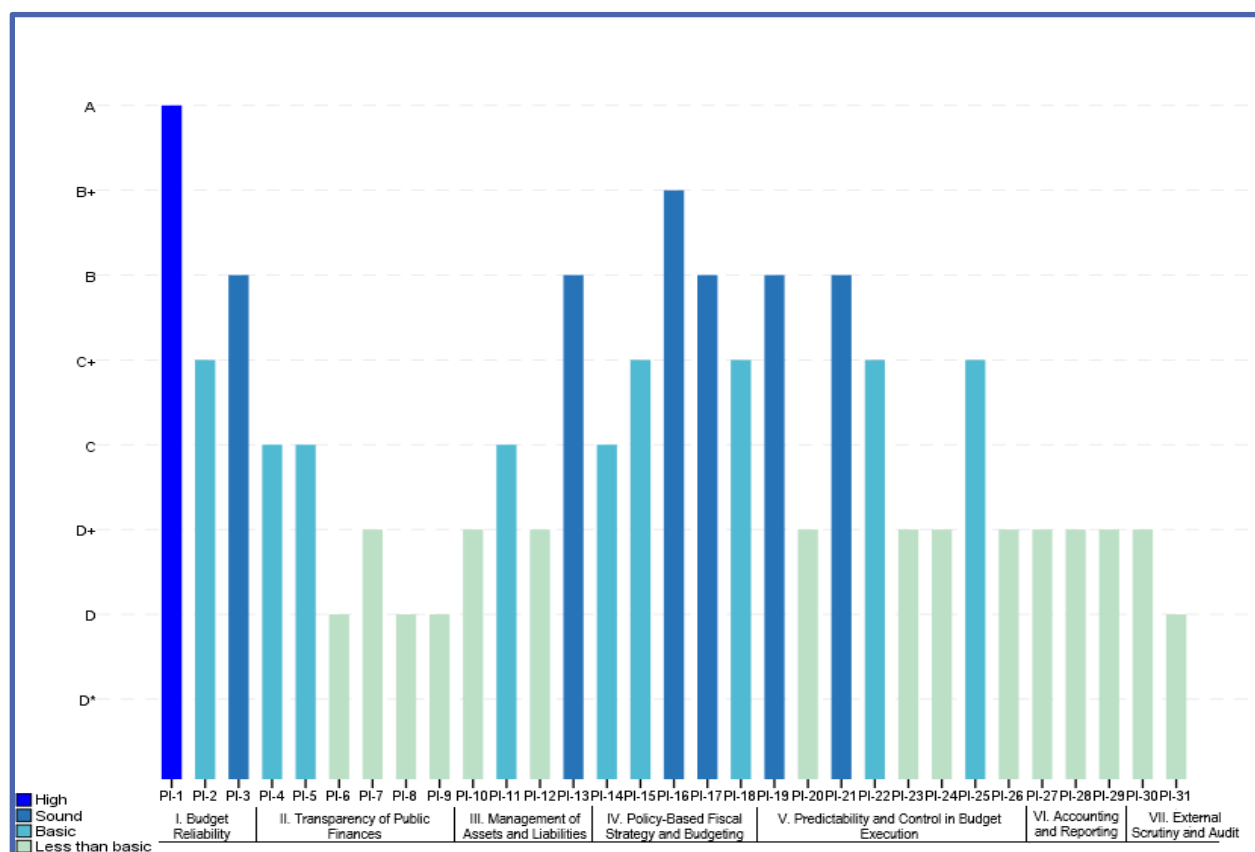
- Lack of published performance information reduces transparency and makes it difficult to assess whether the services are being delivered effectively.
- Delayed scrutiny of audit reports by the Legislature hampers the ability to address issues in a timely manner, preventing necessary corrective actions from being implemented.
- Misalignment between the physical progress on projects and the associated financial data impacts the ability to accurately assess whether the resources are being used effectively for meeting the service delivery goals.

- Inefficiencies in procurement reporting undermine the overall effectiveness of public spending.

Addressing these challenges by improving performance reporting, ensuring timely audits, and better aligning physical progress with financial data will be crucial to improving the efficiency and effectiveness of service delivery.

Overall, the PFM system is generally supported by strong fiscal discipline and the strategic allocation of resources. The Aggregate Fiscal Discipline Indicators reveal sound performance, particularly in areas such as aggregate expenditure outturn, as well as medium-term perspectives in expenditure budgeting and revenue outturn, which are all rated highly. Similarly, the Strategic Allocation of Resources Indicators reflect commendable results in accounting for revenues and the budget preparation process, which are essential for prioritizing resources efficiently. However, service delivery is one of the areas that needs immediate improvement to realize the full benefits of a well-behaved PFM system. Indicators under Efficient Service Delivery exhibit relatively weak outcomes, with most indicators, such as payroll controls, internal audit, and financial data integrity receiving low ratings. Moreover, critical areas like external auditing and the legislative scrutiny of audit reports also require significant strengthening to ensure transparency and accountability in service delivery. Addressing the gaps in service delivery while maintaining the strengths in fiscal discipline and strategic resource allocation will be pivotal for enhancing overall PFM effectiveness.

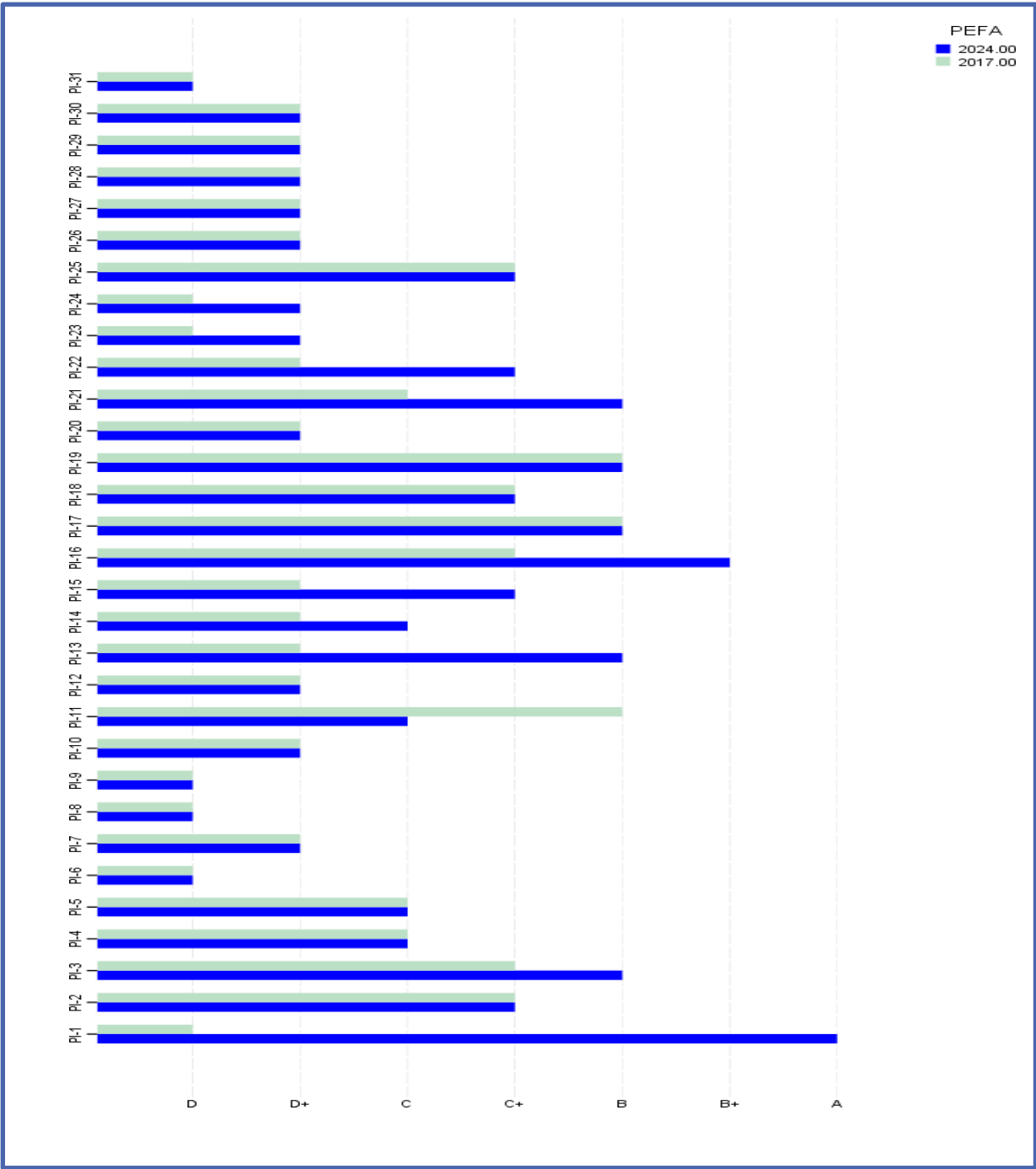
**Table 0.1: Summary of PEFA Scores by Indicator**



Performance Changes Since the Previous PEFA Assessment

The table in Annex I shows in detail the scores of the 2017 and 2024 PEFA assessments following the 2016 PEFA methodology, while Figure 0.2 below and Table 0.1 above show a summary of the scores for the two periods in terms of the indicators.

Figure 0.2: Comparison over time



Of the 31 indicators evaluated, 20 demonstrated no change from the previous assessment, 10 indicators showed marked improvements, while one indicator, PI-11, exhibited deterioration, an outcome that requires immediate attention to identify and address the root causes of this decline.

Between 2017 and 2024, notable progress was observed in several areas. The highest score of A, absent in 2017, was achieved in 2024 by one indicator, PI-1, signifying exemplary performance in that domain. Indicators scoring a B increased from three in 2017 to five in 2024, though the B+ category remained unchanged. The C category saw a slight increase, with the number of indicators rising from three to four, while the C+ category remained stable, with five indicators across both years. The most significant improvement occurred in the D category, where the number of indicators dropped from seven in 2017 to four in 2024. However, the D+ category only saw a marginal decline, from 13 indicators in 2017 to 11 in 2024. Overall, this comparative analysis reveals a mixed trajectory: while progress is evident in reducing low scores and achieving higher ones, many areas have stagnated, underscoring the need for sustained and systemic reforms to drive further improvements.

Comparative analysis of 2017 assessment and 2024 assessment is summarized below using the three main fiscal and budgetary outcomes.

### **Aggregate Fiscal Discipline**

Moderate improvements were observed in macroeconomic and fiscal forecasting, with enhanced reliability and timeliness of forecasts supporting better fiscal planning and policy formulation. Debt management also demonstrated gains, reflecting improved capacity for debt reporting and sustainability analysis. The decline in expenditure arrears highlighted progress in tracking expenditures and prioritizing payments, and reducing fiscal vulnerabilities. Fiscal strategy formulation improved through better coordination across ministries and the adoption of enhanced medium-term frameworks, ensuring greater alignment with long-term development objectives.

These improvements were driven by the use of advanced modelling tools for fiscal forecasting, which enhanced the accuracy and timeliness of economic projections. These tools allowed the Government to include qualitative assessments of alternative macroeconomic scenarios in its fiscal forecasts. Collaboration with international organizations provided capacity-building opportunities in debt management, enabling better reporting and sustainability analysis. The implementation of stringent expenditure prioritization policies reduced the level of arrears. These now constitute less than 6 percent of total expenditure over the last three fiscal years, demonstrating progress in expenditure monitoring and timely payments. The adoption of structured fiscal strategies has strengthened fiscal discipline across sectors.

### **Strategic Allocation of Resources**

Significant progress was observed in several areas under this outcome. For instance, improvements in expenditure composition outturn reflect better alignment between approved budgets and actual spending. This indicates that monitoring systems and reallocation mechanisms have been strengthened, allowing resources to be effectively directed toward priority areas. Budget classification systems also demonstrated improvements, with reforms leading to better alignment with international standards. These improvements facilitated more accurate reporting and supported strategic decision-making processes. Additionally, budget documentation saw significant advancements in terms of comprehensiveness and transparency. Stakeholders now have access to more detailed and complete fiscal information, which is helpful for assessing national



priorities and fiscal sustainability. The budget preparation process has become more predictable and inclusive, with well-defined timelines and broader stakeholder engagement. This reflects a shift toward a more collaborative and transparent approach to budget formulation.

Several factors have driven these changes. The adoption of internationally recognized standards for budget classification has improved reporting and comparability, which have in turn supported strategic alignment in budgeting. The Government's budget classification now adheres to GFS/COFOG standards, at least at level 2, which enhances the comparability and transparency of financial data. Investments in institutional capacities and legal frameworks ensure the timely production of complete and transparent budget documentation. Furthermore, the alignment of budget preparation processes with medium-term expenditure frameworks (MTEF) has further strengthened the connection between short-term budgets and long-term national priorities. Strengthened legal frameworks for legislative oversight have also played a key role in enhancing the scrutiny of budgets, ensuring greater accountability in fiscal management. The Public Financial Management and Accountability Act (2011) has provided the foundation for better legislative oversight.

### **Efficient Service Delivery**

The provision of performance information for service delivery has improved due to enhanced reporting and monitoring systems. These advances have enabled policymakers and stakeholders to better evaluate service delivery outcomes, ensuring that public resources were effectively translating into tangible benefits. Public access to fiscal information has also demonstrated marginal improvements, with increased availability of key fiscal documents and data contributing to greater transparency and accountability. Payroll controls showed significant progress, with the reduction of ghost workers and improved management of personnel records. These achievements were largely attributable to the digitization and automation of payroll systems, which enhanced efficiency and reduced fraud. Similarly, procurement management improved through the implementation of centralized oversight mechanisms. These reforms resulted in better compliance with established frameworks and more efficient procurement processes. Internal audit systems also became more effective, enabling the timely identification and resolution of gaps in financial management.

The drivers behind these changes included the adoption of digital technologies, which streamlined processes and enhanced transparency. For example, the automated payroll systems addressed longstanding issues of inefficiency and fraud. Capacity-building initiatives in internal auditing and financial data management also played a key role in strengthening financial oversight. In addition, citizen engagement initiatives increased public access to fiscal information, fostering trust and accountability in Government processes. By improving access to fiscal information, including budget documents and fiscal reports, the Government has empowered citizens to engage with the budgeting process, leading to enhanced transparency and accountability in the use of public funds.

**Table 0.1: Overview of the Scores of the PEFA Indicators**

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating	
			i.	ii.	iii.	iv.	2024	2017
Pillar I: Budget Reliability								
PI-1	Aggregate expenditure outturn	M1	A				A	D
PI-2	Expenditure composition outturn	M1	C	C	B		C+	C+
PI-3	Revenue outturn	M2	B	B			B	C+
Pillar II: Transparency of Public Finances								
PI-4	Budget classification	M1	C				C	C
PI-5	Budget documentation	M1	C				C	C
PI-6	Central government operations outside fiscal reports	M2	D	D	D		D	D
PI-7	Transfers to sub-national governments	M2	C	D			D+	D+
PI-8	Performance information for service delivery	M2	D	D	D	D	D	D
PI-9	Public access to key fiscal information	M1	D				D	D
Pillar III: Management of Assets and Liabilities								
PI-10	Fiscal risk reporting	M2	D	D	C		D+	D+
PI-11	Public investment management	M2	C	D	B	C	C	B
PI-12	Public asset management	M2	D	D	B		D+	D+
PI-13	Debt management	M2	C	B	B		B	D+
Pillar IV: Policy-Based Fiscal Strategy and Budgeting								
PI-14	Macroeconomic and fiscal forecasting	M2	D	B	C		C	D+
PI-15	Fiscal Strategy	M2	C	D	A		C+	D+
PI-16	Medium-term perspective in expenditure budgeting	M2	B	A	A	C	B+	C+
PI-17	Budget preparation process	M2	C	A	C		B	B
PI-18	Legislative scrutiny of budgets	M1	B	A	C	C	C+	C+
Pillar V: Predictability and Control in Budget Execution								
PI-19	Revenue administration	M2	A	A	D*	B	B	B
PI-20	Accounting for revenues	M1	A	B	D*		D+	D+
PI-21	Predictability of in-year resource allocation	M2	C	A	B	B	B	C
PI-22	Expenditure arrears	M1	B	C			C+	D+
PI-23	Payroll controls	M1	B	A	A	D	D+	D

PI-24	Procurement	M2	D	D	D	A	D+	D
PI-25	Internal controls on non-salary expenditure	M2	A	C	D		C+	C+
PI-26	Internal audit	M1	C	D	C	D	D+	D+
<b>Pillar VI: Accounting and Reporting</b>								
PI-27	Financial data integrity	M2	D	D	D	A	D+	D+
PI-28	In-year budget reports	M1	C	D	C		D+	D+
PI-29	Annual financial reports	M1	B	D	A		D+	D+
<b>Pillar VII: External Scrutiny and Audit</b>								
PI-30	External audit	M1	D*	D	C	D	D+	D+
PI-31	Legislative scrutiny of audit reports	M2	D	C	D	D	D	D

<i>Legend</i>		
<i>Improvement</i>	<i>No Change</i>	<i>Deterioration</i>

## Overview of Ongoing and Planned PFM Reforms

To develop a list of priority PFM reforms (“low-hanging fruit”) that can be triggered by the PEFA SA findings, the Ministry of Finance and Development Planning, plus the Committee of Principal Secretaries, will identify and prioritize GoL PFM reforms, drawing on the PEFA SA 2024 findings. **The Office of the PS Finance of the MoFDP is proposed to lead the identification and prioritization of the PFM reforms as triggered by the PEFA SA 2024, starting in Q4 2024.**

At present there is no comprehensive “stand-alone” consolidated GoL PFM reform agenda. The list of indicative GoL PFM reforms is to be used as a guide, and was drawn and collated from the following GoL sources: 1) Budget Strategy Paper 2025/26, 2) Budget Speech (2024/25), 3) Budget Mid-Term Review (2024/25), 4) MoFDP Budget Matrix Speech/Recurrent/Capital (2024/25), 5) the NSDP-II Key Priority Area (KPA) IV (2023/24 – 2027/28), 6) NSDP-II KPA IV Reporting Template, 7) MoFDP Operational Plan (2024/25), 8) MoFDP Performance Contract (2024/25), 8) MoFDP Service Charter (2024), 9) the PFMA Act (2023), and 10) RSL Strategic Plan - Lesokoana (2024-2027), MoFDP Fiscal Rules (December 2024).

In addition, selected PFM reforms are triggered and supported by major PFM development partner (DP) projects and programmes: 1) The World Bank: Competitiveness and Financial Inclusion (CAFI) Project (2022 – 2028), Public Sector Foundations for Service Delivery (PSfSD) Project (2024 – 2027), Development Policy Operation (DPO) Prior Actions & Triggers (2024), 2) IMF: Article IV Policy Recommendations (2024), Tax Administration Diagnostic Assessment Tool (TADAT 2023) Risk Management, Fiscal Risk Statement (2024/25) Mitigation Measure, Global public Finance Partnership (GFPF) Trust Fund Capacity Development Project (2024-2027) 3) US Millenium Challenge Account - II Passing Indicators (2022 - 2028), UNDP/EU Integrated National Financing

Framework (INFF) Facility Lesotho, 5) AfDB Institutional Support Project for Debt and Expenditure Management (ISPDEM 2022 – 2025) and 6) EU Central Bank Lesotho TA/Capacity-building and the CF TA Project PEFA SA 2024.

The summary list of possible priority (“low-hanging fruit”) PFM reforms links the PFM Reform to the relevant PEFA SA 2024 Pillar, and proposes follow-through by:

- 1) **addressing PFM Reform, and appointing a specific working group of GoL Officials** who will draw on the insights obtained in the PEFA SA Exercise 2024; and
- 2) in the process, **upgrading specific PFM routines and thereby realizing improved PEFA Pillar scores.**

#	PFM Reform	Link to PEFA Pillar(s)
	Identify and select a specific GoL PFM Reform (“low-hanging fruit”) to be pursued for implementation	Link that PFM Reform to a relevant PEFA SA Pillar assessment’s enhanced insight and findings, and activate the relevant mobilized PEFA Pillar cluster of Government officials

## PEFA Self-Assessment 2024 process and the Way Forward

**Process:** The principles of the Lesotho PEFA Self-Assessment process followed the 4-phase and 10-step process as outlined by the PEFA Secretariat, namely:

Phase 1: Planning, started in Quarter 1 2024; Phase 2: Field Work, conducted in Quarters 2 and 3 of 2024; Phase 3: Report Finalization during Quarter 3 of 2024; and Phase 4: PFM Reforms, scheduled to start from Quarter 4 of 2024.

The PEFA Self-Assessment followed a participatory process and the mobilization of a critical mass of PEFA officials and counterparts. This mobilization is depicted in Annex 6, which also presents the timeline in detail.

**Outcome:** The PEFA Self-Assessment 2024 approach enhanced the understanding, ownership and capacity of a selected group of over 80 Government officials. These officials were involved in, and were facilitated in, defining, producing, and analyzing those PEFA Pillar data sets that were relevant to the policy or the technical areas of their official work assignments. **Annex 5** provides details on the GoL officials engaged in the SA process. The major outcome of the PEFA Self-Assessment 2024 is the capacitation of this critical mass of Government officials and other stakeholders, who will be able to take forward the Government’s PFM Reforms Agenda more effectively. This will involve building on the systematically developed datasets and PEFA Pillar assessments that are fully owned by the Government officials and counterparts who engaged in this participatory PEFA SA exercise, with the objective of promoting more prudent financial governance practices that will better serve Lesotho’s citizens. The critical mass of Government PEFA counterparts who have been covered are selected officials from the line ministries’ planning units and budget sections, as well as officials from the relevant agencies, like the Central Bank, the Office of the Auditor General and the Department on Corruption and Economic Offences.

**Way Forward:** A key objective of the Government of Lesotho’s PEFA Self-Assessment is to use the updated evidence and analysis of the PEFA Pillars Assessment Scores of PEFA (SA) 2024 as a catalyst to identify and trigger priority PFM reforms, and to more effectively implement a GoL PFM Reforms Action Plan through the mobilized critical mass of Government counterpart Officials. **Annex 6** provides details on

the Way Forward. The Government's PEFA Self-Assessment 2024 Report is the end result of a collaborative process, and marks the start of the Way Forward actions that aim to institutionalize the PEFA capacity and capability that has been established through the PEFA Self-Assessment exercise in 2024. The Way Forward institutionalization measures address the **WHO, WHAT & WHEN** for improved Government PFM Reform implementation:

- 1) **WHO** Accredite the Lesotho local Experts as PEFA Experts.
- 2) **WHO** Institutionalize the configuration of Government officials, by establishing Working Groups that will address specific (priority) PFM reforms that are triggered by the PEFA-SA 2024.
- 3) **WHAT & WHEN** Conduct a series of Ex-post PEFA SA 2024 Report Peer Review Validations to further improve the understanding of the Ministry of Finance and Development Planning regarding the PEFA process steps and methodology, and to verify whether the evidence, accuracy and relevance of the 2024 PEFA Pillar assessments and Indicators' scores and findings provide accurate reflections of the status of public financial management systems and institutions of the Government as captured in the indicator scores and narrative assessment, and thereby support the priority PFM Reforms that are triggered by the PEFA SA 2024 findings.
- 4) **WHAT & WHEN** Develop and list priority PFM reforms that are triggered by the PEFA SA findings (see **Annex 6**).
- 5) **WHAT & WHEN** **Include PEFA SA Datasets in GoL Data Portals.**
- 6) **WHAT & WHEN** **Develop LIPAM/NUL PEFA Training Modules** and PEFA Training Courses that draw on the PEFA Guidelines and Training Materials, to be vested in the Lesotho Institute of Public Administration and Management (LIPAM).

# 1. Introduction

## 1.1. Rationale and Purpose

The Public Expenditure and Financial Accountability (PEFA) program provides a framework for assessing and reporting on the strengths and weaknesses of Public Financial Management (PFM) using quantitative indicators to measure performance. PEFA is a tool that helps governments to achieve sustainable improvements in PFM practices by providing a means of measuring and monitoring performance against a set of indicators across the gamut of important public financial management institutions, systems, and processes.

Following two PEFA Assessments in 2012 and 2017, and a participatory needs-assessment carried out in March 2024 by the Ministry of Finance and Development Planning and the CF-TA Project, it was concluded that an updated PEFA Assessment could streamline the GoL PFM reforms agenda and strengthen its PFM implementation capacity.

A major lesson learned from the two previous PEFA exercises was that Government ownership of the PEFA findings is crucial for stimulating the effective implementation of a Government-driven PFM reforms agenda. It was therefore decided that the PEFA 2024 would be **conducted as a PEFA Self-Assessment** in order to systematically develop the datasets in a participatory manner. This would involve mobilizing a critical mass of Government officials and counterparts to fully own “their” data sets, allowing them to drive the Government’s PFM reforms more effectively, to improve financial governance practices, and to better serve the citizens of Lesotho.

The PEFA SA 2024 was based on the PEFA 2016 framework of 31 PEFA Indicators. The updated PEFA Pillar assessments were based on FYs 2020/21, 2021/22 and 2022/23, and on the PFM Reforms context of FY 2023/24.

**The objectives of the Government of Lesotho PEFA Self-Assessment (2024) are to:**

- 1) Use PEFA Self-Assessment (SA) methodology as an entry point for providing updated evidence for an analysis of the PEFA Pillars Assessment Scores, which will trigger the PFM reforms more effectively. This objective is the key element in the Way Forward, with the PEFA SA analysis and findings being a catalyst for improved GoL PFM Reform implementation actions, to be captured in an updated GoL PFM Reforms Action Plan.
- 2) Institutionalize capacity and capability by involving and mobilizing a critical mass of Government officials, and by developing a group of Local Economists as PEFA Experts who can take this methodology and the momentum in PFM Reform further. The institutionalization of capacity is worked out in the Way Forward.

The principles of the Lesotho PEFA Self-Assessment process followed the 10-step process as outlined by the PEFA Secretariat: Phase 1: Planning, which started in Quarter 1 of 2024; Phase 2: Field Work, conducted in Quarter 2 and 3 of 2024; Phase 3: Report Finalization during in Quarter 3 of 2024; and Phase 4: PFM reforms, which was scheduled to start from Quarter 4 of 2024.

**More specifically, the results of this PEFA Self-Assessment assignment will provide the Government and its Development Partners with:**

- a) A Self-Assessment of the quality of PFM based on FY 2020/21, 2021/22, and 2022/23, based on the PEFA methodology, including an assessment of the relative strengths and weaknesses of the

three main budgetary outcomes: Aggregate fiscal discipline; Strategic resource allocation; Efficient service delivery; and

b) A better-informed basis for the further validation of the PFM Strengths and Weaknesses as captured in the PEFA Pillars/Indicators, Scores and Assessments, which will further guide the dialogue on PFM reforms and subsequent action plans, and will streamline the monitoring and evaluation of the PFM action plans of the Government, development partners and other stakeholders.

## **1.2. Assessment Management and Quality Assurance**

The PEFA SA 2024 exercise was led by the MoFDP Budget Department, supported by an EU CF TA Project local Non-Key Expert, seven local facilitators who were mobilized for this SA Exercise, and a regional PEFA Expert who quality-controlled the PEFA SA process and results, and ensured that the principles of the PEFA Secretariat Guidelines and Standards were followed.

**PEFA SA Lead:** Ms. Maleshoane Lekomola, Budget Controller, MoFDP

**PEFA Self-assessment Quality Controller:** Mr Dan Narainsamy, PFM/PEFA Consultant

**CF TA PEFA Expert:** Ms Nthabseng Koatsa

### **Local PEFA Facilitators:**

- 1) Mrs Mapalesa Rapapa. Lecturer Economics Department, National University of Lesotho (NUL).
- 2) Dr Ratjomose Machema. Lecturer Economics Department, NUL.
- 3) Dr Denis Yuni, Lecturer/PFM Specialist, Economics Department, NUL.
- 4) Mr Sylvester Lelimo, Lecturer/PSE Specialist, Economics Department, NUL.
- 5) Ms Nteboheleng Tilo, Lecturer/Auditing Specialist, Department of Business Administration, NUL.
- 6) Mr Francis Mahatha, Lecturer/PFM Specialist, Lesotho Institute of Public Administration and Management (LIPAM).
- 7) Ms Maleshoane Lekomola-Danziger, Budget Controller, MoFDP. (PEFA lead doubling as Facilitator Pillar 1).

**The EU funded the PEFA SA Exercise:** Ms Anna Renieri, Team leader PFM, EU Delegation and Mr Peter Portier, Team leader CF TA project, provided backstopping support.

### **A critical mass of Government officials and stakeholders was mobilized:**

- A targeted group of over 80 Government officials from the MoFDP, line ministries and agencies.
- The Government of Lesotho Committee of Principal Secretaries.
- Selected National University of Lesotho Economics Faculty members who were mobilized and engaged as PEFA Facilitators.
- The Lesotho Institute of Public Administration and Management has been mobilized to institutionalize PEFA SA capacity through the development and delivery of tailored PEFA Training courses as a component of the Way Forward actions.

## **1.3. Assessment Methodology**

### **Coverage of Assessment**

The assessment covers the budget of the Central Government (inclusive deconcentrated government; education and health operations), the Auditor General, and Parliament. Sub-national governments have been included insofar as the Government has oversight of the fiscal risks arising from Local Government units.

During the years that were the subject of assessment, there were 38 Ministries, 6 Offices (including the Offices of His Majesty the King, the Prime Minister and the Auditor-General). At the sub-national level, there were 10 District Councils and Maseru City Council, plus 75 Community Councils. Local Government units are not covered in this assessment as they are not separate budget heads but are included in the expenditure of the Ministry of Local Government.

Public corporations/enterprises primarily concerned with water and electricity make up an important part of the economy, and the Government has shareholdings in a number of commercial or semi-commercial enterprises, and has established financial engagements in several Public/Private Partnerships. The coverage includes the Government's monitoring of government-owned or government-controlled corporations with respect to fiscal risks and possibly contingent liabilities related to their operations. At the level of the Government's institutional entities, the focus is on PFM practices as evidence of Government performance rather than a review of individual entities.

### **When Performance was Assessed**

The PEFA Self-Assessment exercise was based on data of the completed fiscal years 2020/21, 2021/22, and 2022/23. The Lesotho PEFA Self-Assessment process was conducted in 2024, and its principles followed the four-phase and ten-step process as outlined by the PEFA Secretariat.

Phase 1: Planning started in Quarter 1 of 2024.

Phase 2: Field Work was conducted in Quarter 2 and 3 of 2024.

Phase 3: Report Finalization, during Quarter 3 of 2024.

Phase 4: PFM Reforms are scheduled to start from Quarter 4 of 2024.

The assessment was conducted via the following stages:

The PEFA Self-Assessment followed a participatory process involving the mobilization of a critical mass of PEFA officials and counterparts. Annex 5 presents the detailed timeline and demonstrates the participatory process and mobilization of a critical mass of PEFA officials and counterparts. The following are the key milestone stages and moments:

- In Quarter 2, 2024 the planning of the work was undertaken, and in Quarters 2 and 3, the 2024 field work was conducted.
- September 2024: The PEFA Pillar assessments were concluded and the PEFA Pillars were scored. The assessments and scores were presented (10/9/2024) by the Budget Controller and the PEFA Lead, in a PEFA Findings Dissemination Workshop that was attended by about 60 Government PEFA counterpart officials.
- September 2024: A presentation of the PEFA SA findings was made separately (19/9/24) to the Government of Lesotho Committee of Principal Secretaries. In addition to presenting the PEFA SA 2024 findings, a first tentative discussion was initiated on possible PFM reforms that could be triggered by the PEFA findings, and which would require guidance and leadership from the Principal Secretaries.

### **Source of Information**

The Assessment Team carried out extensive data collection and consulted with a range of stakeholders, including Government officials. The list of persons consulted and mobilized, as well as the sources of information, are presented in Annex 3.



#### 1.4. Other Methodological Issues

The PEFA Training that took place before the assessment was conducted in Q2 and Q3 2024. This training prepared the group of facilitators, and continued with on-the-job guidance provided by the regional PEFA Expert. On a regular basis during Quarter 2 and 3, 2024, the local facilitators engaged bilaterally with the relevant government departments and counterpart officials, eliciting their involvement when they were available, to allow the Government counterparts to co-own the Pillar assessments and scores.

The organizing and conducting of the consultative meetings faced delays, but particular effort was put into ensuring access to the requested data, and the PEFA SA gathered information and data to create a solid foundation for the analysis. This generated the scores for the Report's 31 indicators, allowing the identification of PEFA SA-triggered priority PFM Reforms.

In Quarter 4, 2024 and Quarter 1, 2025, as part of the Way Forward, ex-post validations and peer reviews are scheduled to start with selected authorities to:

- Formally validate that the data sets and data analyses were comprehensive, accurate and relevant;
- Validate that the scores and findings of the PEFA Pillar Assessments and Indicators provide an accurate reflection of the status of public financial management systems and institutions of the Government subject to the assessment, as captured in the indicator scores and narrative assessment; and
- Strengthen the quality and usefulness of the PEFA SA report in identifying the proposed priority PFM reforms that are triggered by the PEFA SA exercise.

## 2. PFM Context in Lesotho

### 2.1. Country Economic Situation

National population estimates produced by Lesotho's Bureau of Statistics (2019c) using 2016 National Census data, put the country's population at 2.007 million in 2016. According to the United Nations World Population Prospects, Lesotho's population was estimated to be 2.306 million in 2022<sup>1</sup>. Lesotho's nominal GDP in 2023, expressed in terms of the local currency, the Maloti, was approximately M39,077 million.

The Kingdom of Lesotho gained independence from Great Britain in October 1966, and it has seen some socioeconomic development, with improvements in the road network, telecommunications, health, and education over the last 50 years. The proportion of the population living below the national poverty line fell from 56.6 percent to 49.7 percent between 2002 and 2017, and it is estimated that since then the US \$2.15/person/day (in 2017 PPP terms) poverty rate has fallen slightly further, to 34.7 percent in 2022 and 32.6 percent in 2024<sup>2</sup>. Lesotho's HDI score was 0.514 in 2021, placing it in the "low human development" category. Challenges include high poverty levels, unemployment, and limited access to good-quality healthcare and education (UNDP, 2022).

Lesotho's domestic revenue performance in FY 2022/23 amounted to 41.5 percent of GDP, which fell short of its target by 5 percentage points. It was approximately 3.5 percentage points weaker than in FY 2021/22, due to lower income tax collections and reduced Southern African Customs Union (SACU) transfers.<sup>3</sup> Tax revenue contributed the largest share at 47.6 percent. Non-tax revenue, which made up 18.7 percent of total revenue, was contributed by receipts from ministries and government agencies, while SACU transfers made up 33.6 percent of total revenue.

The domestic economy registered a growth rate of 1.2 percent in 2022/23. Forecasts indicate an uptick to 1.4 percent in 2023/24<sup>4</sup>. This can be attributed to the solid performance of key sectors such as agriculture, construction, accommodation, food services, and financial and insurance activities. Lesotho's economy relies heavily on services, which contributed 52 percent of GDP in 2023. Other key sectors include manufacturing and mining (22 percent), and agriculture (4-7 percent). The major GDP drivers include private consumption, accounting for 107 percent of GDP in 2023; gross fixed capital formation (investment), which remained stable at 39 percent of GDP in 2022 and 2023; and exports and imports. Exports declined to 30 percent of GDP, while imports remained high at 106 percent of GDP, resulting in a persistent trade deficit in 2023<sup>5</sup>.

Inflation averaged 6.4 percent in FY 2021/22, one percentage point higher than the year before; and 8.4 percent in FY 2022/23<sup>6</sup>. Food inflation rose to 10.4 percent in FY 2022/23, 2.1 percentage points higher than the previous year. The local currency is pegged to the Rand; any depreciation (or other change) of the Rand therefore affects the value of the Maloti.

Lesotho's development agenda is guided by the National Strategic Development Plan (NSDP II), which focuses on reducing poverty and unemployment through infrastructure projects, healthcare, education, and private sector growth investments. The infrastructure projects aim to improve the

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<sup>1</sup> Lesotho's Demographic Dividend in the Context of Health and Other Development Challenges

<sup>2</sup> Poverty & Equity Brief Lesotho Africa Eastern & Southern April 2023

<sup>3</sup> Kingdom of Lesotho: 2024 Article IV

<sup>4</sup> Budget Speech of the Kingdom of Lesotho for 2024/2025

<sup>5</sup> Annual National Accounts of Lesotho 2014-2023

<sup>6</sup> Kingdom of Lesotho: 2023 Article IV

energy, transport, and water systems, while healthcare and education reforms target improvements in service delivery and skills development to enhance human capital. The agenda prioritizes private-sector growth by supporting small and medium-sized enterprises (SMEs), attracting foreign investment, and diversifying the economy through agriculture, manufacturing, and tourism. Environmental sustainability and governance reforms are underpinning the efforts to create a resilient and inclusive economy.

**Table 0.2.1: Selected Economic Indicators**

Indicator	Fiscal Year		
	2020/2021	2021/2022	2022/2023
GDP (Maloti, Billion)	34.9	35.0	37,7
Real GDP Growth	-5.3	1.7	1.6
Inflation (CPI)	5.4	6.5	8.2
Public Debt (External)	42.9	42.3	47.2
Public Debt (Domestic)	11.7	16.1	17.3
Fiscal Balance (excluding grants)	0.0	-5.4	-5.5
Non-SACU Fiscal Balance	-29.3	-27.0	-22.5
External Terms of Trade (Annual percentage change)	3.5	-1.6	-3.2
Current Account Balance	-5.7	-9.0	-13.8
Gross International Reserves (Months of imports)	4.1	4.3	4.0
Population	2,254,100	2,281,455	2,305,826

Data source: Kingdom of Lesotho: IMF 2024 Article IV, United Nations's World Population Prospects, and MoFDP

## 2.2. Fiscal and Budgetary Trends

Health and Education consistently received the highest shares, underscoring their centrality to the country's social agenda. However, the allocation for health decreased significantly, from 18.4 percent in 2020/2021 to 13.4 percent in 2022/2023, reflecting a transition from pandemic-related emergency spending towards recovery-focused initiatives. This trend is linked to declining COVID-19-related health expenditures as the pandemic waned, allowing funds to be redirected toward economic recovery and infrastructure projects, in line with the National Strategic Development Plan II goals. Education and Training maintained a stable share of approximately 18 percent, signalling sustained investment in youth development and skills enhancement despite fiscal pressures. This consistency aligns with the COVID-19 Education Sector Response Plan, which aims to mitigate pandemic-related disruptions in learning, and to ensure positive long-term educational outcomes.<sup>78</sup>

Meanwhile, Development Planning saw its share increase from 6.8 percent in 2020/2021 to 8.6 percent in 2022/2023, reflecting a deliberate effort to advance large-scale infrastructure projects and economic

<sup>7</sup> Lesotho National Strategic Development Plan II (2018/19 – 2022/23)

<sup>8</sup> United Nations in Lesotho. (2021). Lesotho COVID-19 Socio-Economic Response Plan

diversification. These projects, which are viewed as being critical by the Compact II and other recovery strategies, are designed to enhance connectivity, water security, and energy resilience. Conversely, Trade and Industry saw a sharp decline from 2.7 percent in 2020/2021 to 1.3 percent in 2022/2023, suggesting a de-prioritization amidst immediate post-pandemic recovery needs. While trade remains crucial, the focus appears to have shifted to sectors like public works, which saw its allocation grow from 3.6 percent to 5.9 percent, due to an emphasis on job creation and infrastructure development as a means of stimulating economic activity<sup>9</sup>.

Similarly, social development experienced a significant increase from 4.4 percent to 7.5 percent, emphasizing the Government's response to growing vulnerabilities that were exacerbated by the pandemic and its aftermath. By contrast, the Prime Minister's Office, as well as the tourism, environmental, and cultural sectors, experienced reductions in their budget shares, pointing to administrative cost-cutting measures by the Government.

**Table 0.2.2: Actual Budgetary Allocation by Function (as a percentage of total expenditure)**

	Fiscal Year		
	2020/2021	2021/2022	2022/2023
Communications, Science and Technology	4.2	4.1	4.9
Health	18.4	17.9	13.4
Education and Training	18.1	17.6	17.9
Finance	10.9	10.6	10.1
Trade and Industry	2.7	2.6	1.3
Development Planning	6.8	6.6	8.6
Justice and Correctional Services	1.7	1.7	1.5
Home Affairs	3.1	3.0	3.1
Prime Minister's Office	4.1	4.0	1.5
Communications, Science and Technology	1.1	1.1	1.7
Law and Constitutional Affairs	0.6	0.6	0.6
Foreign Affairs and International Relations	2.6	2.5	2.7
Public Works	3.6	3.5	5.9
Tourism, Environment, and Culture	0.7	0.7	0.5
Defence and National Security	4.2	4.1	4.9
Local Government and Chieftainship	4.9	4.7	4.0
Judiciary	0.8	0.8	0.9
Social Development	4.4	5.2	7.5
Police and Public Safety	4.8	4.7	4.8
Water	2.4	4.2	4.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: MoFDP

The compensation of employees consistently represents the largest share, increasing from 31.3 percent in 2020/2021 to 34.2 percent in 2022/2023. This upward trend reflects the rigidity of public sector wages and the challenges in containing recurrent expenditures, a common issue in Lesotho's fiscal management. The use of goods and services remained relatively stable, fluctuating between 11.4

<sup>9</sup> UNICEF Eastern and Southern Africa. (2021). Lesotho Budget Briefs 2020/21

percent and 12.6 percent. This indicates consistent operational spending on essential supplies and services across government functions. Meanwhile, the consumption of fixed capital, which captures infrastructure investments, peaked at 26.4 percent in 2021/2022 before declining to 22.8 percent in 2022/2023.

Subsidies and grants both declined steadily over the three fiscal years in question. On the other hand, interest payments rose from 2.8 percent in 2020/2021 to 3.5 percent in 2022/2023, indicating increasing debt servicing obligations that were likely linked to growing public debt. Social benefits remained stable, accounting for around 9-10 percent of total expenditure, reflecting continued support for social welfare programs, particularly in response to the pandemic's economic and social impacts. The category "other expenses", which rose from 4.9 percent to 6.2 percent, may point to unexpected or miscellaneous expenditures, possibly including contingencies measures for economic recovery or disaster response.

**Table 0.2.3: Actual Budgetary Allocation by Economic Classification (% of total expenditure)**

	Fiscal Year		
	2020/2021	2021/2022	2022/2023
Compensation of employees	31.3	32.4	34.2
Use of goods and services	12.1	11.4	12.6
Consumption of fixed capital	23.5	26.4	22.8
Interest	2.8	2.7	3.5
Subsidies	5.4	2.9	2.7
Grants	10.4	8.7	8.6
Social benefits	9.6	9.9	9.3
Other expenses	4.9	5.6	6.2
Total Expenditure	100.0	100.0	100.0

Data source: MoFDP

## 2.3. Financial Overview

Lesotho's public sector is organized into various subsectors: budgetary units, extra-budgetary units, social security funds, and public corporations. At the Central Government level, in 2022/2023 there were 44 budgetary units, which were complemented by 17 extra-budgetary units and one social security fund, plus seven non-financial corporations and three financial public corporations conducting economic activities in the public sector. This also includes the sub-national government, consisting of a total of 10 District Councils, Maseru City Council and 75 Community Councils. These lack extra-budgetary units, social security funds, or affiliated public corporations. As has already been outlined, this organizational structure underscores how financial activities and responsibilities remain highly concentrated at the Central Government level, with limited devolution of fiscal functions to the sub-national tiers.

**Table 0.2.4: Structure of the public sector (number of entities and financial turnover)**

2023/2024	Public Sector				
	Government subsector		Social Security Funds	Public Corporations subsector	
	Budgetary Units	Extrabudgetary Units		Non-financial Public Corporations	Financial Public Corporations
Ministries	44	17	1	7	3
District Councils	11	-	-	-	-
Community Councils	75	-	-	-	-

Lesotho's fiscal performance over the past three fiscal years highlights notable trends in the revenue dynamics. Total revenue peaked at 20.18 billion Maloti in 2020/2021, dropped significantly to 17.25 billion in 2021/2022, then rebounded to 19.73 billion in 2022/2023. Own revenue consistently accounted for the majority of total revenue, though it followed a similar pattern, starting at 19.07 billion in 2020/2021, declining to 15.66 billion in 2021/2022, and recovering to 17.47 billion in 2022/2023. Meanwhile, grants showed a contrasting trend. These steadily increased from 1.11 billion Maloti in 2020/2021 to 2.26 billion in 2022/2023, reflecting a rising dependence on external funding in recent years.

Total expenditure has consistently outpaced revenue, leading to persistent fiscal deficits. Expenditures grew from 21.96 billion Maloti in 2020/2021 to 22.04 billion in 2021/2022, and grew again to 23.01 billion in 2022/2023. Non-interest expenditures, which make up the bulk of spending, followed a similar trajectory, increasing from 21.47 billion Maloti in 2020/2021 to 22.25 billion in 2022/2023. Interest expenditures rose sharply from 484.8 million Maloti in 2020/2021 to 810.8 million in 2021/2022, but moderated to 766.5 million in 2022/2023. These figures highlight the significance of ongoing debt servicing costs as a driver of expenditure.

The fiscal imbalance is evident in the aggregate deficit figures, which stood at 1.78 billion Maloti in 2020/2021, ballooned to 4.78 billion in 2021/2022, and moderated to 3.28 billion in 2022/2023. Though the improvement in the latest fiscal year is encouraging, the persistent deficits underscore the pressing need for structural fiscal reforms for the achievement of sustainable public finances, including enhanced revenue mobilization and more efficient expenditure management.

**Table 0.2.5: Aggregate fiscal data**

Million Maloti	Actuals		
	2020/2021	2021/2022	2022/2023
<b>Total Revenue</b>	20,181.9	17,253.8	19,731.9
<b>Own Revenue</b>	19,073.5	15,663.7	17,471.0
<b>Grant</b>	1,108.4	1,590.1	2,260.9
<b>Total Expenditure</b>	21,958.9	22,038.6	23,014.4
<b>Non-interest Expenditure</b>	21,474.1	21,227.8	22,247.9
<b>Interest Expenditure</b>	484.8	810.8	766.5
<b>Aggregate Deficit (incl. grants)</b>	- 1,777.0	- 4,784.8	- 3,282.5

In the fiscal year 2022/2023, the financial structure of the Central Government further illustrated Lesotho's fiscal dynamics. Revenue totalled 17.19 billion Maloti, while expenditure was 20.21 billion. Internal transfers within general government amounted to 3.43 billion Maloti. The Government's liabilities stood at 936 million, with financial assets valued at 1.09 billion and non-financial assets at 4.61 billion.

**Table 0.2.6: Financial structure of Central Government – actual expenditure (in million Maloti)**

2022/2023	Central Government			
	Budgetary Units	Extra-budgetary Units	Social Security Funds	Total Aggregated
<b>Revenue</b>	17,193.3	-	-	17,193.3
<b>Expenditure</b>	20,214.0	-	-	20,214.0
<b>Transfers to (-) and from (+) other units of general government</b>	3,426.5	-	-	3,426.5
<b>Liabilities</b>	936.0	-	-	936.0
<b>Financial assets</b>	1,093.0	-	-	1,093.0
<b>Non-financial assets</b>	4,614.0	-	-	4,614.0

Data source: Statement of government operations MoFDP

This financial overview underscores the significant challenges facing Lesotho, including declining revenues, dependence on grants, and persistent expenditure pressures. The centralized nature of fiscal operations, with limited engagement from sub-national entities, further complicates the financial landscape.

## **2.4. Institutional arrangements for PFM**

### *Legislative*

Lesotho operates as a constitutional monarchy with a parliamentary system. The Parliament consists of the National Assembly, which has 120 members: 80 elected through single-member constituencies and 40 through proportional representation. The King serves as a ceremonial figure with no legislative or executive powers. Financial oversight in the Parliament is carried out by two key committees: the Economics and Development Cluster Committee, which reviews budget proposals; and the Public Accounts Committee (PAC), which scrutinizes the Government's financial management, often on the basis of reports from the Auditor-General. The PAC is predominantly composed of members from the ruling party or Government allies, though its chairperson traditionally comes from the opposition.

### *Executive*

The executive branch includes the Prime Minister and a Cabinet of Ministers, collectively accountable to Parliament. While the Constitution mandates a minimum of eight ministers, there are currently 20. In 2012, Lesotho experienced its first coalition government. Consistent with the Westminster model, legislative proposals, especially those concerning finances, are typically initiated by the executive. The National Assembly lacks the authority to propose substantial financial legislation without ministerial approval.

### *Judiciary*

The judicial system comprises the High Court (with the Chief Justice being appointed by the King on the Prime Minister's advice), the Court of Appeal, Magistrates' Courts, and Customary Courts.

### *Government Structure*

The Government includes 20 ministries and 10 offices, such as the Office of the Auditor-General and the Directorate of Corruption and Economic Offences, which operate under the national budget. Certain public entities, like the Road Fund and the Petroleum Fund, receive tax revenues but operate outside the main budget framework. Local government consists of 10 districts, Maseru City, and 128 Community Councils.

The Ministry of Finance plays a central role in fiscal management, overseeing medium-term fiscal planning, investment strategies, and overall fiscal policy. The Budget Department is responsible for budget planning and the preparation of budget framework papers, extending fiscal projections into the medium term. The Treasury manages the execution of payments, cash flow, and financial reporting, while the Debt Management Department oversees the Government's debt portfolio. Procurement and the monitoring of public enterprises fall under the Private Sector Development and Financial Affairs Department.

The Macro-Economic Unit within the Department of Economic Policy guides the direction of fiscal policy. Within individual ministries, the Principal Secretary serves as the Chief Accounting Officer (CAO) and bears accountability for the ministry's public funds. Each ministry also has a Financial Controller who reports both to the Principal Secretary and to the Accountant-General within the Ministry of Finance.

The public financial management framework was bolstered by the introduction of Treasury Regulations in March 2014, enhancing the separation of duties. However, compliance with PFM laws and regulations remains a significant challenge. The lack of audit committees further weakens the efforts to enhance PFM practices.

## **2.5. Other Key Features of PFM and its Operating Environment**

### *IFMIS*

Accounting and Financial Management is processed through the Integrated Financial Management Information System (IFMIS). Since the 2017 assessment, IFMIS has been upgraded from Epicor version 7 to Epicor version 10. IFMIS is managed by the MoF, and if any ministry requires a transaction change, the initial transaction must be cancelled and recaptured. With IFMIS, access to information is limited to authorised staff only, and changes can only be made to transactions that have not been processed. The system generates audit trails to track entries to the authorizing personnel. Processed data is encrypted; users have access passwords that are changed periodically by the system administrator.

All ministries are connected to IFMIS; staff are adequately trained. The system provides for a decentralised capturing of revenue, procurement and expenditure transactions, and captures the budget and reporting by ministries. However, the processing of payments is centralised in the Office of the Accountant General. The monthly electronic payroll interfaces directly with IFMIS, and the processing of changes to the payroll approved by ministries (Casualty Returns) is centralised within the Office of the Accountant General. The receipt of cash relating to own revenues and bank reconciliations for commercial bank accounts held by line ministries is undertaken manually on a decentralised basis. The National Treasury reconciles the main Treasury bank accounts held by the Central Bank of Lesotho.

The system provides real-time validation of orders against available budget (funds) for most categories of procurement, creating a commitment of acceptance and issue of an order. However, excluded from this control mechanism are expenditures against contracts (such as infrastructure projects running over multiple financial years) and services provided by other spheres of government. A significant weakness identified is that the system is not closed off for access after year-end by ministries, leaving room for incidents of the backdating of transactions to prior financial years.

### *Payroll and HRMIS*

The Human Resource Management Information System (HRMIS) implemented by the Ministry of the Public Service is a groundbreaking tool designed to revolutionize the human resource and financial management processes across governmental institutions. Central to its functionality are robust payroll and financial management capabilities, which streamline payment processes, enhance accuracy, and ensure fiscal accountability. By integrating multiple human resource operations into a centralized digital platform, HRMIS plays a critical role in optimizing the Government's financial efficiency.

The HRMIS Payroll module is a cornerstone of the system, facilitating the monthly processing of employee earnings and deductions with great precision. This module automates the entire payroll cycle, beginning with data entry by HR operators and third-party systems to capture earnings and deductions. It calculates salaries, generates payroll reports, and interfaces seamlessly with the Integrated Financial Management Information System (IFMIS) to enable the timely disbursement of salaries. This integration not only ensures that employees are paid accurately and on time, but also aligns with broader fiscal management objectives by providing transparent and auditable payment records.



A key feature of the payroll process is its ability to handle statutory and third-party deductions efficiently. Statutory deductions, such as taxes and pension contributions, are automated and coded to reduce errors and ensure compliance with regulations. Third-party deductions processed through the Central Deduction Administration System (CDAS) are seamlessly integrated into the payroll cycle, enhancing the system's versatility. Moreover, the module provides detailed schedules and reports, allowing HR and payroll teams to reconcile accounts and track payment trends effectively.

HRMIS significantly enhances financial management through its Core Human Resources module, which acts as the backbone of payroll operations. This module ensures the accuracy of essential employee data, such as biographical information, employment records, and salary structures. By integrating with the National Identity and Civil Register, the system can automatically update records for terminations due to death or retirement, ensuring that the payroll data remains current, and reducing financial leakages associated with outdated records. Additionally, the module supports the assignment of correct salary grades and structures, which is critical for budget planning and expenditure control.

The system's financial management capabilities are further strengthened by its powerful reporting tools, particularly through the Splash BI module. This module generates detailed reports, such as payroll cost summaries, deduction schedules, pay slip histories, and headcount analyses. These insights enable governmental institutions to monitor salary expenditures, identify anomalies, and make data-driven decisions. For example, the Costing Report provides an overview of payroll allocations, aiding in budget forecasting and ensuring that financial resources are allocated efficiently.

Another critical aspect of the financial functionality of HRMIS is its ability to improve transparency and accountability. By automating payroll processes and integrating them with financial systems, HRMIS minimizes the risk of errors and fraud. Payment records are linked to auditable trails, allowing finance departments to track every transaction. The system also ensures compliance with statutory regulations, such as tax deductions and pension contributions, reducing the likelihood of penalties or discrepancies. This level of transparency fosters trust among employees and stakeholders, reinforcing the government's commitment to financial stewardship.

### *Transparency (Budget; Procurement; Oversight)*

Lesotho has made some progress in improving public participation and transparency in its governance and budgetary processes, but significant challenges remain. One of the notable developments is the introduction of pre-budget consultations. These consultations aim to engage citizens during the early stages of budget formulation, providing them with an opportunity to contribute to decision-making on the policies and activities supported by the national budget. Additionally, they allow for feedback on the implementation of the previous year's budget. This marks a positive step towards involving the public in financial governance, although the scope and impact of these consultations are still evolving<sup>10</sup>.

The country has also recorded improvements in its budget transparency scores, as reflected in the Open Budget Survey (OBS). In the 2023 OBS, Lesotho achieved a transparency score of 35 out of 100, which shows progress compared to previous years. This score indicates that the Government has increased the availability of essential budget documents, such as the Executive's Budget Proposal and the Enacted Budget. These efforts suggest that Lesotho is gradually aligning with international best practices to provide more comprehensive budget information to the public. However, the score also

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<sup>10</sup> 2021/2022 UNICEF National Budget Brief

highlights that there is still significant room for improvement towards the achievement of higher levels of transparency<sup>11</sup>.

The Public Accounts Committee (PAC) hearings have taken some steps toward greater openness. Previously held behind closed doors, some PAC proceedings are now being made accessible to the public. For instance, sessions where ministries like the Ministry of Home Affairs appear before the PAC have been broadcast on social media platforms like Facebook. This change enhances accountability and allows the public to monitor the Government's activities more closely. Nevertheless, these efforts are not yet institutionalized, and their consistency varies, limiting their overall impact on public accountability<sup>12</sup>.

Despite these improvements, Lesotho still faces considerable challenges in fostering meaningful public participation. The country's public participation score in the 2023 OBS was a mere 9 out of 100, reflecting the limited extent of the formal mechanisms for engaging citizens in the budget process. Vulnerable and underrepresented communities remain particularly excluded, as few deliberate efforts are being made to include their voices. The oversight of public finances also remains weak. The Public Accounts Committee's oversight capacity is limited, with a score of 22 out of 100 in the 2023 OBS. Such a low score highlights the need for stronger legislative mechanisms to hold the executive accountable. The absence of robust oversight undermines the effectiveness of the improvements made in transparency and participation<sup>13</sup>.

### *Oversight*

Lesotho has undertaken several steps to improve financial oversight and public accountability, with a focus on empowering the Public Accounts Committee (PAC) and improving the broader framework for the management of public finances. The PAC comprises 25 Members of Parliament; its rights are established in the Constitution, Parliamentary Powers and Privileges Act, and in the Standing Orders. One significant improvement relates to the PAC's enhanced capacity and engagement. Through collaboration with international organizations like the Southern African Development Community Organisation of Public Accounts Committees (SADCOPAC), the PAC has received training and support to better manage its oversight of the public finances. This includes an emphasis on debt management, legislative scrutiny, and addressing inefficiencies in financial reporting. These efforts have bolstered the PAC's ability to address systemic weaknesses, providing a more robust mechanism for ensuring accountability in public spending<sup>14</sup>.

To enhance transparency and foster public trust, the PAC has expanded its collaboration with other stakeholders. In 2019, a key partnership was established with the Development for Peace Education and the Auditor General's office to disseminate audit findings to the public. This initiative has encouraged citizen participation in monitoring governmental activities, and has aimed to address financial irregularities proactively. By prioritizing the publication and follow-up of audit reports, this collaboration has strengthened the chain of accountability connecting the PAC, Government ministries, and the public<sup>15</sup>.

Additionally, financial reforms have been a focal point for the Government. The Ministry of Finance and the PAC have worked on a roadmap to transition from adverse audit opinions to clean audits. This

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<sup>11</sup> 2023 Open Budget Survey

<sup>12</sup> [https://web.facebook.com/watch/live/?ref=watch\\_permalink&v=1012322487319950](https://web.facebook.com/watch/live/?ref=watch_permalink&v=1012322487319950)

<sup>13</sup> 2023 Open Budget Survey

<sup>14</sup> Daily Hansard (Official Report) 24th February 2023

<sup>15</sup> <https://www.dpe.org.ls/2019/03/14/dpe-proposes-to-the-architectures-of-accountability-in-lesotho>

includes adopting International Public Sector Accounting Standards (IPSAS) to improve the accuracy and transparency of financial reporting. The Government has also introduced performance scorecards, a system that tracks the progress of Government projects using colour-coded indicators to highlight areas of success or failure. These reforms demonstrate a commitment to addressing long-standing financial management issues and improving governance practices<sup>16</sup>. Despite these advancements, challenges remain. Systemic corruption, limited enforcement of PAC recommendations, and delays in addressing audit findings continue to hinder progress.

### *Financial Reporting*

Lesotho has moved towards adopting the International Public Sector Accounting Standards (IPSAS) on a cash basis. Ministries now regularly submit signed financial statements for consolidation and audit purposes. These efforts are supported by technical audits and evaluations, such as those under the Public Sector Modernisation Project, which aim to align practices with IPSAS. The establishment of the Central Budget Management System (CBMS) has enhanced financial data consolidation and reporting, facilitating greater accuracy and timeliness in the production of financial statements. These reforms demonstrate progress toward transparency and accountability in financial reporting, even as full IPSAS compliance is ongoing.

### *Financial Management*

Key to the accounting framework is the maintenance of accurate records to safeguard the Government's assets. The Government has prioritized addressing systemic inefficiencies through Public Financial Management (PFM) reforms.

However, most donor-funded project accounts are reconciled regularly and within 4 weeks after month-end. These reconciliations are more regular due to donor insistence and periodic monitoring. These are lacking within the governmental framework. Meanwhile, Treasury-managed bank accounts appear to be reconciled on a monthly basis, but the authorization and approval signatures are not dated, making it difficult to assess the timeframes of the reconciliations. In the 2022 Audit Report, the Office of the Auditor General (OAG) also highlighted that some centrally managed bank account balances were still not fully reconciled as of 31 March 2022.

Furthermore, new frameworks and tools, including upgraded procurement regulations (2018), internal audit manuals, and the wage bill management system, have been implemented to streamline processes and safeguard assets. However, long-standing challenges such as outdated reconciliations for bank accounts and the lack of a comprehensive Fixed Asset Register persist. Recent initiatives, including the enactment of the Public Procurement Act No. 3 of 2023 and enhanced Treasury Regulations, aim to address these gaps and ensure more robust financial oversight and asset management.

## **2.6. Legal and regulatory arrangements for PFM**

The regulatory framework for public financial management (PFM) in Lesotho is deeply embedded in the 1993 Constitution, particularly in Chapter 10 (Finance) and Chapter 13 (Public Service). These constitutional provisions set out the foundational principles for managing public funds and ensuring accountability. They are operationalized through an evolving set of legislation, regulations, and guidelines aimed at enhancing transparency, efficiency, and fiscal discipline.

### *Key Legislative and Regulatory Tools*

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<sup>16</sup> <https://www.africa-press.net/lesotho/all-news/accountant-general-tables-financial-turnaround-strategy>

The Public Financial Management and Accountability Act, Act 12 of 2011 (PFMAA) is the cornerstone of Lesotho's PFM system. It establishes comprehensive processes, standards, and institutional roles to guide the use, management, and control of public funds. Key provisions include:

- Roles and Responsibilities: these define the functions of ministers and Chief Accounting Officers, ensuring accountability.
- Budget Process: specifies the format, timelines, and procedures for budgeting, monitoring, and reporting.
- Financial Management: outlines standards for public financial administration.
- Procurement and Asset Management: sets rules for the transparent procurement and management of government property.
- Losses of Public Money or Property: details procedures for addressing and recovering losses.
- Reporting and Audit: provides guidelines for independent and timely audits.

The PFMAA is supplemented by Treasury Regulations (2014), which offer detailed operational guidance on budgeting, expenditure controls, and financial reporting.

### *Recent Legislative Developments*

#### The Public Procurement Act, Act No. 4 of 2023

This Act modernizes public procurement by:

- Establishing a central procurement authority to oversee and regulate procurement activities.
- Introducing mandatory competitive bidding, contract management, and supplier evaluation processes.
- Requiring periodic audits and reports to enhance transparency.
- Aligning Lesotho's procurement processes with international best practices, reducing inefficiencies and corruption risks.

#### Audit Act, 2016

Designed to replace the outdated Audit Act of 1973, this Act strengthens the Auditor General's role by enhancing independence, widening the scope of audits, and aligning practices with global standards.

### *Complementary Legislation and Guidelines*

Several laws work alongside the PFMA to reinforce the PFM framework:

- The Income Tax Act (1993), VAT Act (2003), and Customs and Excise Duties Act (1982) form the basis for revenue collection.
- The Public Services Act (2005) and Public Service Regulations (2008) govern public-sector human resource management.
- The Local Government Act (1997) operationalizes decentralized financial governance.
- The Central Bank of Lesotho Act (2000) regulates monetary policy and state fund management.
- The Companies Act (2011) oversees corporate governance for state-owned enterprises.

The Public Accounts Committee (PAC), empowered by Section 81(1) of the Constitution and the Parliamentary Powers and Privileges Act (1994), ensures the legislative scrutiny of public funds. Financial instructions and circulars issued by the Accountant General provide further operational guidance.

### *Oversight Mechanisms*

Lesotho's Constitution (Sections 117 and 142) guarantees independent oversight through the Auditor General, whose role is strengthened by the Audit Act (2016). The PAC complements this oversight, reviewing audited accounts and ensuring financial accountability.

## **2.7. PFM Reform process**

At present there is no comprehensive “stand-alone” consolidated Government PFM reform agenda. The PFM reforms are guided by, and can be derived and collated from, the following sources:

- 1) Budget Strategy Paper 2025/26
- 2) Budget Speech (2024/25)
- 3) Budget Mid-Term Review (2024/25)
- 4) MoFDP Budget Matrix Speech/Recurrent/Capital (2024/25)
- 5) The NSDP-II Key Priority Area (KPA) IV (2023/24 – 2027/28)
- 6) NSDP-II KPA IV Reporting Template
- 7) MoFDP Operational Plan (2024/25)
- 8) MoFDP Performance Contract (2024/25)
- 9) MoFDP Service Charter (2024)
- 10) PFMA Act (2023)
- 11) RSL Strategic Plan - Lesokoana (2024-2027)
- 12) MoFDP Fiscal Rules (December 2024)

In addition, selected PFM Reforms are triggered and supported by major PFM DPs' projects and programmes:

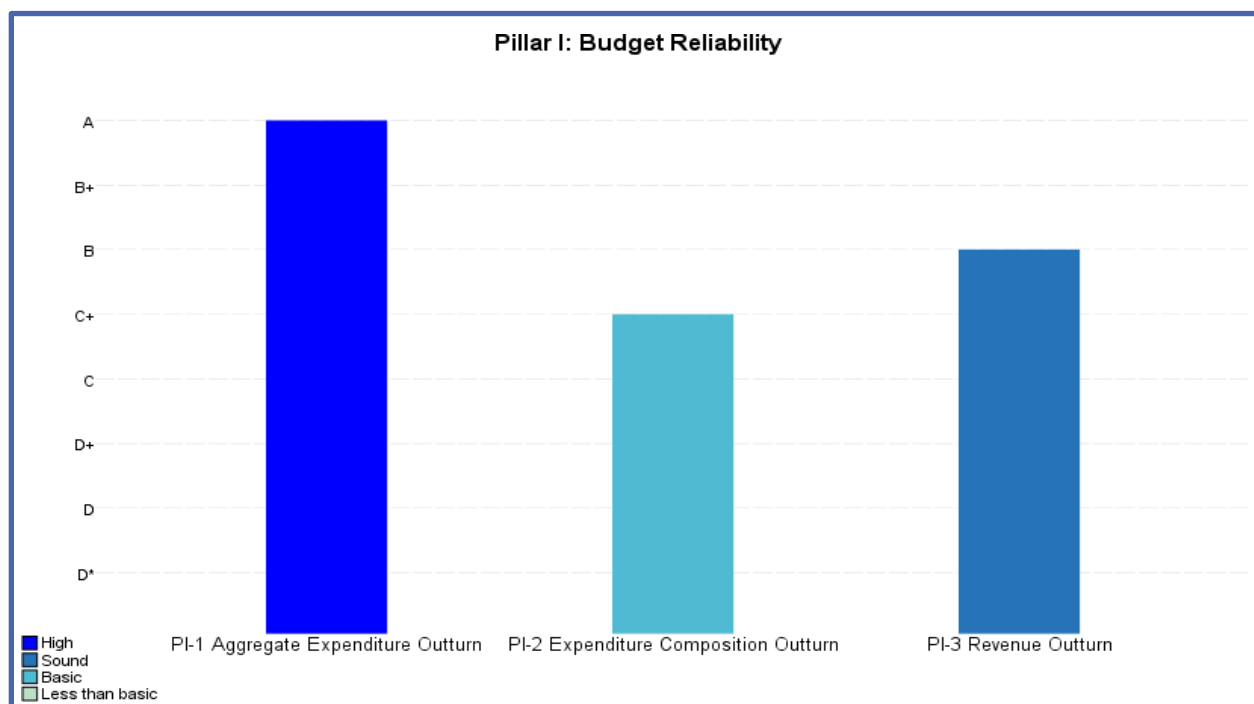
- 1) World Bank: Competitiveness and Financial Inclusion (CAFI) Project (2022 – 2028), Public Sector Foundations for Service Delivery (PSfSD) Project (2024 – 2027), Development Policy Operation (DPO) Prior Actions & Triggers (2024), Fiscal Rules (December 2024);
- 2) IMF: Article IV Policy Recommendations (2024), Tax Administration Diagnostic Assessment Tool (TADAT 2023) Risk Management, Fiscal Risk Statement (2024/25) Mitigation Measure, Global Public Finance Partnership (GPFP) Trust Fund Capacity Development Project (2024 - 2027);
- 3) US Millenium Challenge Account - II Passing Indicators (2022 - 2028);
- 4) UNDP/EU Integrated National Financing Framework (INFF) Facility Lesotho;
- 5) AfDB Institutional Support Project for Debt and Expenditure Management (ISPDEM 2022 – 2025);
- 6) EU Central Bank Lesotho TA/Capacity-building and the CF TA Project PEFA SA 2024.

### 3. Detailed Analysis of PFM Performance

#### Pillar I: Budget reliability

This pillar assesses whether the Government's budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Figure 1.1 Pillar 1 – Summary of PEFA Scores



#### Pillar 1 Overall Performance: Key Strengths and Weaknesses

##### Strengths

- At the aggregate level, the budget is reliable, with spending consistently between 95 percent and 105 percent of the approved amount.
- Successful PFM reforms, like the Medium-Term Expenditure Framework (MTEF) and Central Budget Management System, enhance data accuracy and decrease mistakes.
- The ability to quickly adjust the budget enables a fast response to emergencies.
- The contingencies reserves limit was well respected.

##### Weaknesses

- Relying too much on SACU revenue makes the budget vulnerable, especially after COVID.
- Changing spending patterns due to emergencies and shifting priorities need better oversight. These budget reallocations make the budget less reliable at the economic and functional levels. Frequent budget reallocations raise questions about budget credibility, as well as the delivery of government services based on the original policy intent.
- Ministries have limited capacity. This must be improved for better budget planning and control.

## PI-1 Aggregate expenditure outturn

This indicator evaluates the degree of deviation between the aggregate actual expenditure and the originally approved aggregate expenditure budget over the past three completed fiscal years, namely FY 2020/21, FY 2021/22 and FY 2022/23. This indicator uses the M1 method of assessment. Source data and detailed analyses are presented in the Annexes.

**Table 1.1 Summary Table of Scores**

PI-1 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
1	<b>Aggregate Expenditure Outturn</b>		<b>A</b>	<b>D</b>
1.1	Aggregate Expenditure Outturn	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.	A	D

### 1.1. Aggregate Expenditure Outturn

The aggregate expenditure outturn as a percentage of the approved aggregate expenditures for FY 2020/21, FY 2021/22 and FY 2022/23 were 100.5, 95.9 and 86.2 percent respectively (Table 1.1). As Table 1.1 indicates, aggregate expenditure deviations from the originally approved budget were well within acceptable limits in the last three completed fiscal years; the actual deviations were 1.1 percent, 5.9 percent, and 8.3 percent in FY 2020/2021, FY 2021/2022 and FY 2022/2023 respectively.

**Table 1.2 Aggregate expenditure outturn**

Aggregate expenditure	FY 2020/21	FY 2021/22	FY 2022/23
Original approved budget	15,755	15,941	17,779
Outturn	14,919	15,346	15,407
Outturn as a percentage of original approved budget	100.5%	95.9%	86.2%

Aggregate expenditure outturn was between 95 percent and 105 percent of the approved aggregate budgeted expenditure in at least two of the last three years, hence the score for this dimension is A.

**Dimension rating = A**

### **Performance change since the 2017 PEFA Assessment**

Data reliability has significantly improved since the last assessment. A critical advancement is the implementation of a web-based Central Budget Management System, which has replaced the use of Microsoft Excel and the non-functional budget functionality in IFMIS known as Active Planner. This new system has reduced the manual input of data and minimized data capture errors. As Table 1.1 above shows, the budget analysis indicates improved budget credibility compared to previous assessments.

When compared to the 2017 Assessment results, it is fair to conclude that there has been an improvement in performance. One contributing factor to the overall improvement in performance is that Government expenditure has been well-managed and balanced, along with revenue growth.

## Recent or ongoing reform activities

Ongoing PFM reforms in Lesotho include strengthening performance-based budgeting, enhancing the Medium-Term Expenditure Framework (MTEF), and building capacity within ministries for better budget execution and monitoring.

### PI-2 Expenditure composition outturn

This indicator measures the extent to which reallocations across the main budget categories during budget execution have contributed to variance in the composition of expenditures. Coverage relates to the BCG for the last three completed fiscal years, i.e FY 2020/2021, FY 2021/2022 and FY 2022/2023. This indicator covers three dimensions: Dimension 2.1, which evaluates the expenditure composition outturn by functional classification, excluding contingencies funds and interest on debt; Dimension 2.2, which measures the variance in expenditure composition by type of expenditure (economic classification), including interest on debt but excluding contingencies funds; and Dimension 2.3, which assesses the average expenditure charged to the contingencies budget. This indicator uses the M1 method of assessment. Source data and detailed analyses are presented in the Annexes.

**Table 2.1 Summary Table of Scores**

PI-2 M1	Dimension	Justification for 2024 score	2024 Score	2017 Score
2	<b>Expenditure Composition Outturn</b>		<b>C+</b>	<b>D+</b>
2.1	Expenditure composition outturn by function	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.	C	D
2.2	Expenditure composition outturn by economic type	Variance in expenditure composition by economic classification was less than 15% in at least two of the last three years.	C	D
2.3	Expenditure from contingencies reserve	Actual expenditure charged to a contingencies vote was on average more than 3% of the original budget, but less than 6%.	B	A

#### 2.1 Expenditure Composition Outturn by Function

The analysis reveals that while the legal framework (Section 15(1) of the PFMA Act 2011) permits budget reallocations of up to 20 percent and 10 percent in recurrent and capital budgets respectively, in practice there have been excessive and frequent expenditure reallocations across administrative heads. This was primarily due to the challenges posed by the COVID-19 pandemic, heavy rains affecting infrastructure, and subsequent liquidity crises. Consequently, the actual expenditure composition outturns by administrative heads were 13.3 percent, 13.7 percent, and 17.1 percent in FY 2020/2021, FY 2021/2022 and FY 2022/2023 respectively.



**Table 2.2 Expenditure Composition Outturn by Function**

Composition Variance	FY 2020/21	FY 2021/22	FY 2022/23
Functional classification	13.3%	13.7%	17.1%

The results from PI-1, along with the findings from PI-2.1, indicate some improvements in budget formulation and preparation by line ministries. This also suggests that budget forecasts have become more realistic and are now based on solid foundations rather than being mere “wish lists” generated by line ministries. During the same period, Government expenditure has continued to rise, leading to ex-ante Parliamentary approval of supplementary estimates for various initiatives, such as the new centralized SADC mission in Mozambique, the introduction of a youth apprenticeship program, and energy subsidies in response to high prices following the COVID-19 pandemic. These measures aim to reduce youth unemployment expenses, among other objectives. Variance in expenditure composition by program, administrative or functional classification was less than 15 percent in at least two of the last three years, hence the score for this dimension is C.

#### **Dimension Rating: C**

#### **Performance change since the 2017 PEFA Assessment**

This dimension improved from a rating of D in 2017 to C in the current assessment. In the 2017 assessment, expenditure composition outturn by administrative heads exceeded 15 percent in each of the three years prior. However, in the current assessment, it remained below 15 percent in two of the last three years. This indicates improvements in budget formulation and preparation by line ministries, as well as more realistic budget forecasts.

#### **Recent or ongoing reform activities**

Lesotho is implementing reforms in cash management, addressing arrears, and amending the Public Financial Management Act (PFMA) to promote fiscal discipline, enhance liquidity planning, and streamline expenditure controls.

#### **2.2 Expenditure Composition Outturn by Economic Type**

Section 15 of the PFMA Act 2011 permits budget reallocation within a program, and the Minister can authorize certain virements/reallocations above allowable limits, and to specific economic items such as salaries and grants. The analysis of the expenditure budget and actual outturns indicates substantial reallocations across economic heads. As Table 2.2 below shows, the expenditure composition variance was 14.5 percent, 12 percent, and 13.2 percent in FY 2020/2021, FY 2021/2022 and FY 2022/2023 respectively, which are significantly high percentages.

**Table 2.3 Expenditure Composition Outturn by Economic Type**

Composition Variance	FY 2020/21	FY2021/22	FY 2022/23
Economic classification	14.5%	12.0%	13.2%

Variance in expenditure composition by economic classification was less than 15 percent in at least two of the last three years, hence the score for the present dimension is C.

#### **Dimension Rating: C**

### Performance change since the 2017 PEFA Assessment

This dimension rose from a D rating in 2017 to a C. The results of the analysis suggest slight improvements in budget formulation and preparation, leading to enhanced budget credibility. Despite the significant variances, a positive effect is the increased flexibility in managing resources, allowing for rapid adjustments to address urgent needs and emerging priorities. This flexibility can enhance the Government's responsiveness to unforeseen events and ensure that critical areas receive the necessary funding, thereby contributing to overall fiscal resilience. While the increased flexibility is beneficial, there is room for improvement in reducing expenditure composition variances. This can be achieved by strengthening budget discipline, improving forecast accuracy, and enhancing monitoring and evaluation mechanisms. Additionally, providing capacity-building support to line ministries will improve their budget planning and execution capabilities.

#### 2.3. Expenditure from Contingencies Reserves

Article 114 of the 1993 Constitution and Section 17 of the PFMA Act 2011 provide for the establishment of a Contingencies Fund to cater for unforeseen eventualities. According to the law, the Minister of Finance must seek parliamentary approval for the establishment of the fund. During the three years under review, for contingencies Parliament appropriated respectively M100 million, M600 million, and M300 million for FY 2020/2021, FY 2021/2022 and FY 2022/2023. The use of the contingencies reserve has increased significantly since the 2017 assessment. The appropriated amounts represent 1 percent, 3 percent, and 2 percent of total recurrent appropriations for FY 2020/2021, FY 2021/2022, and FY 2022/2023 respectively.

**Table 2.4 Expenditure from Contingencies Reserves**

Year	Average Contingencies Share
2020/21	<b>4.0%</b>
2021/22	
2022/23	

Actual expenditure charged to the Contingencies Fund averaged 4 percent, as is shown in Table 2.3 above; this exceeds 3 percent of the original budget, but is less than 6 percent.

**Dimension rating = B**

### Performance change since the 2017 PEFA Assessment

This dimension declined from a rating of A in 2017 to a B in the current assessment. This is because of the increased expenditure that was primarily due to the response to the COVID-19 pandemic, which included assisting vulnerable people, providing rent subsidies to MSMEs, salary subsidies for factory workers, and general pandemic response efforts. Additionally, funds were used to address the effects of heavy rains and to implement cost-cutting measures necessitated by liquidity crises following the pandemic and natural disasters. As a result of these factors, the score for this dimension has decreased from the 2017 score.

#### **P1-3 Revenue outturn**

This indicator assesses the variance in revenue between the initial approved budget actual revenue collection at year-end, reflecting Dimension 3.1; and Dimension 3.2, which analyses the variance in revenue composition. Lesotho primarily utilises IFMIS for revenue data collection, supplemented by financial reports from the Treasury and the Statement of Government Accounts (SGO) from the macro

fiscal department for entities outside IFMIS, along with the Appropriation Acts governing approved budgets. This indicator uses the M2 method of assessment. Source data and detailed analyses are presented in the Annexes.

**Table 3.1 Summary Table of Scores**

PI-3 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
3	<b>Revenue Outturn</b>		<b>B</b>	<b>C+</b>
3.1	Aggregate Revenue Outturn	Actual revenue was between 94% and 112% of budgeted revenue in at least two of the last three years.	B	B
3.2	Revenue Composition Outturn	The variance in revenue composition was less than 10% in two of the last three years.	B	C

### 3.1 Aggregate revenue outturn

SACU remains the primary source of revenue, although there has been a slight decline in collections compared to normal collections for the financial years under review. This is attributable to reduced trade activities during the COVID-19 pandemic. For FY 2021/22, there was a significant increase in revenue collection of 98.4 percent. This was despite a low initial collection base that had been anticipated due to the pandemic's negative impact on economic activities. The increase was primarily driven by a rise in corporate income tax (CIT), as most companies fulfilled their tax obligations.

By contrast, FY 2020/21 saw a collection performance of 94.6 percent, representing a slight overall decrease. This period was marked by fiscal losses associated with COVID-19, including reduced economic activities during and after lockdowns. There was also a decline in CIT collection due to higher-than-expected refund claims, particularly from the mining, finance and insurance sectors. However, a rise in income tax and VAT collections partly offset these declines, supported by relief measures for businesses and households. FY 2022/23 experienced a major decline of 85.1 percent in collection. This decline was mainly driven by a continuous decrease in PAYE due to job losses and low investment levels during and after the pandemic.

**Table 3.2: Aggregate revenue outturn**

Year	Aggregate Revenue Outturn
2020/21	94.6%
2021/22	98.4%
2022/23	85.1%

According to the information provided, the actual revenue for FY 2020/21 was 94.6 percent of the budgeted revenues, indicating a slight shortfall. For FY 2021/22, the actual revenue percentage of 98.4 percent of the budgeted revenue showed a closer alignment, but it was still slightly below the budget amount. The 2022/23 revenue collection rate of 85.1 percent represents a decrease compared to the previous years. This decline suggests challenges in economic conditions, fiscal policies, and the external factors impacting revenue generation. The scores for this dimension lie between 94 percent and 112 percent of budgeted revenue in at least two of the last three years, hence the score for this dimension is B.

**Dimension rating = B**

**Performance change since the 2017 PEFA Assessment**

In the previous PEFA Assessment (2017), the Aggregate Revenue Outturn scored B, with actual revenue consistently falling within the 94 percent to 112 percent range in at least two of the three assessed years. By contrast, recent results show that revenue outturn was 94.6 percent in 2020/21 and 98.4 percent in 2021/22, both of which were within the target range. However, there was a significant decline to 85.1 percent in 2022/23, indicating a deterioration in revenue collection compared to the previous assessment period.

### Recent or ongoing reform activities

Recent reforms include establishing a Tax Policy Unit within the MoFDP and implementing tax modernization efforts to enhance revenue collection through improved processes and technology. These initiatives aim to strengthen tax performance and compliance.

### 3.2 Revenue Composition Outturn

The Central Government's revenue composition comprises four main categories: tax revenue, grants from foreign governments, other revenues, and SACU. These categories represent the primary sources of income that fund the various Government operations and public services.

Table 3.2 illustrates the outturn of the revenue composition variance over the past three fiscal years. In FY 2020/21, the actual variance was 8.8 percent, reflecting a relatively stable revenue performance. The following fiscal year, FY 2021/22, saw a slight decrease in variance to 7.8 percent, indicating inconsistent revenue collection efforts and financial management practices. However, the fiscal year 2022/23 presented a different scenario. The revenue composition variance increased significantly to 15.7 percent. This marked deviation from previous years is primarily attributable to a major decline in trade and economic activities caused by the COVID-19 pandemic. The pandemic led to widespread economic disruptions, impacting trade flows, business operations, and overall economic productivity. As a result, the Government's revenue streams were adversely affected, leading to the observed increase in variance. This significant increase in variance underscores the importance of diversifying revenue sources and enhancing economic resilience to mitigate the impacts of such unforeseen events in the future. Efforts to strengthen the economy, improve tax collection mechanisms, and secure stable funding from international partners are crucial to ensuring sustainable government revenue and financial stability.

**Table 3.3 Revenue composition outturn compared to the original approved budget**

Year	Composition Variance
2020/21	8.8%
2021/22	7.8%
2022/23	15.7%

Variance in revenue composition was less than 10 percent in two of the last three years, hence the score for the present dimension is B.

**Dimension rating = B**

### Performance change since the 2017 PEFA Assessment

In the previous PEFA Assessment (2017), the Revenue Composition Outturn showed consistent performance, with variance levels typically below 10 percent. Recent results reveal a composition variance of 8.8 percent in 2020/21 and 7.8 percent in 2021/22, both of which align with the previous

standards. However, there was a notable increase to 15.7 percent in 2022/23, indicating a significant deviation from the original approved budget, and highlighting a decline in the predictability of revenue sources compared to earlier assessments.

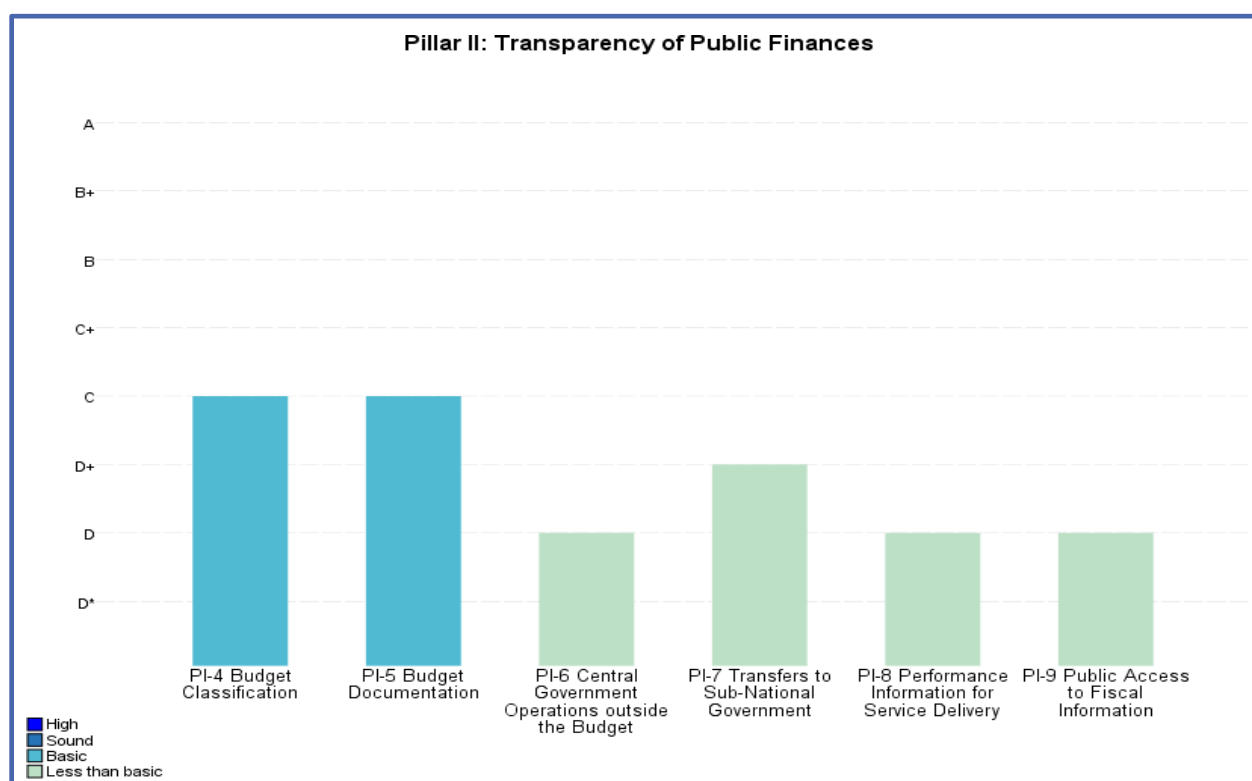
### Recent or ongoing reform activities

Ongoing revenue reforms include improved tax collection mechanisms through the tax modernisation project, and the introduction of a Tax Policy Unit within the Ministry of Finance and Development Planning.

## Pillar II: Transparency of public finances

This Pillar assesses whether the information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure (including intergovernmental transfers), published information on service delivery performance, and ready access to fiscal and budget documentation. The pillar is based on six indicators: budget classification; budget documentation; Central Government operations outside the budget; transfers to sub-national governments; performance information for service delivery; and public access to fiscal information.

Figure 2.1 Pillar 2 – Summary of PEFA Scores



### Overall Performance: Key Strengths and Weaknesses

#### Strengths

- The Integrated Financial Management Information System (IFMIS) was upgraded from Epicor 7.3.5 to Epicor 10.2 in April 2019, along with the adoption of the new Lesotho Chart of Accounts (COAs) and full implementation of the International Public Sector Accounting Standards (IPSAS) cash basis.

- Budget classification is aligned to Government Finance Statistics (GFS) 2014 and Classification of the Functions of Government (COFOG).
- Budget documentation is basic, as it meets all four basic elements and contains two additional elements.

## Weaknesses

- Lack of public access to published information.
- Lack of monitoring of State-Owned Enterprises (SOEs) and Extra-Budgetary Units (EBUs) by Ministry Department Agencies (MDAs), the Ministry of Finance and Development Planning, and the Legislature.
- Lack of legislation on the allocation of resources to sub-national governments.
- Poor adherence to timeframes, and inconsistency in reporting as required by Public Financial Management and Accountability Act, 2011; for example, Section 34 (1)(b), Section 43 & 44 (1) & Section 45 (1) and Audit Act, 2016 Section 28.
- Internal Audit units are established within MoFDP and MDAs but are not fully functional.
- Macroeconomic forecasts on interest rates and exchange rates are already generated by CBL but are not captured in the budget documentation.
- Although the public/private partnership policy has been established since 2017, there have been delays in establishing the legal and institutional framework for it, as well as in establishing capacity building intended to regulate and manage PPP contracts and any contingent liabilities relating to them.
- Although there is a public debt management framework in place, a fiscal risks statement is not yet published as part of the budget process.
- MDAs lack awareness regarding the country's Public Financial Management System.

### PI-4. Budget classification

This indicator assesses the extent to which the Government's budget and accounts classification is consistent with international standards. There is one dimension for this indicator – Dimension 4.1, Budget Classification.

The coverage is BCG for the last completed fiscal year, FY 2022/23, and the indicator uses the M1 method. The data for this indicator is sourced from the Lesotho COAs, the 2022/23 Budget Book, Budget Call Circular, Budget Strategy Paper, Budget Speech/Proposal, and Mid-Term Budget Review. Inputs from Government of Lesotho (GoL) officials have also been incorporated.

**Table 4.1 Summary Table of Scores**

PI-4 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
4	<b>Budget Classification</b>		<b>C</b>	<b>C</b>
4.1	Budget Classification	For consistency, budget processes use administrative and economic classifications based on GFS/COFOG standards (level 2) or a comparable classification.	C	C

#### 4.1 Budget classification

During the review period, the annual budget presented to Parliament featured comprehensive breakdowns of revenue and recurrent expenditures categorized according to economic and administrative classifications, in accordance with GFS 2014 standards. Additionally, the capital budget was broken down by economic and administrative units, geographical locations, and specific projects, as illustrated in the 2022/23 Budget Book. Starting in the fiscal year 2023/24, the Government has initiated the implementation of program-based budgeting (PBB). This transition opens the door for the possible integration of COFOG within the new budgeting framework, as Lesotho's COAs is designed to support these classifications.

**Dimension Rating = C**

#### **Performance change since the 2017 PEFA Assessment**

The rating for this indicator remains at C, in line with the findings of the 2017 PEFA Assessment. Nevertheless, there have been notable advancements in Lesotho's public financial management system. In April 2019, the Treasury Department enhanced IFMIS by upgrading it from Epicor 7.3.5 to version 10.2. This upgrade was accompanied by the implementation of refined COAs and the adoption of IPSAS cash basis. The revised COAs facilitates the budgeting and reporting of both revenue and expenditure by program and sub-program, although program and sub-program budgeting was only implemented in fiscal year 2023/24. The COAs is also capable of supporting budgeting and reporting in the COFOG. This development bolsters the Government's adherence to international standards, and paves the way for future enhancements in transparency and program-based budgeting.

#### **Recent or ongoing reform activities**

The MoFDP is currently undertaking a review of the PFMA Act to enhance procurement processes, fiscal discipline, and budgeting practices. The Treasury Department is in the process of developing a roadmap towards a clean audit, plus a move to IPSAS accrual basis and the pursuit of unqualified audit opinions. The Treasury is also in the process of mapping the Lesotho COAs with the GFS 2014, with the assistance of IMF. Furthermore, program-based budgeting has been implemented for the 2023/24 fiscal year to better connect budgeting with performance results.

#### **PI-5. Budget documentation**

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator – Dimension 5.1, Budget documentation.

The coverage is BCG for the last completed fiscal year (2022/23), and the method used is M1. The data used to assess this indicator was obtained from the Budget Call Circular, Budget Strategy Paper, Budget Speech/Proposal, Budget Book, and Public Debt Transparency Quarterly Reports for 2022/23. Additionally, regular consultations with Government of Lesotho Officials were conducted.

**Table 5.1 Summary Table of Scores**

PI-5 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
5	<b>Budget documentation</b>		<b>C</b>	<b>C</b>
5.1	Budget documentation	Budget documentation meets all four basic elements and two additional ones, but is missing one additional element for a B score.	C	C



## 5.1 Budget Documentation

As Table 5.2 below illustrates, the indicator satisfies six elements: the four basic elements plus two additional elements. However, six elements are either incomplete or absent, leading to a score of C.

**Table 5.2 Budget Documentation (last budget submitted to the Legislature)**

Element/ Requirements	Included (Y/N)	Source of Evidence and Comments
<b>Basic elements</b>		
<b>1. Forecast of the fiscal deficit or surplus or accrual operating result</b>	Yes	The call circular, budget strategy paper, and budget speech for 2022/23 forecast a budget deficit of 7.7%.
<b>2. Previous year's budget outturn is presented in the same format as the budget proposal</b>	Yes	The budget speech and budget book for 2022/23 present the budget outturn in the same format as the budget proposal.
<b>3. Current fiscal year's budget is presented in the same format as the budget proposal</b>	Yes	The call circular, budget book, and budget speech for 2022/23 present the current fiscal year's budget in the same format as the budget proposal.
<b>4. Aggregated budget data for both revenue and expenditure are according to the main heads of the classifications used (ref. PI-4) including data for current and previous year, in addition to the detailed breakdown of revenue and expenditure estimates</b>	Yes	The 2022/23 budget book presents aggregate revenue and expenditure data using economic and administrative (head) classifications, aligned with PI-4 standards.
<b>Additional elements</b>		
<b>5. Deficit financing, describing its anticipated composition</b>	Yes	The 2022/23 budget speech projected a M3.3 billion deficit, to be financed through a mix of Treasury bills, Treasury bonds, and a M1.3 billion drawdown of reserves.
<b>6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates and exchange rates</b>	No	Budget documents only reflect GDP growth and inflation. Though interest and exchange rate forecasts from CBL are used in the preparation of budget estimates, they are not shown in the budget documentation.
<b>7. Debt Stock, including details for at least the current fiscal year, presented in accordance with GFS or other comparable standards</b>	Yes	Public Debt Transparency Reports published quarterly reflect debt stock, and such information is also reflected in budget documentation, including the budget speech/proposal presented to Parliament.
<b>8. Financial assets, including details for at least the beginning of the current fiscal year, presented in accordance with GFS or another comparable standard</b>	No	Treasury tracks financial assets but excludes them from budget documents, sharing them only with the Auditor General. Investment data is not well tracked or monitored.
<b>9. Summary information of fiscal risks, including contingent liabilities and contingent obligations embedded in structure financing instruments such as Public/Private Partnership (PPP) contracts etc.</b>	No	The Public Debt Transparency Reports cover CG contingent liabilities, but data on partial guarantees and PPP-related liabilities are limited. GoL has had a PPP policy since 2017 and is drafting a PPP Bill to address these issues.
<b>10. Explanation of the budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of <i>all</i> major revenue policy changes and/or changes to expenditure programs</b>	No	The 2022/23 Budget documents highlight new policies and investments, but their budgetary impact, along with the effects of revenue and expenditure changes, is not clearly outlined.
<b>11. Documentation on the medium-term fiscal forecasts</b>	No	The medium-term framework includes year 2 and 3 forecasts, but without including interest and exchange rates in the fiscal forecasts. Their reliability is therefore questionable.
<b>12. Quantification of tax expenditures</b>	No	Quantification of tax expenditure is not available.

**Dimension Rating = C**

**Performance change since the 2017 PEFA Assessment**



The score for this indicator remained at C, consistent with the 2017 PEFA Assessment. Nevertheless, the indicator continues to meet all four basic elements and has made progress on one additional element, namely the expected structure of deficit financing. It still needs one additional element to achieve a B score.

### Recent or ongoing reform activities

The Government is taking steps to mitigate the fiscal risks associated with failed PPPs, unqualified arrears, and contingent liabilities. A Public Debt Management Framework has been established, and an annual fiscal risk statement will be incorporated in the budget process. Terms of Reference are currently being formulated to effectively manage contingent liabilities, while annual updates to the Debt Sustainability Analysis and Medium-Term Debt Strategy will help to identify vulnerabilities. The 2023/24 Public Debt Bulletin is in progress, and the Debt and Aid Management Bill, introduced in July 2024, empowers the Minister of Finance and Development Planning to incur debt in accordance with a medium-term strategy. It also creates a Debt Management Committee for advisory purposes. The MoFDP is also setting up a Tax Policy Unit with support from the IMF to enhance revenue forecasting and tax administration, alongside an Asset Management Unit to oversee government assets. Furthermore, with assistance from the World Bank, the MoFDP is in the process of drafting the PPP Bill. This is aimed at regulating PPP contracts and managing contingent liabilities, building on the 2017 PPP policy.

## PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside Central Government financial reports. It contains three dimensions: expenditure outside financial reports; revenue outside financial reports; and financial reports of extra-budgetary units. The coverage for this indicator is the CG for the last completed fiscal year (2022/23), and uses the M2 (AV) method for aggregating dimension scores. Data for the assessment is derived from the audited annual financial statements of selected EBUs for the fiscal year 2022/23, along with consolidated annual audited financial statements for 2021/22. Interviews with Government officials were also conducted.

**Table 6.1 Summary Table of Scores**

PI-6 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
6	<b>Central government operations outside financial reports</b>		<b>D</b>	<b>D</b>
6.1	Expenditure outside financial reports	Performance is less than required for a C score; at least half of government expenditure from non-tax revenue and expenditure from donor financed projects (more than 10% in total) is not captured in the CG's financial reports.	D	D
6.2	Revenue outside financial Reports	Performance is less than required for a C score; interactions with GoL officials, along with a list of extrabudgetary units provided by PSD&FA, suggest that more than 10% of CG revenue is outside of what is included in its financial reports.	D	D
6.3	Financial reports of extra-budgetary units	Performance is less than required for a C score; according to the CG consolidated audited annual financial statements report for 2021/22, the majority of extra-budgetary units and all CHAL institutions submit their annual financial statements to their respective ministries later than nine months after the end of the fiscal year.	D	D

### 6.1 Expenditure outside financial reports

In the fiscal year 2022/23, development assistance from international NGOs, bilateral aid, multilateral aid, and foundations totalled \$21.81 million, \$65.17 million, \$135.96 million, and \$1.51 million respectively, as captured in Table 6.1. Significant contributors included the Clinton Health Access Initiative, World Vision International, Red Cross, and Voluntary Service Overseas, with their efforts primarily targeting health initiatives (including STD and HIV/AIDS prevention), emergency food aid, and essential life skills training for youth. It is important to note that a majority of expenditures by international NGOs are funnelled through Civil Society and National NGOs, which means they do not appear in CG accounts.

Additionally, expenditures from EBUs, which are also not captured in CG financial records, are financed through income generated independently of the Government subventions. Discussions with Government officials indicate that around 50 percent of the expenditure from EBUs is omitted from CG financial statements. However, this assertion lacks full verification due to the absence of audited annual financial statements from numerous EBUs and the Christian Health Association of Lesotho (CHAL) institutions at the time of this report. Therefore it can be inferred that at least half of the spending from non-tax revenue and donor contributions is not reflected in CG financial statements.

**Dimension Rating = D**

#### **Performance change since the 2017 PEFA Assessment**

The rating for this dimension continues to be D, aligning with the findings of the 2017 PEFA Assessment, which highlights ongoing deficiencies in the country's PFM system.

### 6.2 Revenue outside financial Reports

The MoFDP's Department of Private Sector Development and Financial Affairs (PSD&FA) reports that there are approximately 22 SOEs, 24 EBUs and 68 CHAL institutions. These entities, in addition to receiving subsidies from the CG, generate non-tax revenue through a variety of activities, including student tuition fees, residence fees, and the sale of pharmaceuticals, as detailed in table 6.2. Furthermore, development assistance from international NGOs and foundations is not reflected in the financial statements of the CG. Discussions with Government officials indicate that over 10 percent of CG revenue is not included in its financial reports.

**Dimension Rating = D**

#### **Performance change since the 2017 PEFA Assessment**

The rating for this dimension is D, consistent with the findings from the 2017 PEFA Assessment, highlighting deficiencies in the country's PFM system.

### 6.3 Financial reports of extra-budgetary units

The PSD&FA reports that a significant number of SOEs and EBUs are failing to submit their audited financial statements within the required timeframe. The annual audited Consolidated Financial Statements for 2021/2022 indicate that many EBUs and CHAL institutions have not maintained current audited financial statements. For instance, the Lesotho College of Education's last audited financial statements submitted were for the fiscal year 2018/19, while the Basotho Enterprises Development Corporation's most recent submission was for 2020/21, and the Lesotho National Dairy Board's last submission dates back to 2014/15. Additionally, none of the 68 CHAL institutions have updated their audited financial statements since FY 2019/20. Furthermore, the audited annual financial statements report for 2021/22 reveals that certain EBUs have not accurately reflected all their liabilities in their

financial position statements. For example, the Road Directorate failed to recognize a liability of M44.9 million in its 2020/21 financial position statement.

#### Dimension Rating = D

#### Performance change since the 2017 PEFA Assessment

The overall rating for this indicator is D, which aligns with the score recorded in the 2017 PEFA Assessment, highlighting deficiencies in the country's PFM system.

#### Recent or ongoing reform activities

The enhancement of the IFMIS and the complete implementation of IPSAS cash basis have the objective of recording all income and expenses related to donor-funded projects and EBUs. Additionally, the MoFDP is in the process of formulating a PPP Bill to oversee contracts and contingent liabilities, along with the SOEs policy, whose aim is to centralize the oversight of SOEs and Government investments.

### PI-7. Transfers to sub-national governments

This indicator assesses the transparency and timeliness of transfers from Central Government to sub-national governments having direct financial relationships to it. It considers the basis for transfers from Central Government and whether the sub-national governments are receiving information about their allocations in time to facilitate budget planning. The indicator comprises two dimensions: the system for allocating transfers, and the timelines concerning information about transfers. The coverage is CG and the sub-national governments having direct financial relationships with CG for the last completed fiscal year (2022/23). This indicator uses the M2 (AV) method for aggregating dimension scores.

Information for the assessment of this pillar indicator has been obtained from the Budget Book for the 2022/23 fiscal year; the strategic plan of the Ministry of Local Government, Chieftaincy, Home Affairs and Police (MoLGCHAP) covering 2015-2019; the MoLGCHAP operational plan for the 2022/23 fiscal year; the MoLGCHAP Call Circular for the period from 2022/23 to 2024/25; and payment vouchers issued to sub-national governments for the 2022/23 fiscal year. Additionally, Government officials at MoLGCHAP were regularly consulted.

**Table 7.1 Summary Table of Scores**

PI-7 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>7</b>	<b>Transfers to sub-national governments</b>		<b>D+</b>	<b>D+</b>
7.1	System for allocating transfers	The horizontal allocations of some transfers to sub-national governments from the Central Government is determined by a transparent, rule-based system.	C	C
7.2	Timeliness of information on transfers	Performance is less than required for a C score; while general budget information is available to SNGs early in the budget process, timing about the actual allocation of funds is unreliable, and funds are lower than expected.	D	D

#### 7.1 System for allocating transfers

The budgets of local councils, with the exception of Maseru City Council (MCC), are entirely financed through transfers from the Central Government. The MoLGCHAP oversees the allocation of grants for both the recurrent and the capital expenditures of Local Authorities. Under the current framework, budget allocations and Central Government transfers for local authority financing are managed through

the MoLGCHAP, as councils do not serve as direct budget entities within the MoFDP. When councils spend public funds, their financial reports are submitted to the MoLGCHAP and verified by both the Directorate of Planning for capital budgets and projects and by the Office of the Financial Controller for operational budgets and expenditures before they reach the MoFDP. The calculation of grants for expenditures is as follows:

- Construction of rural roads: equal distribution of approved funds among 10 districts.
- Development fund for councils: equal distribution of approved funds among 75 councils.
- Solid waste management for urban councils: equal distribution of approved funds among 11 urban councils.

This allocation system is not enshrined in legislation; it was established by the MoLGCHAP in 2012 in response to concerns raised by District Councils regarding the fund distribution process between 2005 and 2011. The transfers, provided as block grants, encompass all governmental contributions and are allocated first to the council level, followed by the district and community levels.

#### **Dimension Rating = C**

##### **Performance change since the 2017 PEFA Assessment**

The rating for this Dimension is C, which aligns with the score recorded in the 2017 PEFA Assessment, thus highlighting deficiencies in the PFM system.

##### **7.2 Timeliness of information on transfers**

SNGs develop their budgets as part of the budget preparation process of MoLGCHAP, following the issuance of the Call Circular regarding the preparation of the Budget Framework Paper and budget. Subsequently, MoLGCHAP circulates its own guidelines to the Maseru Urban and District Councils, outlining budget ceilings and requesting detailed proposals for budget expenditure allocations by a specified deadline. The proposed budget allocations from SNGs are incorporated into MoLGCHAP's overall budget submission and estimates. This represents the primary opportunity for councils to participate in budget discussions. Once the final estimates are forwarded to the ministries, only nine days remain for the line ministries to finalize their submissions as per the current budget calendar. The budget figures for MoLGCHAP are typically available when the Government submits its budget, usually in February. However, the final confirmation regarding the upcoming year's budget for SNGs cannot occur until Parliament has ratified the budget.

MoLGCHAP states that transfers to SNGs should occur at the start of each quarter and should be predictable. Nevertheless, significant challenges exist regarding the timing of these fund transfers. The capital budget transfers from MoLGCHAP to SNGs are contingent upon the specifics of their implementation plans, bank information, and other necessary requirements for fund disbursement. SNGs often receive their capital funds late in the financial year, frequently in the second or third quarter, and these amounts are typically only a fraction of what was originally requested. The delayed transfers hinder the Councils' ability to utilize their allocated funds effectively, as the procurement process can often take up to two months. Consequently, by the time councils are prepared to award contracts, the financial year has often concluded, necessitating the return of unspent funds to the CG. Accordingly, while general budget information is accessible to SNGs at the start of the budget year, it tends to be unreliable.

#### **Dimension Rating = D+**

##### **Performance change since the 2017 PEFA Assessment**

The overall rating for this indicator is D, consistent with the findings from the 2017 PEFA Assessment and highlighting deficiencies in the country's PFM system.

### Recent or ongoing reform activities

Currently, there are no active reforms associated with this indicator during the preparation of this report.

### PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation, and in its year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on the resources received by service delivery units is being collected and recorded.

The coverage is CG for all four dimensions, and for PI-8.1, the performance indicators and planned outputs and outcomes for the next fiscal year (2023/24); for PI-8.2, the outputs and outcomes of the last completed fiscal year (2022/23); and for PI-8.3 and PI-8.4, the last three completed fiscal years (2020/21, 2021/22, and 2022/23). The indicator uses the M2 (AV) method for aggregating the dimension scores.

The information used to assess this indicator is sourced from the Strategic Plans and Operational Plans of MDAs for the fiscal years 2023/24, along with the Quarterly Reports for 2022/23, the Budget Speeches for both 2022/23 and 2023/24, the Budget Books for the same years, the Mid-Term Budget Review for 2022/23, and the Quarterly Bulletins for 2022/23. Additionally, regular communication was maintained with the Government officials from the MoFDP, Ministry of Public Service, Office of the President, Public Service Commission, Ministry of Defence, Ministry of Law and Justice, MoLGCHAP, Ministry of Education and Training, Ministry of Health, and the Office of the Auditor General.

**Table 8.1 Summary Table of Scores**

PI-8 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
8	<b>Performance information for service delivery</b>		<b>D</b>	<b>D</b>
8.1	Performance plans for service delivery	Performance is below a C score; some MDAs use outdated strategic plans, and their performance indicators in operational plans, the budget speech, and the budget book do not meet PEFA framework requirements or the PFMA Act, 2011	D	D
8.2	Performance achieved for service delivery	Performance is below a C score; the performance indicators in the MDAs' operational plans, budget speech, and the budget book do not meet PEFA framework requirements or the PFMA Act, 2011.	D	D
8.3	Resources received by service delivery units	Performance is below a C score; there are no surveys, evaluations, or follow-up reports for the past three years regarding the resources received by service delivery units.	D	D
8.4	Performance evaluation for service delivery	Performance is below a C score; there have been no independent evaluations or performance audits of the four ministries, including MoET and MoH, during the review period. Additionally, the Office of the Auditor General conducts performance audits only as needed, not for all ministries.	D	D

### 8.1 Performance plans for service delivery

MoLGCHAP is currently operating under an outdated strategic plan from 2015 to 2019, raising concerns about whether its operational plan aligns with the policies outlined in the call circular, budget strategy paper, National Strategic Development Plan II, and other national policies. Additionally, this operational plan does not fulfil the requirements set forth in the PEFA framework and the PEFA Assessment field guide, as it primarily emphasizes administrative performance, which is not included in the PEFA framework.

As for MoLJ, it is yet to establish a comprehensive strategic plan for the entire ministry, following the merger of the Ministry of Justice and the Ministry of Law, Constitutional Affairs, and Human Rights in 2022. However, the newly formed Department of Law, Constitutional Affairs, and Human Rights has developed a current strategic plan for 2022/23 to 2024/25 which includes clear timelines and key activities. Nevertheless, this strategy lacks key performance indicators, performance outputs, and performance outcomes. Furthermore, it is not costed and tends to focus more on administrative matters than service delivery. By contrast, the Department of Justice operates under a current strategic plan for 2022 to 2027 that is costed and includes key performance indicators for service delivery, along with activities scheduled within specific timeframes. However, this strategy also fails to specify performance outputs and outcomes. The MoLJ is working towards creating a unified strategic plan for the entire Ministry. The operational plan for the Ministry of Law and Justice for 2023/24 is costed, but it does not clearly outline performance outputs and outcomes.

For Ministry of Education and Training, there is a costed up-to-date Education Sector plan (ESP) 2016-2026 that is aligned with NSDP II, as well as a costed three-year Education Sector implementation plan 2020-2023. The ESP highlights program objectives, though the key performance indicators, planned outputs and planned outcomes are not directly matched to program objectives. MoET also has a costed 2023/24 operational plan that includes outline program objectives, performance indicators and activities to be undertaken to achieve the program objectives. However, the plan does not show both performance outputs and performance outcomes, and is therefore not in line with the requirements of the PFMA Act, 2011, or the requirements outlined in the PEFA framework and in the PEFA Assessment field guide.

The Ministry of Health has also a costed Ministry Strategic Plan 2020-2023 (extended) aligned with NSDP II and a costed consolidated annual operational plan for 2023/24. However, as with other ministries, the operational plan is focused more on administrative performance than on service delivery and is therefore not in line with the requirements of the PFMA Act, 2011, nor with the requirements outlined in the PEFA framework and PEFA Assessment field guide.

Therefore, it is fair to conclude that although the majority of ministries under review have up-to-date strategic plans and annual plans, they are not entirely in line with the requirements of either the PFMA Act, 2011, the PEFA framework, or the PEFA Assessment field guide. Both the Budget Book and Budget Speech also focus on budget allocation without necessarily highlighting key performance indicators, performance outputs or performance outcomes.

**Dimension Rating = D**

#### **Performance change since the 2017 PEFA Assessment**

The score for this dimension is D. This is the same as in the 2017 PEFA Assessment, indicating weaknesses in the country's PFM system.

## 8.2 Performance achieved for service delivery

Performance reporting is included in quarterly bulletins, midterm budget reviews, annual budget proposals, and the Budget Book for the fiscal year under consideration. However, this reporting primarily addresses budget outcomes rather than service delivery. Similarly, the quarterly and annual reports on project cycle management emphasize project performance rather than service delivery metrics.

All MDAs under review submit performance reports to their respective parliamentary cluster committees on a quarterly basis. But these reports predominantly focus on budget performance, particularly concerning the capital budget, rather than service delivery. Consequently, the conclusions regarding performance reporting in this context align with those for the performance plans outlined in section 8.1, indicating that such reporting does not comply with the stipulations of the PFMA Act, 2011, or with the criteria established in the PEFA framework and the PEFA Assessment field guide.

**Dimension Rating = D**

### **Performance change since the 2017 PEFA Assessment**

The score for performance changes since the last PEFA Assessment remains at D, which is consistent with the 2017 PEFA Assessment and highlights ongoing deficiencies in the country's PFM system.

## 8.3 Resources received by service delivery units

There have been no surveys, evaluations, or follow-up reports in the last three completed fiscal years that detail the level or amount of resources allocated to all the service delivery MDAs under review. However, it is important to note that for MoLGCHAP, the service delivery units are the SNGs or councils. These SNGs generate financial reports on a quarterly and annual basis, which are then submitted to the CG through MoLGCHAP. These financial statements, along with payment notifications or vouchers, serve as evidence of the resources received for service delivery as evaluated under PI-7.

**Dimension Rating = D**

### **Performance change since the 2017 PEFA Assessment**

The score for this Dimension is D and has remained the same as in the 2017 PEFA Assessment, indicating weaknesses in the country's PFM system.

## 8.4 Performance evaluation for service delivery

There have been no independent assessments of service delivery across all four ministries being reviewed, including the two largest, the MoET and the MoH. Additionally, internal audits have not been conducted during the review period, and while the OAG has carried out performance audits as needed, these have not specifically targeted service delivery.

**Dimension Rating = D**

### **Performance change since the 2017 PEFA Assessment**

The overall score for this indicator is D and has remained the same as in the 2017 PEFA Assessment, indicating weaknesses in the country's PFM system.

### **Recent or ongoing reform activities**

The Public Sector Modernization Project, funded by the World Bank and completed in November 2022, aims to enhance strategic planning and boost efficiency in fiscal and human resource management across selected ministries. Key outcomes of the project include the implementation of a biometric



census, the development of a teacher's salary and career structure, a job evaluation framework, updated human resources forms, a Human Resources Management Information System (HRMIS) and governance structure, and the provision and implementation of HRMIS, along with a review of the Performance Management Policy.

The OPM, in partnership with the MoPS, is working on the implementation of the Performance Management Policy to professionalize the civil service. The primary goal of the PMP is to support the Government in executing national plans through its ministries, ensuring that the performance of ministries, departments, and individuals aligns with national priorities, ultimately enhancing service delivery. Additionally, the MoFDP has established an internal audit function within all ministries, enabling them to conduct their own performance audits and to report findings to the MoFDP's Internal Audit Department.

## PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public, based on specified elements of information to which public access is considered critical. There is one dimension for this indicator – Dimension 9.1, Public access to fiscal information. It includes five basic elements along with four additional elements. The coverage is BCG for the last completed fiscal year, 2022/23.

The assessment of this indicator relies on data collected from various sources, including Call Circulars, Budget Strategy Papers, Budget Speeches, Budget Books, Appropriation Acts, Mid-Term Budget Reviews, Quarterly Bulletins, Annual Audited Financial Reports, and Citizens Budgets for the fiscal years 2020/21, 2021/22, and 2022/23. These documents are available on the MoFDP website and OAG's website. Insights were also gathered from Standing Orders, Hansard assessments and interviews with Government officials.

**Table 9.1 Summary Table of Scores**

PI-9 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
9	<b>Public access to fiscal information.</b>		<b>D</b>	<b>D</b>
9.1	Public access to fiscal information.	Performance falls short of a C score, with only two basic elements and one additional element meeting the nine fiscal information benchmarks in the PEFA Assessment criteria.	D	D

### 9.1 Public access to fiscal information

As is indicated in the table below, only three out of nine fiscal information benchmarks, comprising one basic element and two additional elements, fully satisfy the PEFA Assessment criteria regarding public access to fiscal information. The remaining six elements are either incomplete or deficient in some aspects. For example, while audited financial statements are accessible to the public, they are released with considerable delays that often exceed one year following the conclusion of the fiscal year. Specifically, the audited annual financial reports for 2022/2023 have yet to be presented to Parliament, one to two years following the end of the 2022/23 fiscal year. Additionally, only two macroeconomic forecasts are available, namely GDP growth and inflation, as evaluated in PI-5.1 and PI-14.1.

**Dimension Rating = D**



**Table 9.2 Budget Documentation (last budget submitted to the Legislature)**

Element/ Requirements	Criteria Met (Y/N)	Within the Timeframe (Y/N)	Explanation and source of evidence
<b>Basic Elements</b>			
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented by the country in PI-5) is available to the public within one week of the executive's submission of them to the Legislature.	Yes	Yes	The call circular, budget strategy paper, and budget book are made public immediately after Cabinet approval, while the budget proposal is released on the day it is presented to the Legislature.
2. Enacted budget. The annual budget law approved by the Legislature is publicized within two weeks of passage of the law.	Yes	No	The 2020/21, 2021/22, and 2022/23 Appropriation Acts were passed on 8 June 2020, 12 April 2021, and 25 March 2022, and gazetted on 17 June 2020, 7 May 2021, and 7 April 2022. The 2021/22 Act was made public more than two weeks after its passage.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	No	No	Mid-term budget reviews for 2020/21, 2021/22, and 2022/23 are publicly available, along with quarterly budget bulletins, which are inconsistent. Only the 4th quarter bulletin for 2021/22 was published, and none for 2022/23.
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	No	No	The Government of Lesotho does not publish annual budget execution reports as yet.
5. Audited annual financial report, incorporating or accompanied by the External Auditor's report. The reports are made available to the public within twelve months of the fiscal year's end.	Yes	No	There are significant delays of one to two years in publishing audited annual financial reports, and the 2022/23 report has yet to be tabled before the Legislature or made public.
<b>Additional Elements</b>			
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least four months before the start of the fiscal year.	Yes	Yes	The Budget Strategy Paper is publicly released after Cabinet approval, usually in June/July. For the 2022/23 fiscal year, it was published on December 8, 2022, marginally four months before the 2023/24 fiscal year began.
7. Other external audit reports. All non-confidential reports on Central Government consolidated operations are made available to the public within six months of submission.	No	No	Performance and compliance audits are conducted as needed and published with audited annual financial reports, which are released one to two years after the fiscal year-end.
8. Summary of the budget proposal. Either (i) a clear, simple summary of the executive budget proposal is publicly available within two weeks of the executive budget proposal's submission to the Legislature, or (ii) the enacted budget, which must be understandable by the non-budget experts and is often referred to as a "citizens' budget," and where appropriate, is translated into the most commonly spoken local language(s), is publicly available within one month of the budget's approval.	Yes	Yes	The citizens' budget, a summarized version of the budget, is made public on the day the budget proposal is presented. The 2022/23 citizens' budget was published in English and Sesotho on March 2, 2022. For 2023/24, the GoL has also started releasing a Citizen's Guide to the Mid-Term Budget Review.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	No	No	The BSP includes macroeconomic forecasts published after Cabinet approval and before the budget proposal presentation. However, as noted in PI-5.1 and PI-14.1, it only provides forecasts for GDP growth and inflation, and excludes interest rates and exchange rates.

### Performance change since the 2017 PEFA Assessment

The performance regarding this indicator has remained consistent since the 2017 PEFA Assessment. However, it is important to highlight that there has been progress in achieving one additional element, despite the overall score remaining unchanged.

### Recent or ongoing reform activities

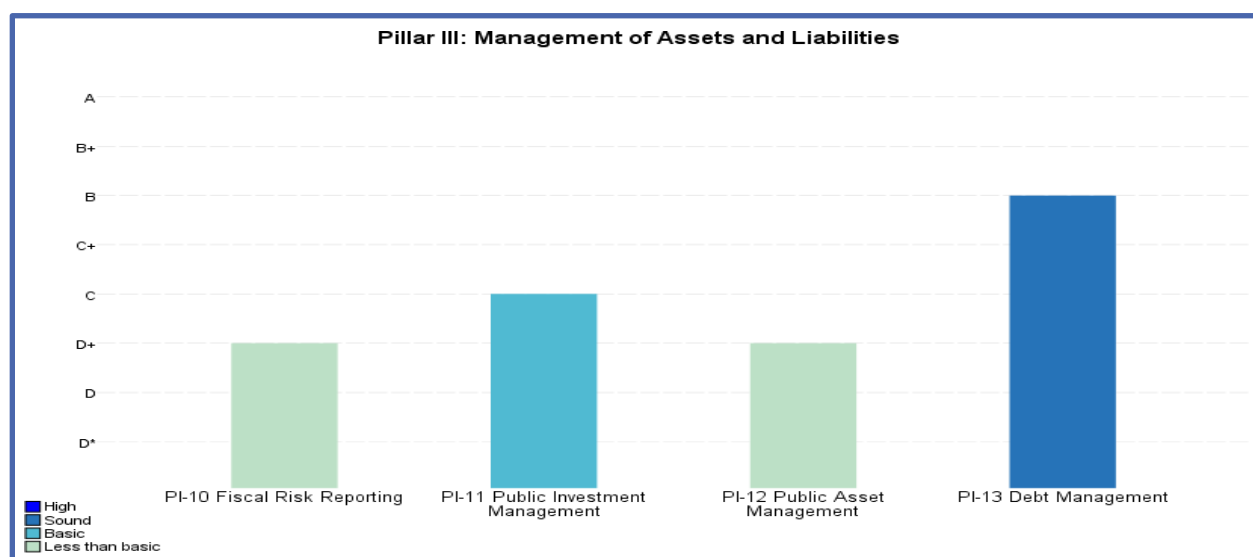
The Central Bank of Lesotho (CBL) has already begun generating macroeconomic forecasts relating to interest and exchange rates, which are readily available for inclusion in budget documentation. For the 2023/24 fiscal year, the Government has initiated the publication of a Citizen’s Guide to the Mid-Term Budget Review. Furthermore, the MoFDP, in partnership with UNICEF, prepares and disseminates both National and Sectoral Budget Briefs annually to simplify complex budget information for various stakeholders and to emphasize key budgetary messages.

Citizens are actively involved in the budget process through annual public consultations held across ten districts, with pre-budget consultation reports made accessible to the public. There are also collaborative platforms facilitating dialogue between the Government and civil society organizations to address budgetary concerns and explore potential solutions.

## Pillar III: Management of assets and liabilities

This Pillar assesses the effective management of assets and liabilities, thereby ensuring that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

**Figure 3.1 Pillar 3 – Summary of PEFA Scores**



### 1. Overall Performance: Key Strengths and Weaknesses

#### Strengths

- Sound legal and regulatory framework for managing assets, liabilities, and public investments.
- Improvement in the reporting of contingent liabilities.
- The Public Sector Investment Committee has guidelines for project appraisal.
- Most of the major public investment projects undergo economic analysis and appraisal before being included in the budget.
- Information on the disposal of assets is also improving, with auctions being publicised and proceeds from the sales of assets being included in the budget.
- The public debt database is managed by the Commonwealth Meridian system, which generates comprehensive analytical and analytical reports.

## Weaknesses

- Cases of non-compliance with the PFMA Act of 2011, such as lending to state-owned entities (SOEs), deficient submissions of financial statements to OAG, deficient submissions of audited financial statements by SOEs, etc.
- Poor monitoring of financial statements of both SOEs and sub-national governments.
- No criteria for the prioritisation and ranking of capital investment projects before they are sent to the Budget Office for inclusion in the budget.
- Results of the PSIC are not published and are not reviewed by an entity other than the sponsoring entity.
- Some projects have been implemented without undergoing assessment by PSIC.
- No legal requirement for all major capital investment projects to undergo assessment by PSIC.
- Poor records of financial assets, and the Department of Private Sector Development and Financial Affairs hardly produces any reports on the financial performance of SOEs.
- Poor registering or recording of non-financial assets by MDAs.
- Recent medium-term debt management strategy covers FY 2022/23-2024/25.
- No standard procedures or rules for project implementation, or for monitoring guidelines, have been put in place by either the Department of PCM or the PSIC.
- No legal framework to guide the PPPs.

### PI-10. Fiscal risk reporting

This indicator (PI-10) measures the extent to which fiscal risks to Central Government are reported. Fiscal risks can arise from adverse macroeconomic situations, the financial positions of sub-national governments or public corporations, and contingent liabilities from the Central Government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks, such as market failure and natural disasters. This indicator has three dimensions and uses the M2 (AV) method for aggregating dimension scores.

The Government has adopted the International Public Sector Accounting Standards as per Section 34 (1)(b) of the Public Finance Management and Accountability Act of 2011. Currently, all Central Government ministries, departments, agencies and Local Authorities prepare financial statements that are based on the cash-basis IPSAS. The preparation of the consolidated annual financial statements for the fiscal year ending in March 2023 (i.e. FY 2022/23) continued to adhere to the requirements of the cash-basis IPSAS and introduced several quality enhancements, including the reporting of movements in financial assets and liabilities as well as contingent liabilities. The annual financial statements for the fiscal year ending in March 2022 (i.e. FY 2022/2023) noted that the statements do not consolidate all Government-controlled entities. That is, state-owned enterprises, autonomous institutions and other extra-budgetary funds are not fully consolidated; this IPSAS requirement was relaxed in 2017.

Fiscal risks to the Government of Lesotho are therefore governed by the Public Finance Management and Accountability (PFMA) Act of 2011. In particular, Part VI of the PFMA Act of 2011 deals with the management and accountability of the public funds placed under the control of public enterprises. It requires the production of financial statements by public enterprises according to international financial reporting standards. The Act requires line ministries to submit annual financial and operational reports to Parliament within six months following the end of the financial year, with copies to the Minister of Finance. It also requires the Auditor General to audit the financial statements of all public enterprises. Most of the state-owned entities in the country are incorporated under the Companies Act of 2011, which mandates that their governance structures and reporting systems must adhere to the Act's provisions. However, three SOEs – Lesotho National Development Corporation,

Basotho Enterprises Development Corporation, and Lesotho Tourism Development Corporation – operate as statutory corporations, each governed by its own founding Act.

Fiscal risks associated with the operations of sub-national governments are limited, given that the country has not fully decentralised. That is, there is no fiscal decentralisation, meaning that sub-national governments do not have the authority to independently manage their financial resources. They cannot, for instance, take on debt to finance their operations or have structured financing instruments like PPPs, meaning that debt service defaults are not possible. Nonetheless, Section 34 of the PFMA Act of 2011 requires local councils, as spending units (Section 21(4)), to prepare and submit financial statements in accordance with International Public Sector Accounting Standards.

The country currently has no law that deals directly with the fiscal risks associated with contingent liabilities, such as public/private partnerships. Nonetheless, the 2017 PEFA Assessment reports that there are four legal and regulatory frameworks governing Central Government borrowing in Lesotho, namely: (i) Loans and Guarantees Act 1967, (ii) Local Loans Act 2001, and (iii) Public Finance Management and Accountability Act 2011. Part IV Section 28 (4) of PFMA Act of 2011 says that the Minister of Finance has the legal authority to issue a guarantee for the repayment of loans that are borrowed by public entities. Before the Minister approves any borrowing or issues a guarantee, Section 28 (5) states that due diligence must be undertaken to ensure that there are no financial risks.

**Table 10.1 Summary Table of Scores**

PI-10 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
10	<b>Fiscal risk reporting</b>		<b>D+</b>	<b>D</b>
10.1	Monitoring of public corporations	PSD&FA rarely publishes a report on the financial performance of SOEs because many SOEs fail to submit their financial statements within the stipulated time. Nonetheless, the some SOEs submit their financial statements to their respective ministries and publish them.	D	D
10.2	Monitoring of sub-national governments	While the financial statements of district councils are audited together with MoLGC financial statement, there is no consolidated report on the financial position and performance of local governments.	D	D
10.3	Contingent liabilities and other fiscal risks	The consolidated annual financial statements (AFS) of the Government of Lesotho quantify some of the significant explicit contingent liabilities and other fiscal risks. However, there are no contingent liabilities arising from one of the largest PPPs under the Ministry of Health.	C	D*

### 10.1 Monitoring of public corporations

The assessment for this dimension used information collected from the Department of Private Sector Development and Financial Affairs of the Ministry of Finance and Development Planning. The information was complemented by a review of three reports: 1) the State-Owned Enterprise Annual

Report for 2017/18<sup>17</sup>, published on 3 June 2020; 2) State-owned enterprises in Lesotho: A country policy note<sup>18</sup>; and 3) State-Owned Entities Annual Report (April 2024).

For the 2024 PEFA Assessment, the Department of Private Sector Development and Financial Affairs shared a list of 21 corporations that the Government owns either wholly or partially. Of these, 6 are wholly owned by the Government, 12 are partially owned directly by the Government, and 5 are partially owned as subsidiaries/associates of Lesotho National Development Corporation. All in all, there is a total of 69 state owned enterprises that are spread across 13 ministries. Where the Government is the majority shareholder, the OAG is responsible for auditing their financial statements. Table 10.1 shows a list of state-owned enterprises that are wholly owned by the Government, as well as the dates of receipt and publication of their annual financial statements.

**Table 10.2 Monitoring of public corporations (FY 2022/2023)**

No.	Public corporation	Total expenditure (Amount)	As a % of total expenditure of public corporations	Date of publication of audited financial reports	Date financial report submitted to govt.	Financial report includes revenue, expenditure, assets, liabilities and long-term obligations (Y/N)	Consolidated report published (Y/N)
1.	Lesotho Electricity Company Pty Ltd (LEC)			22/05/24		Yes	No
2.	Water and Sewerage (Company) Pty Ltd (WASCO)						
3.	Lesotho National Development Corporation (LNDC)						
4.	Lesotho Post Bank Ltd (LPB)						
5.	Basotho Enterprise Development Corporation (BEDCO)				25/06/24	Yes	
6.	Lesotho Tourism Development Corporation (LTDC)				17/05/23		

Data source: Department of PSD, MoFDP and a report on State-Owned Enterprise Annual Report for 2017/18 accessed online at <http://www.finance.gov.ls/documents/PSD%20downloads/Lesotho%20PSD%20Annual%20Report%202017-2018%20Final.docx>

The PFMA Act of 2011 has not been fully complied with in terms of the submission and publication of audited financial statements. The ownership of the country's SOEs is fully decentralized. This means that individual line ministries are responsible for exercising ownership and providing oversight for the SOEs within their respective sectors. Line ministries have a representative on the Board of Governance of the SOEs. Given the decentralised ownership structure of the SOEs, it was reported that many of them are submitting their financial statements to their line ministries. Table 10.1 shows that the financial statements are rarely submitted to the Office of the Auditor General, and the Department of PSD&FA rarely produces a consolidated report on its financial performance. The 2017/2018 report

<sup>17</sup><http://www.finance.gov.ls/documents/PSD%20downloads/Lesotho%20PSD%20Annual%20Report%202017-2018%20Final.docx>

<sup>18</sup> State-owned enterprises in Lesotho: A country policy note. Report ACS19193, World Bank June 30, 2016. Accessed on <http://documents1.worldbank.org/curated/en/964741523980623696/pdf/ACS19193-WP-REVISED-P156809-PUBLIC.pdf>

appears to be the first report ever published on the Ministry's website. The Department of PSD&FA also reported no attempt by some of the SOEs to correct the data and errors relating to the audit comments and qualifications relating to the financial statements.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

There is no performance change in this dimension compared to the previous assessment. That is, there is no change in the oversight of public corporations (i.e. dimension 10.1), as many SOEs still fail to submit audited financial statements. Although the Department of PSD in the MoFDP has started compiling reports on the performance of SOEs and publishing the findings on the Ministry's website, this is still a rare occurrence.

#### 10.2 Monitoring of sub-national governments

There are ten District Councils in the country, and each district council consists of representatives from all community councils within their respective administrative districts. There are a total of 64 Community Councils across these ten districts. Section 34 of the PFMA Act of 2011 requires local councils, as spending units (Section 21(4)), to prepare and submit financial statements in accordance with International Public Sector Accounting Standards.

The country has not fully decentralised such operations as the fiscal policy, meaning that SNGs cannot generate their own revenue and do not have the authority to allocate funds and borrow. Their budget is part of the Ministry of Local Government, Chieftainship, Home Affairs and Police, and the Ministry makes uniform contributions to all SNGs after receiving its share. Therefore, there is no independent monitoring of the financial performance of the sub-national governments or local councils. The financial statements of local (or district) councils are submitted to the Ministry of Local Government, Chieftainship, Home Affairs and Police and audited as part of the Ministry's financial statements. The audit reports<sup>19</sup> for two fiscal years (FY 2020/2021 and FY 2021/2022) included statements for the financial performance of ten District Councils.

In the Audit Report for the FY 2021/2022, the Leribe District Council received several audit concerns relating to compliance with Section 85 (1), (2), and (3) of the Treasury Regulations, 2014. Furthermore, there is no consolidated report on the financial position of district or local councils that is published at least annually. This lack of a comprehensive, independently monitored report means that the financial performance and accountability of local councils remain less than transparent and potentially unreliable.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

There is no performance change in this dimension relative to the 2017 PEFA Assessment.

#### 10.3 Contingent liabilities and other fiscal risks

Contingent liabilities include guarantees for various types of loans and guarantees on private investments of different types, including special financing instruments such as public/private partnerships, or the financial implications of ongoing litigation and court cases.

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<sup>19</sup> <https://auditorgeneral.org.ls/publications/>

The Audit Report for FY 2021/2022<sup>20</sup> revealed contingent liabilities amounting to M76,434,886 that arise from outstanding amounts guaranteed by the Government in respect of loans issued to state-owned enterprises, public officials, and businesses. The contingent liabilities that arise from pending litigation claims for compensation and potential liabilities from public/private partnerships, excluding PPP arrangements managed by the Ministry of Health, were M195,866,285 on 31 March 2022. The unaudited financial statements for the fiscal year 2022/2023 also report the same information regarding contingent liabilities. The Audit Report for the 2021/2022 fiscal year also mentioned significant issues in managing guaranteed loans, including the absence of documentary evidence supporting guarantees, the lack of a database and monitoring system, inconsistencies in the amounts of repaid principal, and the lack of a legal framework for public/private partnership agreements and other operational contracts between the Government and private parties.

The Debt Sustainability Analysis<sup>21</sup> includes a contingent liability stress test designed to assess the risks associated with extrabudgetary units, state-owned enterprises, public/private partnerships, and financial market shocks. The stress test captures various potential liabilities, including the pension fund, which is estimated to represent 9.6 percent of GDP. Additionally, it accounts for liabilities related to potential asset seizures such as from the Frazer Solar agreement, estimated at 2.5 percent of GDP. The test also considers a financial market shock, equivalent to 5 percent of GDP, that surpasses the current stock of the banks' non-performing loans. For non-guaranteed SOE debt, which is not reflected in the Government's debt stock, the stress test incorporates 3.7 percent of GDP, including LSL1 billion in on-lent debt and an estimated amount for the debt of ten SOEs. Finally, the test includes 1.1 percent of GDP to account for Lesotho's PPP capital stock, as reported by the World Bank.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

The consolidated annual financial statements of the Government of Lesotho quantify some of the significant explicit contingent liabilities and other fiscal risks. This is in stark contrast to the previous assessment, where there was no information about contingent liabilities.

#### **PI-11. Public investment management**

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the Government, and the publishing of progress information, with an emphasis on the largest and most significant projects. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

Lesotho has well-established institutional arrangements for managing public investment projects. The Government has set up the Public Sector Investment Committee as the highest administrative authority for the economic appraisal of projects that will be implemented by any ministry, department or agency. All projects that underwent economic appraisal by Public Sector Investment Committee will be included in the national budget capital estimates and the Public Sector Investment Programme. The Committee guidelines of November 2023 include information on the membership of the committee, the roles of the committee, and the framework used for the economic appraisal of projects. The Department of Project Cycle Management in the Ministry of Finance and Development Planning is the committee

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<sup>20</sup> <https://auditorgeneral.org.ls/wp-content/uploads/2024/05/AUDIT-REPORT-2022.pdf>

<sup>21</sup> World Bank and IMF. June 2022. Kingdom of Lesotho: Joint Bank-Fund Debt Sustainability Analysis. Accessed online at <https://documents1.worldbank.org/curated/en/237381658348782740/pdf/Lesotho-Joint-World-Bank-IMF-Debt-Sustainability-Analysis.pdf>



secretariat. The economic analysis of any capital investment projects begins with a ministerial-level appraisal, which is forwarded to the Committee for further scrutiny to ensure that the project in question aligns with the National Strategic Development Plan. Once the proposed projects pass the appraisal criteria set out in the guidelines, they are included in the Public Sector Investment Programme Report (feasibility study report) and submitted to Cabinet for final approval.

The Budget Strategy Paper produced annually by the Budget Controller's Office in the MoFDP includes a list of priority sectors that are in line with the NSDP II. For instance, the 2020/2021 BSP indicated that for the 2019/2020 – 2022/23 period, the Government adopted the Big Fast Result (BFR) Methodology, focusing on Key Priority Area I (KPA I). As such, the Lesotho Economic Lab was agreed to be conducted for each of the four productive sectors. The lab identified 77 high-impact projects which will yield 30,021 direct private sector jobs, M19,933 million in private investment and M14,367 million in GDP contributions. The 2022/2023 BSP shows that one of the COVID-19 pandemic Recovery Plan priorities is infrastructure investment, health system resilience, and the enhancing of productive capacities. Key ongoing projects, such as the Nutrition and Health System Strengthening Project and the Wool and Mohair Promotion, which are vital to achieving these recovery goals.

Discussions with members of the Public Sector Investment Committee revealed that there are numerous projects across various ministries that have been appraised for inclusion in the budget or Public Sector Investment Plan. Some of these projects have commencement dates dating back to FY 2010/2011. In addition to the ongoing projects, a new list of projects was approved for the FY 2022/2023 fiscal year, supplementing those already in progress.

### Recent or ongoing reform activities

There are no reported ongoing reforms.

**Table 11.1 Summary Table of Scores**

PI-11 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
11	<b>Public investment management</b>		<b>C</b>	<b>B</b>
11.1	Economic analysis of investment projects	Some capital projects are undergoing PSIC appraisal following the set guidelines. However, the results are not published, and the economic analyses are not reviewed by any entity other than the sponsoring entity.	C	C
11.2	Investment project selection	PSIC does not have standard criteria for the prioritisation and selection of capital projects before they are included in the budget, and before the Cabinet considers and approves the capital projects or budget as part of the National Budget.	D	B
11.3	Investment project costing	The MTEF includes the capital and recurring costs of major investment projects for the next three years.	B	B
11.4	Investment project monitoring	The Department of Project Cycle Management (PCM) undertakes the physical monitoring of all capital projects, but information on the implementation or deviations from the original plan is not published.	C	C

#### 11.1 Economic analysis of investment projects

The table above shows that the economic appraisal of the ten major capital projects was undertaken in conformity with the specified guidelines. However, the outcome of the Public Sector Investment Plan



Report is not made available to the public, but only for internal (inter-ministerial) use. Officials of PCM and PSIC mentioned that economic analyses are always conducted, as established in national guidelines, to assess some of the country's major investment projects. A concern was raised that some projects are still being implemented without going through the PSIC. It was also reported that neither PSIC nor the Department of PCM are maintaining a database of ongoing or past projects. In addition, the results of the economic analysis are not reviewed by entities other than the Government in its capacity as the funding entity. Though the physical progress of the projects is being monitored, no standard procedures and rules for project implementation have been put in place by either the Department of PCM or the PSIC. This lack of standard procedures might be one of the reasons for the lower capital budget outturn by projects financed by the Government. According to the FY 2022/2023 consolidated financial statements, the overall project expenditure was M3.281 billion against the budget of M6.764 billion, representing an execution rate of 49 percent. The implementation rate varied considerably across the three funding categories, ranging from 68 percent of domestic resources to 43 percent and 41 percent for grant- and loan-funded expenditures respectively.

Economic appraisals are conducted to assess most of the major capital investment projects, but the results are not published. The results of the economic analysis or appraisal are also not reviewed by any entity other than the sponsoring entity.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

There has been no change in the performance of this dimension since the previous review. Economic analyses are being carried out for nearly all major investments; however, the outcomes of these analyses are not being made publicly available, and they are not being subjected to any external review.

#### 11.2 Investment project selection

Consultations with the officers from the Department of PCM in the MoFDP and members of PSIC revealed that no standard criteria are being used to prioritise or select projects at the moment. The Department of PCM indicated that they have engaged a consultant to develop prioritization and selection criteria. The BSP for FY 2022/2023 also mentioned that the Government has recognized the need for a systematic approach to the prioritization of projects, given the budget and resource constraints. This should include strategies such as alignment to national goals, job creation potential, financial analysis, and risk assessment. A team from the Ministry of Finance and Development Planning has been established to ensure that the projects falling under the Public Sector Investment Programme are prioritized. The review of PSIC guidelines shows there is a criterion for evaluating concept notes that is based on relevance, effectiveness, feasibility, and sustainability. The guidelines also include the framework for appraising a full project proposal to ensure that the project is well-designed, financially viable, and capable of achieving its intended objectives.

This suggests that there is no project selection process that prioritizes major investment projects against clearly defined criteria to ensure that selected projects are aligned with the Government's priorities.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

The performance rating has been downgraded to "D" due to the absence of clear criteria for assessing and prioritizing capital projects before they are included in the budget. The 2017 PEFA Assessment assumed that after the economic appraisal by the PSIC, the Cabinet would review and approve the

projects using its own criteria. However, it was discovered during the data collection for this assessment that after the PSIC appraises the projects, they are sent directly to the Budget Office for inclusion in the budget, and the Cabinet comments on them only after they have already been incorporated in the proposed national budget.

### 11.3 Investment project costing

A detailed review of the capital estimates in the FY 2021/2022 Budget Book reveals that capital projects are integrated into the three-year mid-term budget plan. Specifically, the Medium-Term Expenditure Framework outlines the projected total capital costs for major investment projects, providing a year-by-year breakdown of these capital expenditures as well as estimates of the recurrent costs for the next three years. However, it does not include projections of the total lifecycle costs for these major investment projects.

**Dimension rating = B**

#### **Performance change since the 2017 PEFA Assessment**

There has been no performance change in the dimension since the previous review.

### 11.4 Investment project monitoring

The Department of Project Cycle Management in the Ministry of Finance and Development Planning is tasked with monitoring all capital investment projects. Officials from the Department mentioned that there is monitoring and evaluation of all capital projects that involves both the physical progress of work and its financial progression. They monitor it together with the line ministry implementing the project. A monitoring tool has been developed to guide and manage the monitoring process. However, the M&E reports are internal and not published for public consumption, and there is no database of projects. The PSIC guidelines indicate that the regular reviews of project progress involve key stakeholders with direct responsibility for implementing the projects on the ground (i.e. the project management team).

The Department of Aid Coordination in the MoFDP shared that there is usually independent monitoring for capital projects funded by development partners, and that the M&E reports are published.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

The performance of the dimension decreases to “C” from the “B” recorded in the previous assessment. This is because of the absence of standard procedures and rules for project implementation, and the fact that the M&E reports on the implementation of major investment projects are only published annually.

## **PI-12. Public asset management**

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The indicator has three dimensions: Dimension 12.1 assesses the level at which financial assets (government investments in public or private companies) are monitored and reported; Dimension 12.2 examines the extent to which non-financial assets (fixed assets) are monitored and reported; Dimension 12.3 measures the level of transparency of asset disposal.

Part XI of the PFMA Act of 2011 mandates the Accountant General to establish and maintain a national asset register that meets internationally accepted standards. Chief Accounting Officers are responsible for maintaining asset registers for their units, adhering to the Accountant General’s prescribed format, and ensuring that proper systems are in place for asset planning, procurement,

maintenance, and disposal. Asset acquisition must prioritize value for money, competition, and transparency, with disposal proceeds directed to the Treasury Single Account. As part of its management of financial assets, the Accountant General maintains a register of shares in state-owned enterprises, with any dividends being deposited into the Consolidated Fund. Share disposal must comply with legislation and be authorized in the national budget. Chief Accounting Officers must report the status and value of Government assets within three months following the end of the fiscal year.

After significant gaps were identified in the 2017 PEFA Assessment, the Government developed its Asset Management Policy and the Government Asset Management Operating Procedural Guideline (GAMF). These focus on all the assets owned and controlled by the Government, including Central Government ministries, departments, Local Governments, public enterprises, and outsourced service providers. The Asset Management Policy establishes a consistent approach for sustainably managing the lifecycle of public assets for current and future service delivery. The policy includes a Government Asset Management Framework, which comprises the Asset Management Policy, Operating Procedural Guidelines, Strategy, Annual Plan, Asset Register, and Performance Report. The GAMF outlines the minimum processes and activities required for sustainably managing public assets, including the National Asset Management Policy, Strategy, Operating Guidelines, entity-level Asset Management Plans, Operational Plans, Asset Registers, and performance evaluation frameworks, all of which are linked to the Annual Report.

**Table 12.1 Summary Table of Scores**

PI-12 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
12	<b>Public asset management</b>		<b>D+</b>	<b>D+</b>
12.1	Financial asset monitoring	Private Sector Development and Financial Affairs (PSD&FA) keeps a record of the major categories of financial assets, including equity holdings in state-owned entities (SOEs). However, the market value of these assets is unknown, and information on the performance of these assets is seldom published. The Central Bank of Lesotho (CBL) also manages financial assets such as foreign reserves, loans, and securities owned by the Government of Lesotho (GoL).	D	D
12.2	Non-financial asset monitoring	The Treasury, Commissioner of Land and some ministries maintain a partial register of some fixed assets owned by GoL. However, information on their age and usage is lacking.	D	D
12.3	Transparency of asset disposal	The legal and regulatory framework provides for fixed asset disposal procedures. The consolidated annual financial statements provide partial information on the proceeds of any fixed assets disposed of.	B	C

### Recent or ongoing reform activities

The Treasury has developed a fixed asset inventory template for tracking assets in accordance with the Asset Management Policy. It collects information on the type of asset, its location, the purchase date and price, and, if applicable, the disposal date and price.

#### 12.1 Financial asset monitoring

The Government maintains a record of its holdings in major categories of financial assets. The table below shows that the management and reporting of cash, securities, and foreign reserves are well-

documented, recognized at both acquisition cost and fair value, and have their performance published annually. Securities and IMF contributions also comply with international accounting standards. However, equity in state-owned entities lacks proper record-keeping.

The Department of Private Sector Development and Financial Affairs is responsible for maintaining records of the government holdings in all categories of financial assets, such as its share of and loan investment in SOEs. As was highlighted under PI-10.1, this department does not have the necessary skills, expertise, or systems in place to effectively track and assess how well the investments in these companies are performing. For instance, one of the detailed assessments of the financial performance of SOEs was produced and published in 2018, and the next report, with a smaller share of SOEs, was produced in April 2024 and has not yet been published.

**Table 12.2 Financial asset monitoring (FY 2022/2023)**

Asset Type (*)	Records of holdings of financial assets maintained (Y/N)	Recognized at acquisition cost (Y/N)	Recognized at fair value (Y/N)	In line with international accounting standards (Y/N)	Information on performance published annually (Y/N)
Cash	Yes	Yes	Yes	No	Yes
Securities & IMF Contribution (Special Drawing Rights)	Yes	Yes	Yes	Yes	Yes
Foreign reserves	Yes	Yes	Yes	No	Yes
Equity in state- owned and private sector institutions	No	No	No	No	No

Data source: FY 2022/2023 Unaudited Consolidated annual financial statements (AFS).

The PSD&FA's 2018 annual report<sup>22</sup> shows that the Government owns several state-owned enterprises and holds significant stakes in several companies. For instance, it has 100 percent ownership in six companies, and through the Lesotho National Development Corporation it holds majority or partial stakes in 14 other enterprises. Ownership percentages range from full control to minority stakes, reflecting a mix of direct and indirect investments across multiple sectors. There is no information on the market value of each GoL shareholding.

Regarding dividends, there is no dividend and surplus policy for SOEs in Lesotho, meaning that the SOEs declare dividends based on their individual dividend policies and shareholder contracts. Private Sector Development and Financial Affairs keeps a record of the major categories of financial assets, including equity holdings in state-owned entities. However, the market value of these assets is unknown, and information on their performance is seldom published. The Central Bank of Lesotho also manages financial assets such as foreign reserves, loans, and securities owned by the Government.

**Dimension rating = D**

**Performance change since the 2017 PEFA Assessment.**

<sup>22</sup> <http://www.finance.gov.ls/documents/PSD%20downloads/Lesotho%20PSD%20Annual%20Report%202017-2018%20Final.docx>

### 12.2 Non-financial asset monitoring

Records from the Treasury, Commissioner of Land, and various ministries indicate that the Government keeps partial records on non-financial assets, such as land and infrastructure. However, these registers lack crucial information on the age and usage of these assets.

In the FY 2021/2022 Audit Report, it was noted that several government ministries have failed to maintain asset registers, leading to a lack of disclosure of government-owned assets, including infrastructure, property, and equipment. Many of these assets have been abandoned and are in a state of disrepair. For example, the Ministry of Health did not keep an asset register as required by Section 5 (h) and (i) of the PFMA Act of 2011. The Ministry owns valuable assets such as health equipment, vehicles (including ambulances and mobile clinics), personal protective equipment (PPE), land, buildings and office furniture, none of which has been properly registered. The consolidated annual financial statements also report on fixed assets acquisition, in line with Section 13(a) of the PFMA Act of 2011, but fail to provide a comprehensive list of fixed assets. For example, the unaudited financial statement of the 2022/2023 fiscal year reveals that capital assets acquired during that year amounted to M1,746,926.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment.**

The performance rating for this indicator remains at “D” because the registers for the period under review lack the requisite information to make an assessment.

### 12.3 Transparency of asset disposal

The processes for transferring and disposing of assets are outlined in sections 13(b) and 46(1)(c) of the Public Financial Management and Accountability (PFMA) Act 2011, as well as in PART VIII of the Public Procurement Act, 2023. According to the Public Procurement Act of 2023, the Chief Accounting Officer is required to convene a board of survey, consisting of at least five staff members of the procuring entity and persons with relevant expertise, at least once a year. The primary responsibility of the board of survey is to evaluate unserviceable, obsolete, or surplus supplies and equipment, provide a detailed report on its findings, and recommend the most appropriate method of disposal. The Public Procurement Act of 2023 also stipulates that a notice of auction for the sale of goods must clearly state that items will be sold on an “as is” or “where is” basis. The procuring entity is also obligated to disclaim any further liability after the sale.

The consolidated annual financial statements report on the receipts from asset disposal, thus providing a comprehensive overview of the financial aspects related to the disposal of assets. According to the unaudited financial statement for the 2022/2023 fiscal year, the proceeds from the disposal of property, plant, and equipment recognised at the time of the receipts (and which are included as part of Non-Tax Revenues) amounted to M864,000. The disposal of domestic financial assets amounted to M20,388,000.

**Table 12.3: Transparency of asset disposal (FY 2022/2023)**

Procedures for financial asset transfer or disposal established (Y/N)	Procedures for nonfinancial asset transfer or disposal established (Y/N)	Information on asset disposal included in budget documents, financial reports, or other reports (Full/Partial)	Information on asset transfer and disposal submitted to Legislature (Y/N)
Yes	Yes	Yes	N

Data source: FY 2022/2023 Unaudited Consolidated annual financial statements (AFS).

There are established procedures for the transfer and disposal of non-financial assets. However, the information relating to it, including the proceeds from the disposal, is included in the financial statements for FY 2022/2023, but not in the budget.

**Dimension rating = B**

### **Performance change since the 2017 PEFA Assessment**

The performance for this indicator has increased from “C” to “B” because of the new Public Procurement Act of 2023 and the changes made in the 2022/2023 financial statements, such as the recording of proceeds from the disposal of assets.

## **PI-13. Debt management**

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. It contains three dimensions, and uses the M2 (AV) method for aggregating scores.

The issuance and management of public debt and guarantees in Lesotho are governed by three key legislative frameworks<sup>23</sup>: the Loans and Guarantees Act of 1967 (amended in 1975 and 1976), the Local Loans Act of 2001, and the Public Finance Management and Accountability (PFMA) Act of 2011. The Loans and Guarantees Act of 1967 grants the Minister of Finance the authority to raise external loans and issue guarantees on behalf of the Government. The Local Loans Act of 2001 empowers the Minister to raise domestic loans through the issuance of Treasury bills and bonds. Under Sections 28 and 29 of the PFMA Act of 2011, the Minister of Finance is required to obtain prior Cabinet consent before approving all Central Government loans, including those for state-owned enterprises, sub-national governments, and parastatals. Section 28(5) of the PFMA Act of 2011 requires the Minister to conduct a thorough assessment of the capacity of the borrowing entity or individual to repay the loan before granting approval.

### **Recent or ongoing reform activities**

The new Public Debt Management Act of 2024<sup>24</sup> establishes a Public Debt Management Committee. The committee consists of the Principal Secretary responsible for finance, who is the Chairperson, plus the Attorney General, the Accountant General, the Budget Controller, the Governor of the Central Bank of Lesotho, the Director of the Macroeconomic Policy and Management Department, and the Director of Public Debt Management, who acts as the secretary to the Committee. Among other roles, the committee is responsible for formulating a debt policy, recommending the Medium-Term Debt Strategy and Annual Borrowing Plan, and ensuring the recording, analysis, control, and all operations pertaining to debt management.

**Table 13.1 Summary Table of Scores**

PI-13 M2	Dimension	Justification for 2024 score	2024 Score	2017 Score
13	Debt management		B	D+

<sup>23</sup> Lesotho PEFA 2027. <https://www.pefa.org/node/626>

<sup>24</sup> The Lesotho Public Debt Management Bill, 2024. Accessed online at <https://nationalassembly.parliament.ls/wp-content/uploads/2024/07/PUBLIC-DEBT-MANAGEMENT-BILL-2024.pdf>

13.1	Recording and reporting of debt and guarantees	The Public Debt and Aid Management Department (PDAMD) produces reports of both domestic and foreign debt, including debt guarantees, and most information is updated and reconciled at least quarterly. The June 2022 Debt Sustainability Analysis (DSA) included a contingent liability stress test designed to assess risks associated with extrabudgetary units, state-owned enterprises (SOEs), public/private partnerships (PPPs), and financial market shocks.	C	C
13.2	Approval of debt and guarantees	There is a robust legal framework for managing public debt and issuing guarantees in Lesotho. Annual borrowing is budgeted for in the annual national budgets, which must be approved by Cabinet and Parliament. However, there is a lack of compliance with the law, as new on-lent loans are still being generated despite the defaulting status of some SOEs.	B	C
13.3	Debt management strategy	The latest MTDS, dated November 2022, covers FY 2022/23-2024/25, includes a description of the existing debt portfolio's composition and evolution over time, as well as target ranges for indicators such as interest rates, refinancing, and foreign currency risks.	B	D

### 13.1 Recording and reporting of debt and guarantees

**Table 13.2: Recording and reporting of debt and guarantees (at the time of the assessment)**

Categories	Records maintained (Y/N)	Records are complete and accurate (Y/N)	Frequency of updating of records M=Monthly Q=Quarterly A=Annually N=Not done	Frequency of reconciliation M/Q/A/N	Statistical reports prepared (covering debt service, stock and operations) M/Q/A/N	Records of areas where additional information needed Y/N
Domestic debt	Yes	Yes	Q	N/A	Q	Y
Foreign debt	Yes	Yes	Q	N/A	Q	Y
Guarantee	Yes	Yes	Q	N/A	Q	Y

Data source: Annual Public Debt Management Report for FY 2021/2022. June 2022. Accessed on online at <http://www.finance.gov.ls/documents/debt%20downloads/Public%20Debt%20Management%20Report.pdf>

The Public Debt Department of the Ministry of Finance and Development Planning (MoFDP) migrated its public debt database from the Commonwealth Debt Recording and Management System (CS-DRMS) to the more advanced Commonwealth Meridian system in early 2020. The Commonwealth Meridian system offers a comprehensive platform for managing and analyzing public debt, producing detailed analytical and statistical reports, including the Monthly and Annual Debt Service Profile by creditors. Debt stock reconciliation is conducted at least quarterly, using data obtained from creditor statements. The Commonwealth Meridian also provides information on domestic and foreign debt, as well as bilateral and multilateral loans, detailing aspects such as the transaction date, outstanding opening balance, principal payments, interest payments, due dates for principal and interest, additional loan commitments, and the closing balance.

The Public Debt and Aid Management Department (PDAMD) produces an Annual Debt Management Report at the end of every fiscal year to evaluate the performance of debt management operations against the Medium-Term Debt Strategy (MTDS), and to set the Annual Borrowing Plan for the next financial year. The report is built on the quarterly debt transparency statistics reports. The report includes the stock of external and domestic debts, along with the disbursement and debt servicing by debt instruments for domestic debts, as well as by creditors for external debts. The report also includes



a stock of publicly guaranteed debt to SOEs and private enterprises, as well as the results of the June 2022 Debt Sustainability Analysis (DSA), which suggests that Lesotho's public debt is at moderate risk of debt distress, with some space to absorb shocks. The contingent liability stress test revealed no substantial threat to the debt sustainability outlook but highlighted the need for closer monitoring of these so-called hidden deficits to mitigate their potential impact on the country's debt sustainability outlook.

The gross public debt-to-GDP ratio rose significantly from 42.2 percent in FY 2017/2018 to 57.4 percent in FY 2020/2021, driven by increased current spending and large capital projects<sup>25</sup>. By FY 2022/2023, the total public debt stock had grown from M19.934 billion to M23.720 billion, due to the issuance of Treasury bonds (M901 million), fiscal bills (M729 million), and new external debt agreements (M1.726 billion). During the same period, M838 million in external debt was disbursed, M784 million in loans was redeemed, and M862 million in domestic debt was repaid. According to the 2023 IMF Article IV consultations<sup>26</sup>, the gross public debt-to-GDP ratio was 59.8 percent in FY 2022/2023. External debt, accounting for 74 percent of total public debt, is predominantly US dollar-denominated (90 percent). Consequently, the strengthening of the US dollar against the South African Rand (ZAR) and Maloti (LSL) – which depreciated by 17 percent against the dollar in FY 2022/23 – significantly impacted the debt-to-GDP ratio. The domestic public debt share increased to 26.2 percent in FY 2022/23, fuelled by higher domestic borrowing due to reduced external transfers from the Southern African Customs Union (SACU).

Records for both domestic and foreign debt, including guaranteed debt, are accurate and complete, with updates for most of the debt being performed quarterly. Additionally, the system generates comprehensive management and statistical reports covering debt service, stock, and operations, which are also produced quarterly and published on the MoFDP website.

**Dimension rating = C**

### **Performance change since the 2017 PEFA Assessment**

The performance remains unchanged from the previous assessment because there is still limited information on reconciliations involving records from creditors, and areas where reconciliation requires additional information to be complete are not documented.

### **Recent or ongoing reform activities**

There are no reported ongoing reforms.

### **13.2 Approval of debt and guarantees**

The legal framework for managing public debt and issuing guarantees in Lesotho includes the Loans and Guarantees Act 1967, Local Loans Act 2001, and Public Finance Management and Accountability Act 2011. Sections 28 and 29 of the Public Finance Management and Accountability (PFMA) Act of 2011 outline the procedures and requirements for the approval of Central Government loans and guarantees in Lesotho. Section 28 says that the responsible Minister of Finance must obtain prior consent from the

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<sup>25</sup> Annual Public Debt Management Report for FY 2021/2022. June 2022. Accessed online at <http://www.finance.gov.ls/documents/debt%20downloads/Public%20Debt%20Management%20Report.pdf>

<sup>26</sup> Kingdom of Lesotho. July 2023. 2023 Article IV Consultation - Press Release; and Staff Report. IMF Country Report No. 23/268. Accessed online at <https://www.elibrary.imf.org/view/journals/002/2023/268/article-A003-en.xml>



Cabinet before approving any Central Government loans, including those for state-owned enterprises, sub-national governments, and parastatals. Additionally, “before approving any borrowing or guarantee, the Minister shall be satisfied that the beneficiary of the borrowing or guarantee has the capacity to repay the amount involved, together with any interest, within the term proposed.” Section 29 establishes the framework for managing government guarantees, ensuring that any issuance of guarantees is conducted with proper oversight and accountability.

The Consolidated Financial Statements for FY 2021/2022 revealed a lack of compliance with the law. For instance, since 2017 Water and Sewerage Company (WASCO) had accumulated payment arrears amounting to M221 million by the end of the FY ending 31 March 2022. However, new on-lent loans were still issued.

Lesotho has a robust legal framework and procedures for borrowing and other debt-related transactions, and for issuing loan guarantees. The Department of Debt monitors and releases quarterly reports. The Minister of Finance is the sole person authorised to contract loans and issue guarantees on behalf of the Government and SOEs, subject to Cabinet approval. Annual borrowing is budgeted for in the annual national budgets, which must be approved by Cabinet and Parliament. However, there is a lack of compliance with the law, as new on-lent loans are being issued despite the defaulting status of some SOEs.

**Dimension rating = B**

## Performance change since the 2017 PEFA Assessment

### 13.3 Debt management strategy

**Table 13.3: Debt management strategy (at the time of the assessment, with reference to the last three completed fiscal years)**

Debt management strategy has been prepared (Y/N)	Date of most recent update	Time horizon (No. of years)	Targets included in debt strategy				Annual report on debt strategy submitted to Legislature (Y/N, Date of submission)
			Interest rates (Y/N)	Refinancing (Y/N)	Foreign currency risk (Y/N)	Evolution of risk indicators only (Y/N)	
Yes	November 2022	2022/23-2024/25	Yes	Yes	Yes	Yes	No

Data source: MoFDP. Nov 2022 Medium-Term Debt Management Strategy

The current Medium Term Debt Management Strategy (MTDS)<sup>27</sup> covers FY 2022/23-2024/25, and was published in November 2022. The basis for the preparation of the MTDS is the Debt Sustainability Analyses (DSA). The strategy sets out an Annual Borrowing Plan (ABP). The 2022 MTDS incorporated macroeconomic indicators post-COVID-19. Its preparation acknowledges the recent Debt Sustainability Analysis (DSA) results, which classified Lesotho as being in moderate debt distress. Coupled with the World Bank classification of Lesotho as a lower middle-income country, this implies a lessening of concessional resources. It includes a description of the existing debt portfolio’s composition and evolution over time, as well as target ranges for indicators such as interest rates, refinancing, and foreign currency risks. One of the notable components of the 2022 MTDS is the

<sup>27</sup> MoFDP. Nov 2022 Medium-Term Debt Management Strategy. Accessed online at <http://www.finance.gov.ls/documents/debt%20downloads/Medium%20Term%20Debt%20Strategy%202022-2025.pdf>

analysis of four different financing strategies. The strategies are based on the Government's existing borrowing practices, probable creditors for ongoing projects, and some of the loans that have been negotiated.

**Dimension rating = B**

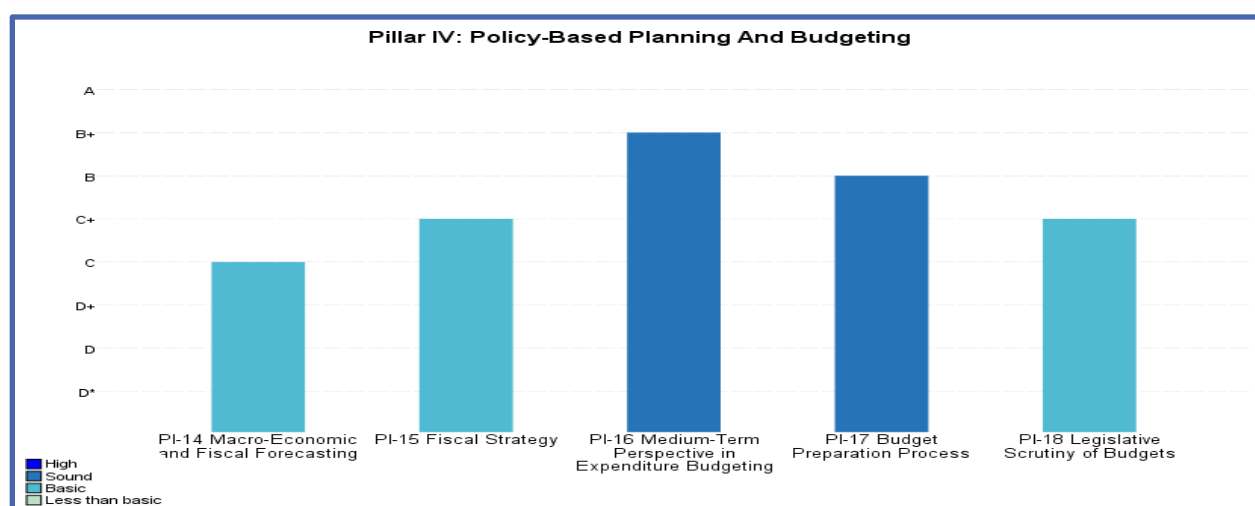
### Performance change since the 2017 PEFA Assessment

The performance for this dimension changes to "B" compared to the previous assessment because the country has a medium-term debt management strategy that covers at least three years and has been published on the Ministry's website. The strategy also includes target ranges for debt sustainability indicators such as interest rates, refinancing, and foreign currency risks.

## Pillar IV: Policy-based fiscal strategy and budgeting

Pillar IV measures the policy-based fiscal strategy of the Government and the budgeting processes that enable the Government to plan the mobilization and use of resources in line with its fiscal policy and strategy. This pillar has five indicators that include: Macroeconomic and fiscal forecasting, Fiscal strategy, Medium-term perspective in expenditure budgeting, Budget preparation process, and Legislative scrutiny of budgets.

**Figure: 4.1 Pillar 4 – Summary of PEFA Scores**



### Overall Performance: Key Strengths and Weaknesses

#### Strengths

- Forecast data for all four forecast indicators (GDP, Inflation, exchange rate, and interest rate) are available and just need to be included in the budget documents.
- The budget speech has annexes that compare the budget estimates for different years.
- Some macro-fiscal sensitivity analysis is being done in the MoFDP.
- The fiscal strategy is reflected in the Budget Strategy Paper and also in the Budget Call Circular.
- The Central Budget Management System (CBMS) has qualitative and quantitative information on the targets, objectives, indicators, mission, and vision of the ministries which are all in line with the NSDP II.
- There exist quarterly economic and monthly fiscal bulletins containing macroeconomic performance data, as well as the Mid-Term Budget Review, which contains detailed explanations of the reasons for the deviations from the objectives and targets of the budget.

- The annual budget estimates contained in the Budget Book present expenditure estimates for the budget year and the two following fiscal years, allocated by administrative and economic classification.
- Aggregate and ministry-level recurrent and capital expenditure ceilings for the budget year and the two following fiscal years are part of the budget call circular, and are approved by the Cabinet before the budget circular is issued.
- Medium-term strategic plans are prepared and costed for most of the ministries.
- An annual budget calendar exists and is usually part of the Budget Call Circular.
- A comprehensive and clear budget circular or circulars are issued to the budgetary units, covering the total budget expenditure for the full fiscal year. The budget reflects ministry ceilings approved by the Cabinet (or equivalent) prior to the circular's distribution to the budgetary units.
- The Legislature's review covers fiscal policies and aggregate fiscal forecasts for the coming year, as well as details of expenditure and revenue.
- The Legislature's procedure for reviewing budget proposals has been clearly outlined in the National Assembly Standing Orders of Lesotho as revised in 2022.
- Clear rules exist for some of the aspects of budget adjustments which are adhered to in some instances.

## Weaknesses

- There is Insufficient collaboration between the Macro Department of the MoFDP and the Central Bank.
- An explanation for the main differences between these forecasts and those made in the previous year's budget is not included in the budget documentation submitted to the Legislature.
- The macro-fiscal sensitivity analysis includes only a limited qualitative assessment of the impact of some alternative macroeconomic assumptions.
- The fiscal forecast scenarios that exist are not published.
- The Government prepares estimates of the fiscal impact of only a few proposed changes in the revenue and expenditure policy for the budget year and the following two fiscal years.
- The alignment of the budget with information on targets, objectives, indicators, mission and vision of the ministries as shown in the CBMS is not published and is only for internal use.
- Program budgeting is not part of the annual budgets for the fiscal years 2020/21, 2021/22 and 2022/23.
- The budget documents provide an explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget only at the aggregate level, and not at the ministry level.
- Only some budgetary units are complying with the budget calendar and meeting the deadlines for completing estimates.
- The Executive has been unable to submit the annual budget proposal to the Legislature at least two months before the start of the fiscal year as expected.
- The Legislature's review does not cover the medium-term fiscal forecasts of the budgets.
- For each of the years under review, the Legislature was unable to approve the annual budget before the start of the fiscal year.
- Rules for budget adjustments by the Executive regarding the criteria and timing for submitting supplementary budgets in both the Constitution and the PFMA Act are not particularly clear.

Overall, the prevailing use of the CBMS has given the budgeting process of the Government of Lesotho and its alignment with the fiscal strategy a great boost compared with the 2017 Performance Report. For example, each ministry now has to input information into the system directly and has to state how the budget line items aligns with the key priority areas of National Strategic Development Plan II. The budget medium-term reviews also include a report that describes the progress made against its fiscal strategy, an explanation of the reasons for any deviation, and aggregate and ministry-level expenditure ceilings for the budget year and the following two fiscal years. However, there is a need to improve the synergy and information-sharing between the Central Bank of Lesotho and the Budget Office of the MoFDP. Also, some information that is currently only for internal use, such as the explanation of the main differences between prevailing forecasts and those made in the previous year's budget, needs to be made available to the public.

The findings for pillar IV are corroborated by similar indicators from other pillars. For example, indicator 14.1 is supported by indicator 9. This shows that macroeconomic forecasts are not part of the budget documents, except for GDP and inflation. Also, 14.2 stipulates that fiscal forecasts on revenues and aggregate expenditure for the budget year and two following fiscal years should be included in the Budget Strategy Paper, Budget Call Circular, and Budget Speech, but does it not include the requirement for an explanation of the main differences between these forecasts and those made in the previous year's budget. This submission aligns with 3.1 and 3.2. In addition, 16.1 is corroborated by information on 2.1, 2.2, 4, and 9 which confirms that the annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification, and not the COFOG. The finding for 16.4 agrees with 14.2, namely that the budget documents explain some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget only at the aggregate level, not at the ministry level.

Similarly, 17.1 and 17.2 corroborate dimensions 7.2 and 1.1 respectively on the budget calendar and its comprehensiveness. A clear and comprehensive calendar is detailed in the budget circular which is issued to budgetary units, and covers the total budget expenditure for the full fiscal year. The budget reflects the ministry ceilings approved by the Cabinet (or equivalent) prior to the distribution of the circulars to the budgetary units. Also, 18.4 aligns with 1.1 and 21.4 insofar as some of the policies/laws on budget adjustments are adhered to in some instances. However, the issues regarding the criteria and timing of submitting supplementary budgets in both the Constitution and the PFMA Act are not so clear-cut.

#### **PI-14. Macroeconomic and fiscal forecasting**

This indicator measures the extent to which the Government's fiscal strategy and the budget are prepared with due regard to its fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections. It also assesses the Government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The principal institution assigned with this responsibility in Lesotho is the Macroeconomic Policy and Management Department (MPMD) of the Ministry of Finance and Development Planning (MoFDP). It performs the forecast and submits it for review and presentation to the Technical Working Group (TWG). After the comments from the TWG are incorporated, the forecasts are again presented to the Macro-Economic Working Group (MWG) for its input. The TWG and the MWG is chaired by the Chief Executive of the MPMD, and both bodies are composed of senior representatives (the Heads of Department) from:

- a) Budget Department (Budget Controller);
- b) Public Debt and Aid Management (Director);

- c) Private Sector Development (Director);
- d) Treasury (Accountant General);
- e) Macroeconomic Policy and Management (Director);
- f) Planning Unit of the Ministry of Finance and Development Planning (Director);
- g) The Central Bank of Lesotho (Director Research, Director Financial Markets);
- h) The Revenue Services Lesotho (Commissioner General);
- i) Bureau of Statistics (Director);
- j) Policy and Strategic Planning (Director);
- k) The National University of Lesotho (NUL) (Head of Economics Department);
- l) Lesotho National Development Corporation (LNDC) (Director of Research).

Though the members of the TWG and MWG are drawn from the same institutions, the TWG usually consists of a subset of the MWG made up of functional experts mainly comprising economists, financial experts, and statistical experts to provide regular analytical support to the MWG. The functionality and conditions of service for both groups are detailed in the revised Macroeconomic Group Terms of Reference. The MPMD mainly uses an IMF-type financial programming (FP) model to produce its three-year medium-term macro-fiscal forecasts. After approval at the MWG, the forecasts are usually presented to the IMF for interrogation at least twice a year.

These forecasts feed into the formulation of the BSP. The Central Bank of Lesotho (CBL) also produces macroeconomic forecasts using a similar FP model. CBL's forecasts, which are produced bi-annually, cover a 3 year-period and are published on its website. Differences do exist between CBL's fiscal forecasts and those of MoFDP, but this is mainly due to different reporting cycles; however, there is a limited degree of exchange of information between CBL and MoFDP.

A Cash Management Unit exists in the Treasury but is not fully functional because the budget is not executed on the basis of the ministries' cash plans. However, the implementation plans (cash plans and procurement plans) were not fully functional during the period under review but have been built into the Central Budget Management System (CBMS) starting from the 2022/23 financial year, to inform the issuance of quarterly warrants to line ministries. It is worth noting that the Budget Office of the MoFDP has made significant improvements in publishing most budget documents on the website of the Ministry. The summary scores for indicator 14 are shown in Table 14.1 below. The aggregate score is based on the M2 methodology of the PEFA framework.

**Table 14.1 Summary Table of Scores**

PI-14 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>14</b>	<b>Macroeconomic and fiscal forecasting</b>		<b>C</b>	<b>D+</b>
<b>14.1</b>	Macroeconomic forecasts	The Government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.	D	C
<b>14.2</b>	Fiscal forecasts	The Government prepares forecasts of the main fiscal indicators, including revenues (by type), Aggregate expenditure, and the budget balance, for the budget year and following two fiscal years. These forecasts, together with the underlying assumptions, are included in the budget documentation submitted to the Legislature.	B	C
<b>14.3</b>	Macrofiscal sensitivity analysis	The macrofiscal forecasts prepared by the Government include a qualitative assessment of the impact of alternative macroeconomic assumptions.	C	D

### 14.1 Macroeconomic Forecasts

The MPMD prepares GDP forecasts, which are one of the key macroeconomic indicators for the budget year and the following two fiscal years. During the fiscal years under review, inflation was generally projected to be 5 percent, with slight adjustments around that forecast. The projections are often presented and deliberated on by both the TWG and MWG. The forecasts are updated at least twice a year. The forecasts and underlying assumptions are summarised in the Budget Speech for the budget year in question. The forecasts feed into the Budget Strategy Paper (BSP), the Budget Book, the Budget Call Circular and the Budget Speech. Macroeconomic forecasts on interest rates and exchange rates are not generated by the MPMD or the Central Bank of Lesotho. Exchange-rate forecasts published by the Central Bank of Lesotho, but not included in budget documents, are taken from Bloomberg. Meanwhile, the interest rates forecast by the Central Bank of Lesotho are used only as an input into the monetary and banking sector forecasts, and are not published. The details are shown in Table 14.2 below.

**Table 14.2. Macroeconomic forecasts (last three completed fiscal years)**

Indicator	Budget document year	Years covered by forecast			Underlying assumptions provided (Y/N)	Frequency of update 1= once a year 2 = more than once a year N= Not Updated	Submitted to Legislature 1=budget yr only 3= budget year plus two following FYs N= Not submitted
		2020/21	2021/22	2022/23			
GDP growth	2022/23	Yes	Yes	Yes	Yes	2	3
	2021/22	Yes	Yes	Yes	Yes	2	3
	2020/21	Yes	Yes	Yes	Yes	2	3
Inflation	2022/23	Yes	Yes	Yes	Yes	1	1
	2021/22	Yes	Yes	Yes	Yes	1	1
	2020/21	Yes	Yes	Yes	Yes	1	1
Interest rates	2022/23	No	No	No	No	No	No
	2021/22	No	No	No	No	No	No
	2020/21	No	No	No	No	No	No
Exchange rate	2022/23	No	No	No	No	No	No
	2021/22	No	No	No	No	No	No
	2020/21	No	No	No	No	No	No

Data source: <http://www.finance.gov.ls/documents/Budget%20Formulation/budget%20speeches/Budget%20Speech%20Final%202022-23.pdf>

Macroeconomic GDP forecasts and inflation are included in the budget documents, but interest rate and exchange rate forecasts are not included in any of the budget documents that are submitted to the Legislature.

**Dimension rating = D**

### Performance change since the 2017 PEFA Assessment

This dimension regressed to a score of “D” from a “C” score in the last review.

### 14.2 Fiscal Forecasts

The MPMD prepares forecasts for fiscal indicators that include (i) revenues (by type), (ii) aggregate expenditure, and (iii) the budget balance (check deficits/surplus) for the budget year and following two fiscal years. These forecasts are reflected in the Budget Strategy Paper, in the Budget Call Circular and in the Budget Speech. The underlying assumptions, particularly on tax rates for revenue and the wage bill for expenditure, are summarised in the budget speech. The budget speech contains annexes that compare the budget estimates for different years. However, an explanation for the main differences

between these forecasts and those made in the previous year's budget is not included in the budget documentation submitted to the Legislature.

Table 14.3. Fiscal forecasts (last three completed fiscal years)

Indicator	Budget document year	Years covered by forecast			Underlying assumptions provided (Y/N)	Frequency of update 1= once a year 2 = more than once a year N= Not Updated	Submitted to Legislature 1=budget year only 3= budget year plus two following fiscal years N= Not submitted
		2020/21	2021/22	2022/23			
Revenue by type	2022/23	Yes	Yes	Yes	Yes	No	3
	2021/22	Yes	Yes	Yes	Yes	No	3
	2020/21	Yes	Yes	Yes	Yes	No	3
Aggregate revenue	2022/23	Yes	Yes	Yes	Yes	No	3
	2021/22	Yes	Yes	Yes	Yes	No	3
	2020/21	Yes	Yes	Yes	Yes	No	3
Aggregate expenditure	2022/23	Yes	Yes	No	Yes	No	3
	2021/22	Yes	Yes	No	Yes	No	3
	2020/21	Yes	Yes	No	Yes	No	3
Budget balance	2022/23	Yes	Yes	Yes	Yes	No	3
	2021/22	Yes	Yes	Yes	Yes	No	3
	2020/21	Yes	Yes	Yes	Yes	No	3

Data source: [2020-2021 Budget Speech.pdf \(finance.gov.ls\)](#); [2020/21 MID-TERM BUDGET REVIEW \(finance.gov.ls\)](#) [Budget Speech Final 2022-23.pdf \(finance.gov.ls\)](#)

The Government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure, and the budget balance, for the budget year and the following two fiscal years. These are included in the budget documentation submitted to the Legislature. However, an explanation for the main differences between these forecasts and those made in the previous year's budget is not included in the budget documentation submitted to the Legislature.

**Dimension rating = B**

### Performance change since the 2017 PEFA Assessment

This dimension has improved from a "C" score to a "B" score because it now includes a brief summary of the underlying assumptions in the Budget speech that is presented to the Legislature.

#### 14.3 Macro-Fiscal Sensitivity Analysis

The scenario analysis is prepared and presented to the Minister of the MoFDP for consideration, and for approval of the particular assumptions that will be incorporated into the budget documents. The Macro Department of the MoFDP prepares at least three scenarios that are based on alternative macroeconomic assumptions every budget year. These scenarios usually include the baseline scenarios, the policy scenarios (based on alternative assumptions regarding VAT, GDP, the wage bill, the old-age pension, etc), and the final scenarios based on approved policies. According to the PEFA framework, macroeconomic scenarios should be based on the potential changes to macroeconomic forecasts that result from external risks or other factors (e.g. the impact of changes in global growth, commodity prices, exchange rates, etc.), which is not the case for the period under review. Moreover, the fiscal forecast scenarios that exist are not published and are meant only for internal use.

The macro-fiscal sensitivity analysis prepared by the Government includes only a limited qualitative assessment of the impact of some alternative macroeconomic assumptions. Moreover, the fiscal forecast scenarios that exist are not published.



**Dimension rating = C**

### Performance change since the 2017 PEFA Assessment

This dimension therefore registers a score of “C”, which is an improvement from the last review.

### Recent or ongoing reform activities

The Central Bank of Lesotho is currently working on migrating from the Econometric Models and Financial Programming and Policies (FPP) to the Forecasting and Policy Analysis System (FPAS), which allows for better analysis and policy recommendations to policymakers. The CBL also plans to include machine learning in the macro forecasting toolkit, to analyse large data sets with different frequencies in order to improve its forecasts. The MPMD of the MOF plans to complement its Financial Program (FP) with its Lesotho Empirical System for Policy Analysis and Forecasting (LESPAF).

## PI-15 Fiscal Strategy

The aim of this indicator is to ascertain the fiscal impact of policy proposals, the adoption of fiscal strategy, and the reporting of fiscal outcomes. A fiscal strategy enables the Government to clearly articulate to Central Government units, the Legislature, and the public its fiscal policy objectives, including specific quantitative and qualitative fiscal targets and constraints. This indicator therefore provides an analysis of the capacity to develop and implement a clear fiscal strategy, as well as to measure the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the Government’s fiscal goals.

The prevailing fiscal strategy under review for Lesotho was the second National Strategic Development Plan (NSDP II) that covered the period 2018/19-2022/23. The NSDP II is reflected in the Budget Strategy Paper, Call Circular, and particular presentations of the budget – mainly by line ministries to the National Assembly. The fourth key priority area of the NSDP II is strengthening the national governance and accountability systems, with the aim of improving overall fiscal strategy. However, besides the National Assembly’s Standing Orders, the Government does not yet have a clear fiscal policy to guide its budget preparation. The 2024 IMF report on Lesotho recommends the Legislature to prioritise the enactment of: i) the Public Financial Management and Accountability Bill; ii) the Public Debt Management Bill; and iii) secondary legislation to implement the 2023 Public Procurement Act. The summary scores for the indicator are shown below. The aggregate score is based on the M2 methodology of the PEFA framework.

**Table 15.1 Summary Table of Scores**

PI-15 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>15</b>	<b>Fiscal Strategy</b>		<b>C+</b>	<b>D+</b>
<b>15.1</b>	Fiscal impact of policy proposals	The Government prepares estimates of the fiscal impact of only a few (not all) proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.	D	D
<b>15.2</b>	Fiscal strategy adoption	The Government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.	C	C
<b>15.3</b>	Reporting on fiscal outcomes	The Government has submitted to the Legislature – and published with the annual budget – a report that describes progress made against its fiscal strategy, and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets	A	C



		out actions planned by the Government to address any deviations, as prescribed in legislation.		
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### 15.1 Fiscal Impact of Policy Proposals

The Government prepares estimates of the fiscal impact of only a few proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years. The Government indicates its aggregated estimates of the fiscal impact for proposed changes in revenue (such as changes in VAT) and the policy relating to expenditures (such as wages and salaries, and pension schemes) for the budget year. The changes are reflected in the budget speech and the MTFF of the budget year, and the projections for the revenue and expenditure are reflected in the estimates for the subsequent two years. These estimates and projections are included in the budget speech that is submitted to the Legislature. It is worth noting that the proposed changes are usually few in number, but all of them have an impact on the estimates for the budget year and the next two fiscal years.

**Dimension rating = D**

### **Performance change since the 2017 PEFA Assessment**

This dimension retains the score of “D” which it achieved in the 2017 report.

### 15.2 Fiscal Strategy Adoption

The Fiscal Strategy is reflected in both the Budget Strategy Paper and the Call Circular, each of which contains an improved analysis of how the budget priorities and resource allocation align with the key policy targets of the NSDP II. These budget documents, which include qualitative objectives for fiscal policy that align with the NSDP II, are published on the Ministry’s website. However, a comprehensive fiscal strategy that includes explicit time-based *quantitative* fiscal goals and targets for at least the budget year and the following two fiscal years is not being developed even for internal use. The Central Budget Management System (CBMS) contains qualitative and quantitative information on targets, objectives, indicators, mission and vision of the ministries which are all in line with the NSDP II, but the CBMS is only meant for internal use.

**Table 15.2 Fiscal strategy adoption (Last completed fiscal year – 2022/2023)**

Fiscal strategy				Includes quantitative information			Includes qualitative objectives (Y/N)
				Time-based goals and targets (Y/N)	Or objectives only		
Prepared (Y/N)	Submitted to Legislature (Y/N, Date)	Published (Y/N, Date)	For internal use only (Y/N)		Budget (Y/N)	Forward Years (Y/N)	
Yes	No	No	Yes	No	No	No	Yes

Data source: Budget Strategy Paper; CBMS

The Government has prepared a current fiscal strategy that includes *qualitative* objectives for fiscal policy which does not include explicit time-based quantitative fiscal goals and targets for at least the budget year and the following two fiscal years, but it is only for internal use.

**Dimension rating = C**

#### Performance change since the 2017 PEFA Assessment

This dimension maintains the score of “C” from the last review.

#### 15.3 Reporting on Fiscal Outcomes

Quarterly economic and monthly fiscal bulletins exist containing performance data relating to macroeconomic and fiscal developments (revenue collections and expenditure performance). There is also the Mid-Term Budget Review presented to the National Assembly by the Honourable Minister of Finance and Development Planning. For example, the 2022/2023 Medium-Term budget review presented to Parliament on 7 December 2022 and published on the Ministry’s website contains detailed explanations for the reasons for the deviations from the objectives and targets that were aligned with the NSDP. The key reasons for the deviations in inflation and expenditure mentioned in the report include lingering COVID-19-related shocks, the protracted Russia-Ukraine war, and the November 2022 revised South African Reserve Bank (SARB) projections of South Africa’s food price inflation for 2022. The report also explains the actions that shall be taken to address the deviation, such as increasing the CBL Rate from 5.5 to 6.25 percent per annum, and increasing the current Net International Reserve floor from USD 720 million to USD 730 million in order to maintain the one-to-one exchange rate peg between the Maloti and the South African Rand.

**Table 15.3 Reporting on fiscal outcomes (Last completed fiscal year – 2022/2023)**

Progress report completed (Y/N)	Last fiscal year covered	Submitted to Legislature (Y/N, Date)	Published with budget (Y/N, Date)	Includes explanation of deviation from target (Y/N)	Includes actions planned to address deviation
Yes	Yes	Yes, 07/12/2022	Yes, 07/12/2022	Yes	Yes

Data source: <http://www.finance.gov.ls/documents/Budget%20Evaluation/2022-23%20MIDTERM%20BUDGET%20REVIEW.pdf>

The Government has submitted to the Legislature and published with the annual budget a report that describes the progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the Government to address any deviations, as prescribed in legislation.

**Dimension rating = A**

#### Performance change since the 2017 PEFA Assessment

These mid-term review reports have resulted in the score for this dimension rising from “C” to “A”.

#### Recent or ongoing reform activities

Fiscal Risk Statement: The Government has undertaken a comprehensive analysis and management of fiscal risks. Several such risks have materialized in recent years, including from collapsed public/private partnerships; unquantified arrears; and contingent liabilities from loans and guarantees

issued to state-owned enterprises (SOEs). This fiscal risk statement will be published as part of the 2024/2025 annual budget.

**Fiscal Rules:** The Government is working on developing fiscal rules to constrain spending and resist political pressure to overspend, while embedding fiscal responsibility within the country's macro-fiscal framework and ensuring debt sustainability. Furthermore, to be effective, a stabilization fund should be anchored by a clear and credible fiscal rule that guides the pace of savings and the conditions under which funds are deposited and withdrawn.

#### PI-16. Medium-term perspective in expenditure budgeting

This indicator is meant to ascertain the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans, which is the NSDP II for Lesotho. The indicator measures how the medium-term expenditure estimates, medium-term expenditure ceilings, alignment of strategic plans and medium-term budgets, and the consistency of budgets with the previous year's estimates impact on budget outcomes. The summary scores for indicator 16 is shown below. The aggregate score is based on the M2 methodology of the PEFA framework.

**Table 16.1 Summary Table of Scores**

PI-16 (M2)	Dimension	Justification for 2024 score	2024 Score	
			2024 Score	2024 Score
<b>16</b>	<b>Medium-Term Perspective in Expenditure Budgeting</b>		<b>B+</b>	<b>C+</b>
<b>16.1</b>	Medium-Term Expenditure Estimates	The annual budget presents expenditure estimates for the budget year and the two following fiscal years, allocated by administrative and economic classification.	B	B
<b>16.2</b>	Medium-Term Expenditure Ceilings	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by the Government before the first budget circular is issued.	A	A
<b>16.3</b>	Alignment of Strategic Plans and Medium-Term Budgets	Medium-term strategic plans are prepared for the majority of ministries and include cost information. The majority of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.	A	D
<b>16.4</b>	Consistency of Budgets with previous Year Estimates	The budget documents provide an explanation for some of the changes to the expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.	C	D

#### 16.1 Medium-Term Expenditure Estimates

The Annual Budget estimates contained in the Budget Book presents estimates of expenditure for the budget year and the following two fiscal years allocated by administrative and economic classification. The economic classification follows GFS 2014. The Central Bank publishes the monthly economic review report, including the Expenditure Classifications by Functions of Government (COFOG), and performs a cross-classification between the functional (program) and economic classifications since

2020. This is published online. However, the program/functional budgeting is not part of the annual budgets for the fiscal years 2020/21, 2021/22 and 2022/23.

**Table 16.2: Medium-term expenditure estimates  
(last budget submitted to Legislature – 2022/2023)**

Classification	Level of disaggregation	Budget year (Y/N)	Two following fiscal years (Y/N)
<b>Administrative</b>	Second level	Yes	<b>Yes</b>
<b>Economic</b>	Second level	Yes	<b>Yes</b>
<b>Program/Function</b>	None	No	<b>No</b>

Data source: [2022-23 Budget Book.pdf \(finance.gov.ls\)](#)

The annual budget presents estimates of expenditure for the budget year and the following two fiscal years allocated by administrative and economic classification, but not by program/functional classification.

**Dimension rating = B**

#### **Performance change since the 2017 PEFA Assessment**

This dimension maintains the score of “B” from the previous review.

#### 16.2 Medium-Term Expenditure Ceilings

Aggregate and ministry-level recurrent and capital expenditure ceilings for the budget year and the two following fiscal years are part of the Budget Call Circular, and are approved by the Cabinet before the Budget Call Circular is issued. The Budget Controller raises the ceilings and submits them to the MoFDP, and they are approved by the Cabinet before the Budget Call Circular is issued.

**Table 16.3: Medium term expenditure ceilings (last budget submitted to Legislature)**

Level	Budget year (Y/N)	Two following fiscal years (Y/N)	Date of approval	Date of issuance of the first Budget Call Circular
<b>Aggregate ceiling</b>	Yes	Yes	22/11/2021	<b>22/11/2021</b>
<b>Ministry Ceiling</b>	Yes	Yes	22/11/2021	<b>22/11/2021</b>

Data source: [2022-2023 Budget Call Circular.pdf \(finance.gov.ls\)](#)

Aggregate and ministry-level expenditure ceilings for the budget year and the following two fiscal years are approved by the Government before the first Budget Call Circular is issued.

**Dimension rating = A**

#### **Performance change since the 2017 PEFA Assessment**

This dimension maintains the score of “A” from the previous review.

#### 16.3 Alignment of Strategic Plans and Budgets

Medium-term strategic plans are prepared and costed for most ministries in line with the NSDP. The objectives of the ministries’ budget are aligned with specific priorities of the NSDP. These estimates are produced for the budget year and the two subsequent years. This is clearly seen in the CBMS, where each ministry is expected to align its budget goals, vision and mission with the priorities of the NSDP when filling in its budget estimates. Also, most ministries work with current strategic plans. Of the sample of 6 ministries, the Ministry of Health (MoH), Ministry of Education and Training (MoET), Ministry

of Finance and Development Planning (MoFDP), Ministry of Agriculture and Food Security (MoAF), and Ministry of Law, Constitutional Affairs and Human Rights had current strategic plans for the period under review. Only the Ministry of Local Government, Chieftainship and Parliamentary Affairs employed outdated strategic plans during the same period.

**Table 16.4 Alignment strategic plans and medium-term budgets  
(last budget submitted to Legislature)**

Ministry	Budget Allocation (Million Maloti)	Medium term strategic plan prepared (Y/N)	Medium term strategic plan costed (Y/N)	Expenditure proposals consistent with medium term strategic plan (most, majority, some, none)
1. MoF	1,775.53	Yes	Yes	Most
2. MoET	2,795.25	Yes	Yes	Most
3. MoH	3,245.64	Yes	Yes	Most
4. MoAFS	814.23	Yes	Yes	Most
<b>Total/Coverage</b>				

Data source: <http://www.finance.gov.ls/documents/Budget%20Formulation/budget%20speeches/Budget%20Speech%20Final%202022-23.pdf>

PI-16.3: Medium-term strategic plans are prepared and costed for most of the ministries. However, the strategic plans of few of these ministries that were used for the period under review were out-of-date.

**Dimension rating = A**

#### **Performance change since the 2017 PEFA Assessment**

The use of the CBMS has enabled the score for this dimension to rise from a “D” in the previous review to an “A”.

#### 16.4 Consistency of budgets with previous years’ estimates

Not much focus is given to the previous years’ estimates, with attention often being focused on the budget for the coming fiscal year. The differences are usually discussed in two meetings a year involving the respective ministries and the MoFDP after the line ministries have submitted the Budget Framework Paper (BFP). However, the explanations for changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level are not published in the budget documents. The introductory part of the Budget Speech and the Budget Call Circular provides an explanation for some of the changes in the last medium-term budget and the first year of the current medium-term budget, but only at the aggregate level.

**Table 16.5. Consistency of budgets with previous year's estimates  
(last medium-term budget and current medium-term budget)**

Ministry	Explanation of change to previous year's expenditure estimates prepared included in budget documents (Y/N)	Reconciled with medium-term budget estimates (Y/N)	Reconciled with first year of new budget estimates (Y/N)
1. MoF	No	No	No
2. MoET	No	No	No
3. MoH	No	No	No
4. MoAFS	No	No	No
Coverage %			

PI-16.4: The budget documents provide an explanation for some of the changes to the expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget, but only at the aggregate level and not at the ministry level.

**Dimension rating = C**

#### Performance change since the 2017 PEFA Assessment

This dimension scores “C”, an improvement from the “D” score of the 2017 report.

#### Recent or ongoing reform activities

Training staff of the Macro Department of the MoFDP to present the budget by COFOG.

### PI-17. Budget preparation process

This indicator assesses the budget formulation process that allows for an effective top-down and bottom-up participation of the MDAs, including their political leadership as represented by the Cabinet. It also assesses the extent to which the annual budget preparation process supports the linking of the draft budget to public policy objectives. Dimensions (i) and (ii) are assessed using the last budget submission, i.e. for FY 2022/23. Dimension (iii) is assessed on the basis of the last three approved budgets, i.e. for FY 2020/21, 2021/22 and 2022/23. The summary scores for indicator 17 are shown below. The aggregate score is based on the M2 methodology of the PEFA framework.

**Table 17.1 Summary Table of Scores**

PI-17 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>17</b>	<b>Budget Preparation Process</b>		<b>B</b>	<b>B</b>
<b>17.1</b>	Budget Calendar	An annual budget calendar exists, and some budgetary units comply with it and meet the deadlines for completing estimates.	C	C
<b>17.2</b>	Guidance on Budget Preparation	A comprehensive and clear budget circular or circulars are issued to budgetary units, covering the total budget expenditure for the full fiscal year. The budget reflects the ministry ceilings approved by the Cabinet (or equivalent) prior to the distribution of the circular to the budgetary units.	A	A
<b>17.3</b>	Budget Submission to the Legislature	The executive has submitted the annual budget proposal to the Legislature at least one month before the start of the fiscal year in two of the last three years.	C	C

### 17.1 Budget Calendar

The budget calendar is prepared and circulated every year for all budgetary units to follow. For the years under review, the MoFDP gave the budgetary units at least 4 weeks to submit their estimates to the office of the Budget Controller. However, the proportion of ministries or sub-cost centres of those ministries that submitted their budget estimates on or before the deadline amounted to less than half of all the submissions made.

**Table: 17.2 Budget Calendar Adherence**

Budget Year	Date of Call Circular	Deadline for submission	Proportion of submissions by sub-cost centres of line ministries made before the deadline
2020/2021	06/11 2019	04/12/2019	Below Average
2021/2022	11/11/2020	11/12/2020	Below Average
2022/2023	22/11/2021	23/12/2021	Below Average

Data source: Call Circulars and CBMS submission portal

An annual budget calendar exists, and some (but not all) budgetary units are complying with it and meeting the deadlines for completing their estimates.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

This dimension maintains its score of “C” because of the continued lack of adherence to the budget calendar by some budgetary units.

### 17.2 Guidance on Budget Preparation

The Macro Department of the MoFDP provides the Budget Department with aggregate ceilings based on the macroeconomic and fiscal forecasts from the MTFF. The ceilings for each ministry are then determined and approved by the Cabinet prior to the distribution of the circulars to the budgetary units. The budget circular contains the budget timetable, the macroeconomic framework (which includes the strategic priorities, public expenditure strategy, a review of the macroeconomic trends and forecasts, the projected rate of inflation, and the monetary policy framework), the fiscal framework and fiscal strategy, the macroeconomic assumptions, guidelines for making budget estimates, implementation, cash and procurement plans, the Central Budget Management System (CBMS) budget entry process, the Chart of Accounts, and the recurrent and capital budget ceilings for the ministries for the budget year plus the following two fiscal years.

**Table 17.3: Guidance on budget preparation  
(Last budget submitted to the Legislature – 2022/2023)**

Date(s) of budget circular(s)	Total budget expenditure covered (Y/N)	Ceilings approved by the Cabinet (Y/N)	
		If Y, date of approval of ceilings by Cabinet	If N, budget estimates reviewed and approved by Cabinet after completion (Y/N)
22/11/2021	Yes	22/11/2021	

Data source: Call circulars and MoFDP mail directory

A comprehensive and clear budget circular or circulars are issued to budgetary units, covering the total budget expenditure for the full fiscal year. The budget reflects the ministry ceilings approved by the Cabinet (or equivalent) prior to the distribution of the circulars to the budgetary units.

**Dimension rating = A**

#### **Performance change since the 2017 PEFA Assessment**

This dimension retains the score of “A” from the 2017 PEFA report.

#### **17.3 Budget Submission to the Legislature**

The Budget Speech and Budget Estimates are often presented by the Minister of Finance and Development Planning to Parliament 4 to 6 weeks before the start of the fiscal year. For the three years under review, the executive has submitted the annual budget proposal to the Legislature at least five weeks before the start of the fiscal year in two of the three years (2020/2021 and 2021/2022), and submitted it about 4 weeks before the start of the 2022/2023 fiscal year. This is summarised in Table 17.4 below. Neither the Constitution nor the PFMA Act contain clear rules regarding a time limit for the submission of the Budget Speech and the Annual Budget Estimates to Parliament. This may explain the non-adherence to the internationally recognised six-week gap between the submission of the appropriation bill and the end of the fiscal year. In addition, the MoFDP has a budget calendar/cycle which shows that the presentation to Parliament (with the associated debate) of Budget estimates and MTF documents (comprising step 12) should be submitted in February/March of the year. Implicitly, the budget calendar makes it impossible to submit the budget more than 2 months before the end of the fiscal year, thus not giving Parliament enough time for scrutiny.

**Table 17.4: Annual budget estimates submissions to Parliament**

Budget for Fiscal Year	Date of submission to Parliament	Number of weeks before start of fiscal year
2020/2021	26 February 2020	5 weeks
2021/2022	17 February 2021	6 weeks
2022/2023	2 March 2022	4 weeks

Source: Budget speeches for the fiscal years under review

The executive submitted the annual budget proposal to the Legislature 4-6 weeks before the start of the fiscal year in two of the last three years. The expectation was that it should be submitted at least two months before the start of each of the three fiscal years.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

This dimension maintains its score of “C” from the last review.

#### **Recent or ongoing reform activities**

Public Financial Management Accountability (PFMA) Bill (Not Approved): This legislation will improve clarity regarding the modus operandi of the supplementary budget, but still does not include timeframes for its submission.



## PI-18. Legislative scrutiny of budgets

This indicator assesses the legislative scrutiny and debate of the Annual Budget Law in terms of the following: scope of scrutiny; internal procedures for scrutiny and debate, and the time allocated to that process; the ability to approve the budget before the commencement of the new financial year; and the existence of rules for in-year amendments to the budget without ex-ante approval by the Legislature. The summary scores for indicator 18 are shown below. The aggregate score is based on the M1 methodology of the PEFA framework.

**Table 18.1 Summary Table of Scores**

PI-18 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>18</b>	<b>Legislative Scrutiny of Budgets</b>		<b>C+</b>	<b>C+</b>
<b>18.1</b>	Scope of budget scrutiny	The Legislature's review covers fiscal policies and aggregates for the coming year, as well as details of expenditure and revenue.	B	B
<b>18.2</b>	Legislative procedures for budget scrutiny	The Legislature's procedures for reviewing budget proposals are approved by the Legislature in advance of budget hearings, and are adhered to. The procedures include arrangements for public consultation.	A	A
<b>18.3</b>	Timing of budget approval	They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.	C	C
<b>18.4</b>	Rules for budget adjustments by the Executive	The Legislature has approved the annual budget within one month of the start of two or more of the last three fiscal years.	C	C

### 18.1 Scope of Budget Scrutiny

The legislative review via the EPC during the budget process covers the budget proposals and the performance of the previous year. The review also covers the macroeconomic projections, to the limited extent that these appear in the Budget Book. The plenary does not pay much attention to the annexes, which contain extra detail regarding the underlying assumptions and forecasts. However, the EPC carries out quarterly assessment reviews whereby the line ministries are requested to submit reports based on a template that covers expenditure and revenue forecasts, mandates, priorities, challenges, and alignment to the NSDP II etc; these are reviewed in the EPC on behalf of the Legislature, but not in the plenary. This is justified by the Standing Orders of the National Assembly. Nevertheless, these reviews do not cover the medium-term fiscal forecasts.

**Table 18.2. Scope of budget scrutiny**

Budget scrutiny by Legislature (Y/N)	Coverage – 2022/2023				
	Fiscal policies (Y/N)	Medium-term fiscal forecasts (Y/N)	Medium term priorities (Y/N)	Aggregate expenditure and revenue (Y/N)	Details of expenditure and revenue (Y/N)
Yes	Yes	No	Yes	Yes	Yes

Data source: Requests for quarterly assessment reviews by Parliament

The Legislature's review covers fiscal policies and aggregate (but not medium-term) fiscal forecasts for the coming year, as well as details of expenditure and revenue.

**Dimension rating = B**

#### **Performance change since the 2017 PEFA Assessment**

This dimension retains its score of "B" from the last review.

#### **18.2 Legislative Procedures for Budget Scrutiny**

The Legislature's procedure for reviewing budget proposals has been outlined in the National Assembly's Standing Orders of Lesotho as revised in 2022; these are published on the website of the Parliament of Lesotho. Chapter X - Financial Procedures of the Standing Orders describes in detail the procedures for the review and approval of the budget. The chapter outlines the procedures for the introduction and consideration of the budget and estimates by committee, the debate on the budget and estimates, the allocation of time in committee for the supply and production of reports, the annual appropriation bill, supplementary estimates, statements of excess and adjustment estimates, and the supplementary and final appropriation bills.

These procedures have been largely adhered to. Chapter XI of the Standing Orders clearly spells out how public participation shall be facilitated, and Chapter XII sets out the procedure for the submission of petitions. Chapter XIII of the Standing Orders provides for the setup and operationalisation of committees in general. Section 94-1(b) provides for the establishment of the Portfolio Committee on the Economic and Development Planning (PCED) cluster, which is responsible for the ministerial portfolios of Finance and Development Planning, as well as Trade and Industry, among other economic issues. According to Section 67 of the standing order, after the initial presentation of the Minister of Finance in the Budget speech, the PECD cluster reviews the proposals and reports to the National Assembly as a whole. When examining the budget and the Portfolio Committee's report, the National Assembly goes into Committee mode and becomes the Committee of Supply, where changes to the draft budget recommended by the Portfolio Committee are discussed. The Standing Orders do not expressly state how the EPC needs to gain technical support, but they specify in Section 95(2)(c) that Portfolio Committees may consult other government ministries and departments, which includes getting technical support from MDAs such as the Budget Office. The staff of the PECD cluster obtains technical support mainly from the Budget Office of the MoFDP regarding the budget structure, components, cycle, and best practices. They also get technical support from development aid agencies. However, the members of the EPC expressed the need to obtain additional technical support when reviewing the medium-term fiscal and macroeconomic forecasts.

**Table 18.3: Legislative procedures for budget scrutiny**

Legislative procedures	Exist (Y/N)	Are approved in advance of budget hearings (Y/N)	Are adhered to (Y/N)	Include arrangements for public consultation (Y/N)	Include organizational arrangements (Y/N)
	Yes	Yes	Yes	Yes	Yes

Data source: <https://nationalassembly.parliament.ls/wp-content/uploads/2022/11/Standing-Order-2022-L.N.-No.-114-of-2022.pdf>;

The Legislature's procedures for reviewing budget proposals are approved by the Legislature in advance of the budget hearings, and are adhered to. The procedures include the arrangements for public consultation. They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.

**Dimension rating = A**

#### **Performance change since the 2017 PEFA Assessment**

This dimension retains its score of "A" from the 2017 PEFA Assessment report.

#### **18.3 Timing of Budget Approval**

The procedure for budget approval starts with the presentation of the appropriation bill to the Parliament by the Minister of the MoFDP. The bill is then reviewed and approved by the House of Assembly and the Senate of Lesotho, usually before the 31<sup>st</sup> of March of every year. It is then submitted to the King for royal assent, after which it becomes the appropriation Act. Table 18.4 shows that of the three years under review, only in 2022 did the Legislature approve the budget before the start of the fiscal year, i.e. 2022/2023. In 2021, the approval was late by about two weeks, and in 2020 by about 9 weeks. The main reason for the delay in 2020 was due to the sudden COVID-19 lockdown that constrained movements. In 2021 it was induced by political differences, whereby certain groups intentionally delayed the budget appropriation process in order to hold the executive hostage until their demands were met.

**Table 18.4: Budget Submission to Parliament and Approval (2020/21-2022/23)**

Budget for Fiscal Year	Draft Budget Submitted to Parliament	Budget Approved by Legislature
2020/2021	26 February 2020	8 June 2020
2021/2022	17 February 2021	12 April 2021
2022/2023	2 March 2022	25 March 2022

Source: [http://www.finance.gov.ls/official\\_documents.php?id=budget\\_documents](http://www.finance.gov.ls/official_documents.php?id=budget_documents)

The Legislature has approved the annual budget within one month of the start of the fiscal year in two or more of the last three fiscal years. The expectation is for the approval to be forthcoming before the start of the fiscal year, every year.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

The dimension therefore retains its score of "C" from the previous review.

#### **18.4 Rules for Budget Adjustments by the Executive**

It is worth noting that in-year budget adjustments can include both the reallocation of existing funds (virements) and the addition of new funds (supplementary budgets). Section 112(3) of the Constitution

provides clear rules for virements, which are complemented by the 2011 Public Financial Management and Accountability (PFMA) Act, chapters 15 and 16. They give powers to Chief Accounting Officers to approve transfers within a program up to an amount equal to 20 percent of their spending unit, or an amount within a capital project equal to 10 percent of the allocation from which the transfer was made. In-year changes of appropriations exceeding this amount may only be approved by the Minister. However, some aspects of the supplementary budgets in both the Constitution and the PFMA Act are not so clear. Both documents mention the circumstances under which supplementary budgets can be proposed, and the procedural guidelines. However, they do not state the specific criteria (such as unexpected economic conditions, natural disasters, or other emergencies), nor do they specify strict expenditure limits for the extent and nature of amendments. In addition, there is no clearly defined rule limiting the executive's discretion to present amendments to the budget appropriations for retroactive approval by the Legislature. In practice, the executive seldom submits in-year budget adjustments to Parliament for approval. Most often they are approved retrospectively without any limits to the supplementary budget incurred. Sometimes, supplementary appropriation bills for a fiscal year are passed years later. The Supplementary Appropriation for the fiscal years 2019/2020 and 2020/2021 were both passed on 28 March 2022.

Clear rules exist for some of the aspects of budget adjustments that are sometimes adhered to. However, the criteria for, and timing of, the submission of supplementary budgets are not very clear in either the Constitution or the PFMA Act.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

This dimension retains its score of "C" from the 2017 review.

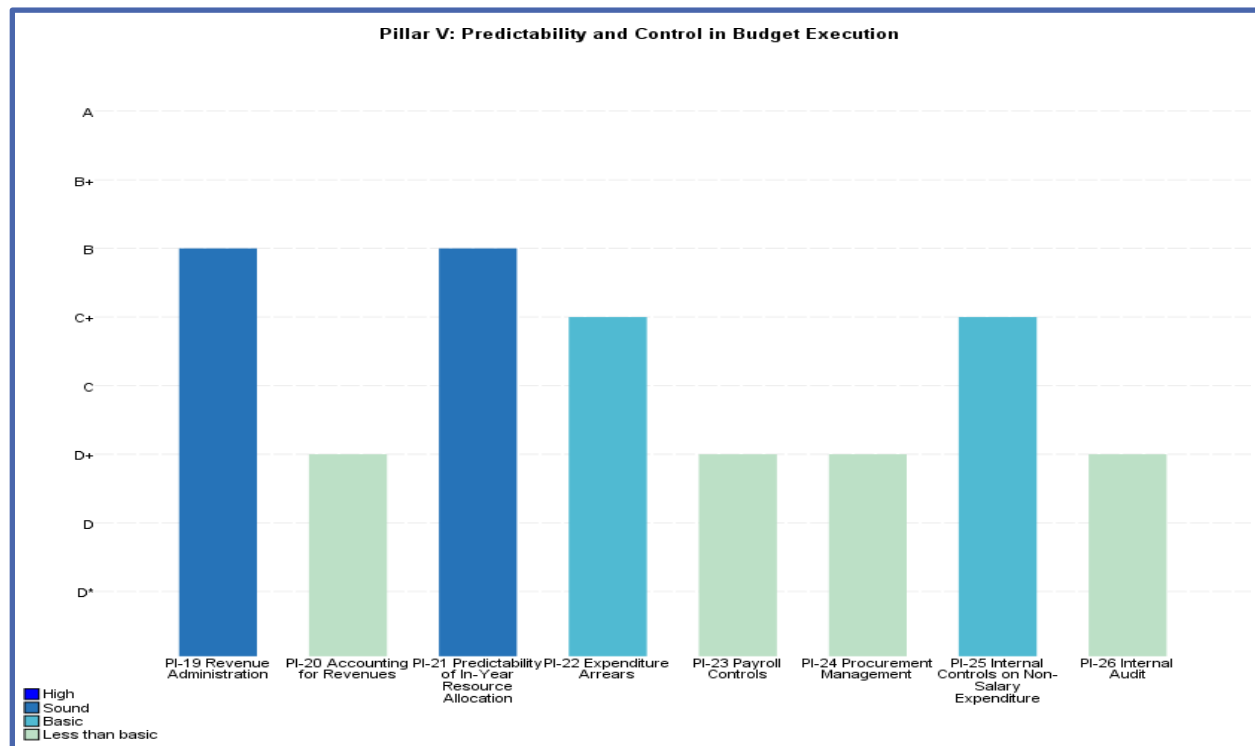
#### **Recent or ongoing reform activities**

The Tenth Amendment of the Constitution of Lesotho is being considered by the Committee on Law. It further clarifies the rules for budget adjustments by the Executive.

## Pillar V: Predictability and control in budget execution

The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Figure 5.1 Pillar 5 – Summary of PEFA Scores



### Overall Performance: Key Strengths and Weaknesses

#### Strengths

- Taxpayers have easy access to up-to-date information.
- Credibility and trust regarding the managing of risks have been enhanced through the development of the RSL's compliance model.
- RSL records and monitors its stock of revenue arrears.
- IFMIS helps to minimize the risks associated with financial mismanagement, fraud, and corruption.
- A strong system for cash forecasting and monitoring exists.
- A strong payroll system exists whereby all payroll management is conducted through HRMIS.
- The Procurement Tribunal exists and is fully functional.

#### Weaknesses

- There is no risk management framework around revenue, expenditure, procurement, etc.
- The Procurement Policy and Advisory Division (PPAD) has no database or records for contracts that include data on what has been procured, the value of the procurement, and who has been awarded contracts.
- Poor implementation of internal audit structures for line ministries.

- Inadequate extent of daily sweeping of revenue into the Treasury's Main Revenue Account. There are still revenue-collecting entities that perform their sweeps on a weekly and monthly basis.
- Minimal consolidation of government bank accounts into a Treasury Single Account (TSA). Only 8 out of 368 government bank accounts are consolidated into the TSA.

## PI-19. Revenue administration

This indicator covers the administration of all types of tax and non-tax revenue for Central Government. It assesses the procedures used to collect and monitor Central Government revenues. Coverage is CG at time of assessment for PI-19.1 and 19.2, and for the last completed fiscal year for PI-19.3 and 19.4. This indicator uses the M2 (AV) method for aggregating dimension scores.

**Table 19.1 Summary Table of Scores**

PI-19 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>19</b>	<b>Revenue administration</b>		<b>B</b>	<b>B</b>
<b>19.1</b>	Rights and obligations for revenue measures	RSL provides information regarding taxpayers' obligations and rights on its website for easy access, which is simple to comprehend and easy to download. Also, both the Ministry of Natural Resources (through its Department of Energy and Water) and the Ministry of Mining have made information on the obligations and rights of their customers readily available on the websites of their respective departments.	A	A
<b>19.2</b>	Revenue risk management	After the previous PEFA Assessment, in 2016 RSL (then known as LRA) developed the Compliance Model to assist in understanding the business/industry-related, sociological, financial and psychological factors that influence taxpayer behaviour, and to help it apply the most appropriate compliance strategy.	A	C
<b>19.3</b>	Revenue audit and investigation	For the fiscal year 2022/2023, there was no information provided with regard to audit and fraud investigations, or how they are managed and reported; the same applies to the completion rates from audit and fraud investigations or other collection entities, implying that no audits were performed.	D*	C
<b>19.4</b>	Revenue arrears monitoring	The stock of revenue arrears at the end of the fiscal year 2022/2023 was 10.7 percent of the total revenue collection for the year, and the revenue arrears that were older than 12 months amounted to 24.8 percent of the total annual arrears.	B	B

### 19.1 Rights and obligations for revenue measures

Revenue Service Lesotho (RSL) operates in accordance with the Lesotho Revenue Authority Act 2001, which establishes it as the main body responsible for revenue assessment and collection on behalf of the Government, and for administering and enforcing the laws relating to such revenues. RSL provides information regarding the taxpayers' obligations and rights on its website. This is easy to access and simple to understand, as there are documents that explain the structure of the taxes being levied (whether on profits, inputs or outputs) which are easy to download. Also, both the Ministry of Natural Resources, through its Department of Energy and Water, and the Ministry of Mining have made

information on the obligations and rights of their customers readily available on the websites of their respective departments.

### **Income Tax**

The Income Tax Act 1993, Act No. 9 of 1993 contains simple and comprehensive provisions regarding the obligations of taxpayers. Chapter I defines tax terminologies; this helps to avoid any ambiguity. Sections 4-8 describe the individual, partnership or corporate resident or non-resident legal entities liable to tax. Part III, Sections 9-12 define the income tax rates for individuals, partnerships, and corporate bodies, as prescribed in Schedules 2-5. Chapter III, Sections 115-127 state the allowable and disallowable fringe benefits for taxpayers and applicable taxes thereon; these include loans, debt, superannuation, domestic assistance, meals, utilities, medical, and fuel/car fringe benefits, among others. The procedure for filing income tax returns is clearly spelled out in Section 128; a taxpayer must file returns on the stipulated form with full disclosure of income and source of income. Self-assessment is well captured under Section 133.

Just as taxpayers must pay tax, they also have a right to redress; Sections 137-140 prescribe the rights of objection to tax assessed. The provisions allow for administrative tax appeal within 4 years of the initial assessment, or 60 days following the revised assessment. Where the taxpayer and the Commissioner General of LRA are unable to resolve assessment differences, Sections 138, 139 (replaced by Act 2 of 2005 – Revenue Appeals Tribunal) and 140 prescribe the process of resolution in a tax tribunal (High Court) and further appeal in the Court of Appeals. Taxpayers have the right to file an appeal within 60 days after a decision in the High Court.

### **Customs**

The Customs and Excise Act (1982) plus accompanying amendments (Customs Amendment Act 3, 1984; Order 2, 1986; and Act 25, 1986) are the laws governing the administration of customs and excise duties. Officials of LRA have indicated that the Customs and Excise Act 1982 is being revised, but this revision is still in the early stages. Chapter III spells out the regulations concerning the import and export of goods. Section 46 outlines the applicable customs and excise rates as prescribed in the accompanying schedules. The legal provisions criminalize tax evasion and avoidance, as well as smuggling, all of which are punishable by law. As regards tax appeals, the Revenue Appeals Tribunal Act 2 of 2005 is also applicable; taxpayers have a right to redress. Sections 13-15 stipulate the framework for hearing procedures and the adjudication of tax cases.

### **VAT**

The Revenue Appeals Tribunal Act 2 of 2005 also applies to VAT taxpayer rights to redress. Besides using the administrative appeals mechanism, following exhaustive internal processes taxpayers may opt for a tax tribunal and may even appeal to the Court of Appeals. The main legal framework regarding VAT is the Value Added Tax Act (2001). There are some amendments and regulations to the original law, namely the VAT Amendment Act 6 of 2003, and VAT & Income Tax Regulations 2014. All taxable supplies and imports are liable to VAT in accordance with Section 5. Section 6 details exempt supplies and imports – these include educational materials and institutions of education, public transport, medical services, and financial services, among others. Section 7 deals with persons liable to VAT. Sections 12-14 prescribe taxable supplies, services, and imports.

**Dimension Score = A**

**Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### Recent or ongoing reform activities

None

#### 19.2 Revenue risk management

Non-compliance in relation to revenue laws violates the revenue laws and severely impacts the Government's budgeting as a consequence of inadequate funding. In this regard, the RSL (formerly known as the LRA) has launched an initiative to help it understand the business/industry-related, sociological, financial and psychological factors that influence taxpayer behaviour, and to help it apply the most appropriate compliance strategy by adopting the OECD Compliance Model in 2016. The foundation of the model is the taxpayer cycle, which includes registration, form-filling, declaration and payment.

The compliance model focuses on the behaviour of all taxpayers across all sectors, regardless of size. The compliance model is the facet of the compliance risk management framework. The framework has additional tools. Among them are compliance risk assessment, compliance risk register, compliance improvement plans, and compliance evaluation. The model has incorporated the four categories of taxpayer in terms of their attitudes to compliance and compliance strategies, namely: Willing to do the right thing; Try to, but don't always succeed; Don't want to comply; and Have decided not to comply. These are depicted in Figure 5.2.

**Figure 5.2: The OECD Compliance Model**



**Dimension Score = A**

#### Performance change since the 2017 PEFA Assessment

Unlike in the previous PEFA Assessment, in 2016 RSL developed its Compliance Model, which focuses on the behaviour of all taxpayers across all sectors, regardless of size.

#### Recent or ongoing reform activities



None

### 19.3 Revenue audit and investigation

RSL has established its RSL Internal Audit process, which assists it in accomplishing its objectives of evaluating and improving the effectiveness of its governance, risk management, and control processes. To ensure that the internal audit function works independently of the RSL's management, the Finance and Audit Committee of the RSL Board approves its charter, audit plan, and budget. The Auditor General appoints an External Auditor with the responsibilities for auditing RSL's financial statements and providing reasonable assurance that they are presented fairly in accordance with international auditing standards. However, for the financial year 2022/2023, no evidence was provided of audits and fraud investigation reports by RSL as the main revenue-collecting entity. Nor were any audits performed by the other revenue collection entities.

**Dimension Score = D\***

### **Performance change since the 2017 PEFA Assessment**

There are no audit reports for the revenue collection entities for the period under review.

### **Recent or ongoing reform activities**

None.

### 19.4 Monitoring of revenue arrears

The RSL produces an integrated report on its stock of revenue arrears (Table 19.4) through its revenue management system. The other agencies collecting most of the Government's revenue did not report their stock of revenue arrears.

**Table 19.2 Monitoring of revenue arrears (last completed fiscal year)**

Collecting entity	Category of revenue	Stock of arrears			
		Total amount of arrears	Arrears as % of annual revenue collections	Amount of arrears older than 12 months	Arrears older than 12 months: % of total annual arrears
Revenue Service Lesotho	Tax Revenue	815,003,722.21	10.66	202,035,876.65	24.79
Ministry of Energy	Non-Tax Revenue	No Data	-	No Data	-
Ministry of Water		No Data	-	No Data	-
Ministry of Mining		No Data	-	No Data	-

Data source: RSL Integrated Reports and Annual Consolidated Financial Statements.

**Dimension Score = B**

### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

### **Recent or ongoing reform activities**

None.

## PI-20. Accounting for revenue

This indicator assesses the procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and non-tax revenues collected by the Central Government. Coverage is CG at time of assessment. This indicator uses the **M1 (WL)** method for aggregating the dimension scores.

**Table 20.1 Summary Table of Scores**

PI-20 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>20</b>	<b>Accounting for revenue</b>		<b>D+</b>	<b>D+</b>
<b>20.1</b>	Information on revenue collections	The Ministry of Finance obtains revenue data from the collecting agencies at least weekly. The data regarding the revenue transferred from all collecting agencies to the central agency is broken down by type and is consolidated into a status report that is available on IFMIS.	A	D
<b>20.2</b>	Transfer of revenue collections	RSL collects revenue on a daily basis to its commercial bank accounts across the ten districts, but the sweep to the Treasury's Main Revenue Account is performed on a weekly basis. The Ministry of Natural Resources (MoNR), through its Department of Water and Energy, collects revenue on a daily basis and also performs a daily sweep into the Treasury's Main Revenue Account.	B	B
<b>20.3</b>	Revenue accounts reconciliation	Neither the Tax Revenue nor the Non-Tax Revenue are subjected to the reconciliation of collections, transfers and arrears.	D*	D

### 20.1 Information on revenue collections

RSL is the largest single domestic revenue collector for the Government. For the 2022/23 fiscal year, RSL collected about 72 percent of the Central Government's domestic revenues in the form of tax revenue, while the line ministries collected the remaining 28 percent of domestic revenue in the form of non-tax revenue.

The Ministry of Mining (MoM) collects revenue monthly, quarterly, and annually too, because it also collects dividends. RSL collects revenue from its clients on a daily basis but transfers the revenue into the Treasury's Main Revenue Account on a weekly basis. The Ministry of Natural Resources (MoNR), through its Department of Water and Energy, collects revenues on a daily basis. Data on the revenue transferred from all collecting agencies to the central agency is broken down by type and is consolidated into a status report that is available on IFMIS.

**Dimension Score = A**

### **Performance change since the 2017 PEFA Assessment**

The Treasury's Main Revenue Account obtains revenue data at least weekly from those entities collecting the most Central Government revenue, namely RSL and the line ministries. The data are broken down by revenue type and are consolidated into status reports.

### **Recent or ongoing reform activities**

None.

## 20.2 Transfers of revenue collections

RSL collects revenue on a daily basis to its commercial bank accounts across the ten districts, but sweeps to the Treasury's Main Revenue Account, which is held by the Central Bank of Lesotho (CBL), on a weekly basis. However, the other main agencies collect and sweep revenue to the Treasury's Main Revenue Account every day. RSL has at least one commercial bank account in each of the 10 districts across Lesotho; it maintains no account with the CBL. Its revenue collections are transferred to the Treasury's Main Revenue Account once a week.

**Dimension Score = B**

### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

### **Recent or ongoing reform activities**

None.

## 20.3 Reconciliation of revenue accounts

Reconciliation for non-tax revenue is centralized at the Treasury in the Ministry of Finance and Development Planning (MoFDP) for all MDAs. However, the arrears are not reflected in the Treasury's Main Revenue Account, because the arrears records are kept by the MDAs. The Treasury only reconciles non-tax revenue at the end of the fiscal year. In the period under review, the two entities collecting the most non-tax revenue (MoM and MoNR) provided no information pertaining to where the revenues were collected from, who did not pay, how much was swept into the Main Revenue Account, how much was owed (i.e. arrears), and how much was paid.

As for tax revenue, which comprises 48 percent of total revenue, the RSL provided no information regarding the reconciliation of tax assessments, collections, transfers, and arrears.

**Dimension Score = D\***

### **Performance change since the 2017 PEFA Assessment**

In 2024, no information was provided regarding the reconciliation of tax assessments, collections, transfers, and arrears for the entity collecting the most revenue, which for tax revenue is RSL.

### **Recent or ongoing reform activities**

None.

## **PI-21. Predictability of in-year resource allocation**

This indicator assesses the extent to which the central Ministry of Finance can forecast cash commitments and requirements, and is able to provide reliable information on the availability of funds to budgetary units for service delivery. Coverage is BCG at the time of assessment for PI-21.1, and for the last completed fiscal year for PI-21.2, 21.3 and 21.4. This indicator uses the M2 (AV) method for aggregating dimension scores.

**Table 21.1 Summary Table of Scores**

PI-21 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>21</b>	<b>Predictability of in-year resource allocation</b>		<b>B</b>	<b>C</b>
<b>21.1</b>	Consolidation of cash balances	There exists a Treasury Single Account (TSA) with eight bank accounts that are consolidated on a daily basis, while most of the other bank accounts are consolidated monthly.	C	D
<b>21.2</b>	Cash forecasting and monitoring	The cash flow forecast is prepared at the beginning of every fiscal year and is subsequently updated daily.	A	D
<b>21.3</b>	Information on commitment ceilings	According to the Warrants Release, the Ministry of Finance (MoF) issues quarterly expenditure commitment ceilings to line ministries. Actual cash is released on a weekly basis or if the need arises.	B	B
<b>21.4</b>	Significance of in-year budget adjustments	In the periods under the review, requests for and approvals of significant budget adjustments were made and recorded.	B	B

### 21.1 Consolidation of cash balances

The Bank Account Register shows that the Government has 368 bank accounts outside the Treasury system which are operated and maintained by the line ministries. Of these bank accounts, eight (8) are included in the Treasury Single Account (TSA) and are consolidated daily, while most of the other accounts are consolidated monthly. At the end of every fiscal year, all line ministries transfer their account balances to the Main Revenue Account, except for the Long-term Training Program, which sweeps on a weekly basis.

**Dimension Score = C**

### **Performance change since the 2017 PEFA Assessment**

There was no Treasury Single Account (TSA) within the Central Government's banking framework in the previous assessment, while now there are TSAs that are being consolidated on a daily basis, while most of the other bank accounts are consolidated monthly.

### **Recent or ongoing reform activities**

None.

### 21.2 Cash forecasting and monitoring

Section 13 of the Treasury Regulations 2014 obliges line ministries to prepare and submit annual cash flow plans (called execution plans in the CBMS) to MoF for quarterly consolidation by the Cash Management Unit. The cash flow forecast is prepared at the beginning of every fiscal year and is subsequently updated daily.

The Cash Management Unit (CMU) was established in 2014, and at the beginning of the fiscal year it is responsible for preparing monthly revisions, quarterly projections, and daily monitoring of the annual consolidated cash plan. The CMU serves as a secretariat to two committees which were set up in 2018 and are mandated to coordinate cash management and debt management activities.

The two committees are the Liquidity Management Committee (LMC) and the Liquidity Technical Committee (LTC). LTC is a technical committee reporting to the LMC. The main responsibilities of the

LMC are approval of the annual cash plan, borrowing plan, Debt Sustainability Analysis (DSA), Medium-Term Debt Strategy (MTDS), and the overall limits for the quarterly release of warrants. For the 2022/23 period, projected cash flows were available and updated daily.

**Dimension Score = A**

**Performance change since the 2017 PEFA Assessment**

In the previous assessment, there was no functional cash flow management framework (including the monitoring of cash flow) for ensuring the efficient and effective use of the Government's cash resources. However, now cash flow forecasting is being prepared at the beginning of every fiscal year and is updated daily.

**Recent or ongoing reform activities**

None.

**21.3 Information on commitment ceilings**

In 2022/23, the line ministries prepared procurement plans – as one of the prior requirements - to be allocated expenditure commitment ceilings. According to the Warrants Release, the Ministry of Finance (MoF) allocates issues quarterly expenditure commitment ceilings to line ministries, though actual cash is released on a weekly basis or if the need arises.

**Dimension Scoring = B**

**Performance change since the 2017 PEFA Assessment**

There was no performance change, because no improvements were made from the previous assessment.

**Recent or ongoing reform activities**

None.

**21.4 Significance of in-year budget adjustments**

According to PFMA Act 2011, Section 15, the Chief Accounting Officer may approve the transfer of annual appropriations for a program's spending unit up to an amount equal to 10 to 20 percent – or for a capital project, up to an amount equal to 10 percent of the allocation from which the transfer is made. However, if the transfer of annual appropriations exceeds this threshold, the Minister of Finance is responsible for approvals. In the periods under review, requests and approvals of significant budget adjustments were made and recorded.

There are three separate processes for performing in-year budget adjustments. The first one involves an additional allocation from the Contingencies Fund. In the first instance, line ministries write a letter requesting additional financing. On receiving this, the Budget Office writes to the Minister of Finance for approval, and then the office releases the funds to the requesting line ministry. The second process involves a reallocation. This usually consists of a reallocation of funds from one ministry's capital project to another ministry, most often after mid-year. With this process, the Ministry of Finance requests approval from the Cabinet before it performs the reallocation. The third process involves an addition to the total appropriation fund, which is done mostly through loans or grants, with local loans being borrowed from Treasury bills and bonds. Such additions to the total appropriation fund are made possible by the Supplementary Estimates Appropriation Bill.

**Dimension Scoring = B**

## Performance change since the 2017 PEFA Assessment

There was no performance change because no improvements were made from the previous assessment.

## Recent or ongoing reform activities

None.

## PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. The coverage is BCG for the last completed fiscal year for PI-22.1, and at the time of assessment for PI-22.2. This indicator uses the M1 (WL) method for aggregating the dimension scores.

**Table 22.1 Summary Table of Scores**

PI-22 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>22</b>	<b>Expenditure arrears</b>		<b>C+</b>	<b>D+</b>
<b>22.1</b>	Stock of expenditure arrears	The stock of expenditure arrears is less than 6% of total expenditure in the last three completed fiscal years, i.e. 2020/2021, 2021/2022 and 2022/2023.	B	D*
<b>22.2</b>	Expenditure arrears monitoring	Even though the analysis of expenditure arrears provides an age analysis of arrears classified; under more than a year, over six months, over three months, and less than three months, they are consolidated on an annual basis.	C	C

According to the Government of Lesotho's Consolidated Annual Financial Statements Reports for the three completed fiscal years under review, expenditure arrears are payment obligations from the Government to individuals, suppliers, lenders, or contractors that were due for settlement before the financial year ending 31 March, but which remained unpaid as at that date. Their eventual settlement will be set against the budget appropriations for future years.

### 22.1 Stock of expenditure arrears

According to Table 22.1, there has been a positive trend regarding expenditure arrears as a percentage of total Central Government expenditure. The table shows that the stock of expenditure arrears for all periods is less than 6 percent of total expenditure in all the last three completed fiscal years, i.e. 2020/2021, 2021/2022, and 2022/2023. In Lesotho, expenditure arrears are kept outside the system, and are only recorded at the time of payment under the arrears payment line items.

**Dimension Score = B**

## Performance change since the 2017 PEFA Assessment

Unlike in the previous assessments, there has been a record of expenditure arrears for all the financial years under review.

## Recent or ongoing reform activities

None.

## 22.2 Monitoring of expenditure arrears

The Government of Lesotho reported the stock of expenditure arrears in its consolidated annual financial statements, with the statements for 2020/2021 and 2021/2022 having been audited, while 2022/2023 is still undergoing the audit process. The monitoring and reporting of expenditure arrears has been performed annually for the periods under review. The analysis of expenditure arrears contained in the consolidated annual financial statements provides an age analysis of arrears classified; under more than a year, six months, and three months, and less than three months. This was achieved by activating Section 35(3) of the PFMA Act 2011, which requires the preparation of annual financial statements in accordance with International Public Sector Accounting Standards (IPSAS); IPSAS requires the full disclosure of expenditure arrears falling due within the particular period.

**Dimension score = C**

### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

### **Recent or ongoing reform activities**

None

## **PI-23. Payroll controls**

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labour and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls. PI-23. Coverage is CG at the time of assessment for PI-23.1, 23.2 and 23.3, and for the last three completed fiscal years for PI-23.4. This indicator uses the M1 (WL) method for aggregating dimension scores.

**Table 23.1 Summary Table of Scores**

PI-23 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>23</b>	<b>Payroll controls</b>		<b>D+</b>	<b>D</b>
<b>23.1</b>	Integration of payroll and personnel records	The Ministry of Public Service runs the payroll, whereas changes within the system are done by responsible MDAs, implying that the system has been decentralized.	B	D
<b>23.2</b>	Management of payroll changes	With the new system, the Organisational Development Department (OD) of HRMIS controls the establishment function, which includes the creation, filling, abolition and funding of positions. MDAs are responsible for capturing authorised changes in the system on a monthly basis before the next payroll cycle.	A	D
<b>23.3</b>	Internal control of payroll	The changes in the MDAs go through a chain process, with an HR official executing the changes, the HR manager reviewing the changes, and the HR director or HR head approving the changes made within the permitted time window.	A	D
<b>23.4</b>	Payroll audit	No payroll audits have been conducted.	D	D

The new Human Resource Management Information System (HRMIS) was procured and implemented in October 2021. The HRMIS is a decentralised system through which each MDA manages its own payroll. Each ministry is responsible for the accuracy of its payroll information, and reports are being produced which even show the reconciliation on a monthly basis. This system is integrated with

- Central Budget Management System (CBMS)
- Integrated Financial Management Information System (IFMIS)
- Central Deductions Administration System (CDAS) – this helps to avoid the net income of zero for civil servants.

MDAs are responsible for their own reconciliations, and there are built-in system controls. The HR cadre is trained by the Lesotho Institute of Public Administration and Management (LIPAM).

### 23.1 Integration of payroll and personnel records

Although there are still hard copy files in the offices, there has been a transformation in how data is handled following the introduction of the HRMIS system. The Causality Return form is still used, since it is supported by PFM law and Treasury Regulations, but its significance is no longer felt. It was normally used to denote HR changes that should be captured in the system. Public Service runs the payroll, though any other changes in within the system are performed by responsible MDAs, implying that it has been decentralized. The Ministry of Education conducted another headcount after the census of 2018/2019 to detect ghost employees. However, the report findings from that headcount were not shared with the Ministry of Public Service. Though it was not validated, the MoPS census has helped with the migration from a manual system to a digital one, with only filled-up positions using the Identity Number to identify who is still alive and who is not.

**Dimension score = B**

### **Performance change since the 2017 PEFA Assessment**

During the previous assessment, individual ministries maintained the personnel records, whereas the management of the payroll was centralised within the Ministry of Finance. However, with the new system, the Ministry of Public Service is now responsible for running the payroll. Other changes within in the system are performed by the relevant MDAs, implying that the system has been decentralized.

### **Recent or ongoing reform activities**

None.

### 23.2 Management of payroll changes

Decentralisation has made it easy for MDAs to make changes to the system through their HR departments. With the new system, the MDAs' HRs are linked to the payroll system. The Organisational Development (OD) Department handles changes in the HRMIS establishment function, such as the creation of a new position for a particular MDA. The MDA will then be responsible for filling the position. Payroll is responsible for processing payroll monthly after the changes have been captured by the MDAs. Payroll also issues system-generated reports to the MDAs to facilitate the payment of salaries.

**Dimension score = A**

### **Performance change since the 2017 PEFA Assessment**



With the new HRMIS system the Organisational Development (OD) Department controls and manages the establishment function, which includes the creation of positions, and their filling, abolition, and funding; in the previous assessment, Causality Returns (“CRs”) were used to effect such changes.

#### **Recent or ongoing reform activities**

None

#### **23.3 Internal control of payroll**

The changes in the MDAs go through a chain process in which the HR officer executes the changes, the HR manager reviews them, and the HR director or HR head approves the changes made within the permitted time window. The audit trail identifies who has executed the changes in the payroll records, enabling the identification of those who made the changes. However, audits are not performed all the time because there are many users of the system. The system controls the management of established and temporary positions that are controlled by the Ministry of Public Service in order to control the wage bill. That is, MDAs do not have the right to create, change, abolish, or fill positions in the system. Secondly, there are segregated functions for the cross-checking and approval of transactions by the heads of HR.

**Dimension score = A**

#### **Performance change since the 2017 PEFA Assessment**

The new system known as HRMIS has been established which sets restrictions on the authority of individuals to change records and payroll details.

#### **Recent or ongoing reform activities**

None.

#### **23.4. Payroll audit**

The Internal Audit in MDAs has not audited the payroll. However, it has been indicated that the risks surrounding the payroll and salaries are adequately prioritized in the OAG and IA units’ audit plans, which are underway.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements have been made from the previous assessment.

#### **Recent or ongoing reform activities**

None.

### **PI-24. Procurement**

This indicator examines key aspects of the management of procurement. It focuses on the transparency of arrangements, the emphasis on open and competitive procedures, the monitoring of procurement results, and access to arrangements for appeal and redress. The coverage is CG for the last completed fiscal year. This indicator uses the M2 (AV) method for aggregating the dimension scores.

**Table 24.1 Summary Table of Scores**

PI-24 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
24	<b>Procurement</b>		<b>D+</b>	<b>D</b>
24.1	Procurement monitoring	There is no reliable record/database for monitoring the management of procurement.	D	D
24.2	Procurement methods	There is no record/database of what has been procured or what method was used. Details regarding the extent of deviations are not available centrally at PPAD.	D	D
24.3	Public access to procurement information	Only one of the procurement elements is publicly available (that is, bidding opportunities in newspapers).	D	D
24.4	Handling of complaints relating to procurement	There is a Procurement Tribunal that is independent, does not charge fees to the parties involved, and publicizes the complaints after reviewing and making decisions during a time frame of 10 working days. The Tribunal issues binding decisions on the parties concerned and has the authority to suspend the procurement process.	A	D

#### **24.1. Procurement monitoring**

Procurement is decentralized, with each ministry managing its own procurement process in line with the regulatory framework. During the time of the assessment, there was no evidence of ministries, departments and agencies maintaining records of what has been procured under the various thresholds.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

MoFDP has established a Central Procurement Unit.

#### **24.2 Procurement methods**

The assessment of this dimension requires data on the methods of procurement, especially for procurement using sole sourcing and restricted tender, to ascertain the level of compliance as well as the justification for using non-competitive procurement methods. However, as has been indicated in Dimension 24.1, the methods of procurement, as well as data on the extent of the deviations, are not available centrally at PPAD. This is despite the fact that this information is required under the Public Procurement Amendment Regulations 2018.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

MoFDP has established a Central Procurement Unit.

### 24.3 Public access to procurement information

The legal and regulatory framework is available, and bidding opportunities are publicised in the newspapers. Other procurement information is not made available.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

MoFDP has established a Central Procurement Unit.

### 24.4 Handling of procurement complaints

There are three tiers for the handling of procurement complaints internally within the Government before a service provider can approach a court of law. At the first level, inside the ministry, it falls within the purview of the Procurement Office, although there is no separation of responsibilities. The second tier is the PPAD in the MoFDP, and the third tier is the Procurement Tribunal. The Tribunal is an independent body which reviews and then publicizes the complaints. It does not charge fees to the parties concerned. The Tribunal reaches its decisions within 10 working days. The Tribunal's decisions are binding on the parties concerned. It also has the authority to suspend the procurement process.

**Dimension score = A**

#### **Performance change since the 2017 PEFA Assessment**

Even though it was not fully functional, the first Tribunal was in operation from 2013 to 2018, and the fully operational second Tribunal was active from 2018 to the end of October 2024.

#### **Recent or ongoing reform activities**

MoFDP has established a Central Procurement Unit.

## **PI-25. Internal controls on non-salary expenditure**

This indicator measures the effectiveness of general internal controls for non-salary expenditures. Specific expenditure controls for public service salaries are considered in PI-23. The coverage is CG at the time of assessment. This indicator uses the M2 (AV) method for aggregating dimension scores.

**Table 25.1 Summary Table of Scores**

PI-25 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>25</b>	<b>Internal controls on non-salary expenditure</b>		<b>C+</b>	<b>C+</b>
<b>25.1</b>	Separation of duties	The Public Financial and Management and Accountability Act, 2011 and Treasury Regulations, 2014, Public Procurement (Amendment) Regulation, 2018, contain rules, regulations and procedures that guide the separation of duties regarding the expenditure processes of the Government of Lesotho (GoL).	A	A

25.2	Effectiveness of controls on expenditure commitments	There are instances where commitments are raised outside IFMIS, such as payments for infrastructure projects where the projects span multiple financial years. This implies that control procedures for commitments exist but are only partially effective.	C	C
25.3	Compliance with payment rules and procedures	There is no evidence of payment vouchers relating to the review period.	D	D

### 25.1 Separation of duties

The Public Financial and Management and Accountability Act, 2011 and Treasury Regulations, 2014, Public Procurement (Amendment) Regulation, 2018, Procurement Act, 2023 contain the rules, regulations and procedures that guide the separation of duties regarding the expenditure processes of the Government of Lesotho (GoL). The annual budget allocation is performed by the MoF, and the procurement plans and processes are respectively compiled and managed by the line ministries. There was no evidence that the rules and regulations are being complied with because it was indicated that the records for all past years have been archived and are inaccessible. However, the roles and responsibilities have been outlined well in all the documents provided.

**Dimension score = A**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change, because the same improved score from the previous assessment has been maintained.

#### **Recent or ongoing reform activities**

None.

### 25.2 Effectiveness of controls on expenditure commitments

In IFMIS, budget line items have to show the budget for the given financial year and the available funds at that particular point in time. The justification for monitoring the commitments is the need to prevent them from exceeding the resources available. The IFMIS functionality is designed to prevent both the commitments and expenditures from exceeding the amounts of the published budget. Comprehensive controls on expenditure commitments are supposed to be in place that should effectively limit commitments to the projected availability of cash and the approved budget allocations.

The procurement process provides for a commitment to be raised and offset against available funds (budgets) on the IFMS system once an order is generated. Consultations with Treasury officials indicate that there are instances of expenditures being incurred without the placing of orders, the mismanagement of funds or the procurement process, and the late procurement of goods and services towards the year end. This has a material impact on the effectiveness of the controls on expenditure commitments, leading to a rise in expenditure arrears.

**Dimension score = C**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

None.

### 25.3. Compliance with payment rules and procedures

The PFMA Act of 2011 requires all MDAs to comply with the prescribed rules and regulations relating to payment procedures. IFMIS disallows all commitments that are in excess of the commitment limits that have been specified in the IFMIS system. However, expenditure arrears still exist, implying that commitments are being made outside IFMIS.

According to the Annual Consolidated Financial Report published by the Accountant General's Office for the year ending 31 March 2023, there were still payments for domestic debt which have *not* been processed through IFMIS but *have* been processed by CBL. These amount to M524 million. This information is corroborated by the Annual Audit Report on the Consolidated Financial Statement for the year ending 31 March 2021. The report indicates that a comparison of the IFMIS ledger with both the consolidated financial statements and the ministries' financial statements revealed an overstatement of M269 million and an understatement of M170 million respectively. The differences are further evidence that some transactions have not been posted in the IFMIS ledger.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

None.

### **PI-26. Internal audit**

This indicator assesses the standards and procedures applied in the internal audit. The coverage is CG at the time of assessment for PI-26.1 and 26.2. for the last completed fiscal year for PI-26.3, and for PI-26.4 for audit reports that should have been issued in the last three fiscal years. This indicator uses the M1 (WL) method for aggregating dimension scores.

**Table 26.1 Summary Table of Scores**

PI-26 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>26</b>	<b>Internal audit</b>		<b>D+</b>	<b>D+</b>
<b>26.1</b>	Coverage of internal audit	Most line ministries have their own internal auditors, though some are still not functional. Where audits were performed, internal audit reports were produced.	C	C
<b>26.2</b>	Nature of audits and standards applied	Nine internal audits in line with the international audit standards were undertaken for FY 2020/21 and 2021/22.	D	D
<b>26.3</b>	Implementation of internal audits and reporting	There is an operational plan for MoFDP, and there are also a few internal audit reports produced in FY 2022/23.	C	C
<b>26.4</b>	Response to internal audits	Though it has been limited in scope, there is some indication of executive action or responses to the audit findings for FY 2020/2021 and 2021/2022.	D	D

### 26.1 Coverage of internal audit

According to the PFMA Act of 2011, Part V, Section 38, a Chief Accounting Officer (CAO) shall establish an internal audit function whose role is to assess the risks, adequacy, and effectiveness of the internal controls of the spending unit.

In the previous 2017 PEFA Assessment, it was reported that the structure of the internal audit was centralized in the Ministry of Finance (MoF), but this has now changed to being decentralized to the line ministries in order to increase coverage. In other words, the line ministries have their own internal auditors, though some are still not functional, implying that where audits have been undertaken, there are functional internal auditors. Although there are regulations governing this function, there is reluctance in the ministries to perform internal audits.

**Dimension Score = C**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

#### **Recent or ongoing reform activities**

None.

### 26.2 Nature of audits and standards applied

The Internal Audit (IA) Charter sets out or addresses the purposes and responsibilities of the internal audits to the Chief Accounting Officers. The internal audit manual shows how an audit should be performed in a manner that avoids compromising it. According to the international standards for the professional execution of internal auditing, a quality assurance and improvement program should be developed and maintained by the Internal Audit Activity. Accordingly, an internal assessment is performed by the supervisors, particularly when they are reviewing whether the planning, execution, and reporting of audits are in conformity with the standards.

On the other hand, external assessment, which is supposed to be conducted by an independent qualified assessor to assess conformance with standards, has not been carried out for the period under review. An audit committee should also be established to enhance the independence of the auditing function, as is required for the purposes of an oversight role. However, even though there is no audit committee, there is an Audit Charter that guides the process as highlighted in PI-26.1 above. Without an audit committee, it is difficult to conduct audit activities in accordance with professional standards, including the need to do so with independence. Lastly, there is no risk management framework being incorporated in the Government apart from the current initiatives by some of the development partners (DPs). One of the objectives of the audits conducted is to take into consideration the adequacy and effectiveness of internal controls.

**Dimension Score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made since the previous assessment.

#### **Recent or ongoing reform activities**

None

### 26.3. Implementation of internal audits and reporting

According to the Audit Charter, audit plans are supposed to be drawn up at the beginning of every fiscal year, followed by an audit report at the end of the same fiscal year. For the period under review, there is an operational plan for the Ministry of Finance, and there are also a few internal audit reports produced in FY 2022/23, including: Old age pensions, IFMIS, Verification of domestic arrears, Debt management system, the AUSC Region 5 Youth Games, Lesotho Renewable Energy and Energy Access Project etc.

**Dimension Score = C**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made since the previous assessment.

#### **Recent or ongoing reform activities**

None.

### 26.4 Response to internal audits

For the period under review, nine internal audit units in line ministries conducted internal audits and presented periodic internal audit reports to the CAOs. There has been some indication of executive action or responses to the Audit findings for FY 2020/2021 and 2021/2022.

**Dimension Score = D**

#### **Performance change since the 2017 PEFA Assessment**

There was no performance change because no improvements were made from the previous assessment.

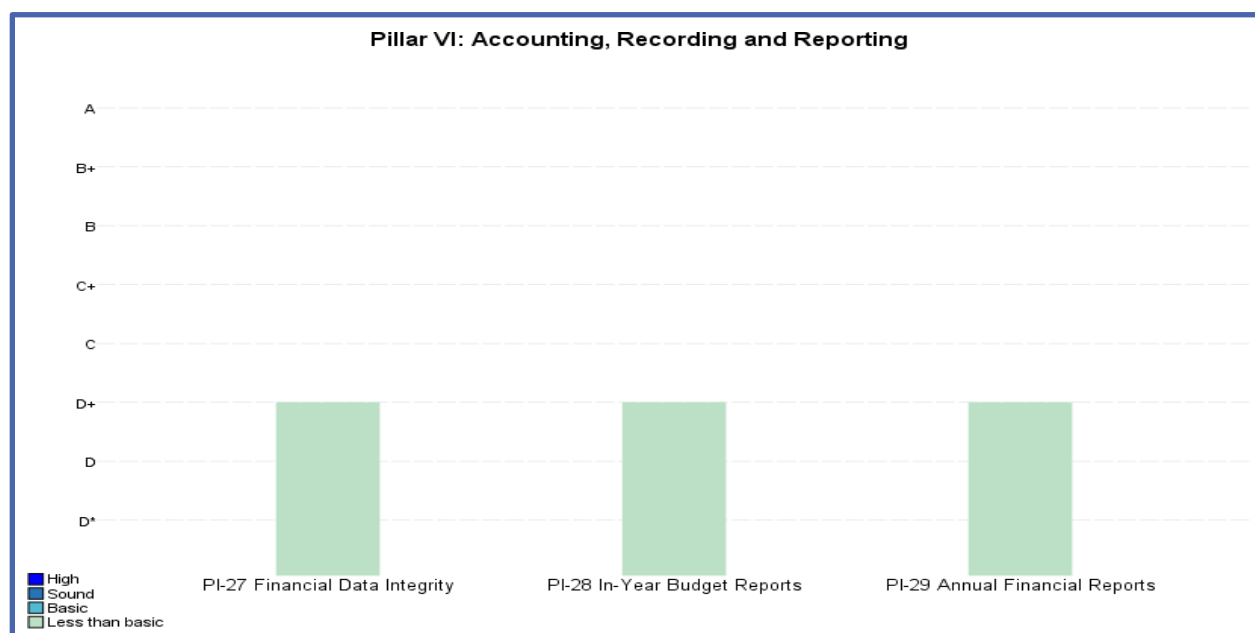
#### **Recent or ongoing reform activities**

None.

## Pillar VI: Accounting and reporting

This pillar measures whether accurate and reliable records are maintained and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs. Therefore timely, relevant, and reliable financial information is required to support fiscal and budget management, as well as any decision-making processes. This Pillar has three indicators: Financial data integrity, In-year budget reports and Annual financial reports.

Figure 6.1: Pillar 6 – Summary of PEFA Scores



### Overall Performance: Key Strengths and Weaknesses

#### Strengths

- Reconciliation of bank accounts and cash balances takes place.
- There are multiple internal controls on the IFMIS processes.
- IPSAS cash basis has been adopted by the Government and is being applied consistently.

#### Weaknesses

- There is a lack of regular monitoring of the monthly submissions of bank reconciliation reports to the Office of the Accountant General.
- Clearance of advance and suspense accounts, and reconciliations are not performed in a timely manner as per the Treasury Regulations.
- IFMIS allows for the backdating of entries and adjustments after the period ends, which results in inaccurate and inconsistent reports.
- In-year budget reports do not incorporate the actual expenditures of other spending units such as autonomous bodies, state-owned enterprises, and extra-budgetary units.
- There is a lack of monitoring of the preparation and submission by the spending units of their monthly and quarterly in-year budget reports to the Accountant General.



- The financial statements of state-owned enterprises, autonomous bodies and extra-budgetary units are not consolidated into the annual financial statements.
- There are delays in submitting the annual financial statements for audit.

## PI-27. Financial data integrity

This indicator assesses the extent to which Treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled, and how the existing processes support the integrity of the financial data.

Timely, relevant, and reliable financial information is required to support fiscal and budget management and decision-making. Reliable reporting of financial information requires a system of consistent checking and verification of accounting records and practices as a critical part of internal controls, to ensure that the information used for decision-making is of high quality. This important aspect of internal controls is fundamental for producing good information for management, and for the external reports that underpin aggregate fiscal discipline, the strategic allocation of resources, and efficient service delivery.

**Table 27.1 Summary Table of Scores**

PI-27 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>27</b>	<b>Financial data integrity</b>		<b>D+</b>	<b>D+</b>
<b>27.1</b>	Bank account reconciliation	Reconciliation of all active bank accounts is performed, but there is no evidence to show whether it takes place on a monthly basis as there is a lack of monitoring relating to submissions to the Treasury, and there are no dates and/or signatures attached to the reconciliations.	D	D
<b>27.2</b>	Suspense accounts	The suspense accounts identified are the below-the-line accounts which date as far back as 2009 and have not been reconciled since 2009.	D	D
<b>27.3</b>	Advance accounts	Advance accounts still had balances at the reporting dates, indicating that they were not being cleared in a timely manner.	D	D
<b>27.4</b>	Financial data integrity processes	Financial data is kept in the IFMIS electronic system. IFMIS assures financial data integrity process with audit trails; access is limited to authorized personnel only, and changes to records and data are restricted and recorded. The access of officials is restricted in line with their duties, using controlled passwords.	A	A

To achieve financial data integrity, institutions must be able to account for and explain all matters relating to their financial records. As a result, clear and well-articulated processes, systems, and procedures for the collection of data, processing, storage, and access must be consistent and understood by the users. In order to enhance data integrity, the regulatory frameworks issued by the Office of the Accountant General provide the following guidance to ministries:

- Public Financial Management and Accountability (PFMA) Act, 2011
- The Treasury Regulations, 28 March 2014 –
  - PART VII (Sections 32-43: Advances);
  - PART XII (Section 81: Bank Reconciliations);
  - PART XVII (Sections 93-99: Financial Reports).

### 27.1 Bank account reconciliation

Bank accounts are maintained for effecting central payments; departmental revenue deposits; sub-accountancy operations; projects; special, trust, and other extra-budgetary funds; and semi-autonomous government agencies. There are a total of 297 controlled government bank accounts (note that 9 of the 2023 unaudited Annual Financial Statements (AFS) have already been submitted for audit), plus a total of 69 bank accounts (Schedule 9, Table 15 of the same 2023 AFS) that do not form part of the Statement of Cash Receipts and Payments.

However, most donor-funded project accounts are reconciled regularly and within 4 weeks after month-end. These reconciliations are more regular due to donor insistence and periodic monitoring. These are lacking within the governmental framework. Meanwhile, Treasury-managed bank accounts appear to be reconciled on a monthly basis, but the authorization and approval signatures are not dated, making it difficult to assess the timeframes of the reconciliations. In the 2022 Audit Report, the Office of the Auditor General (OAG) also highlighted that some centrally managed bank account balances were still not fully reconciled as of 31 March 2022.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

There has been no change since the past assessment: some of the foreign bank accounts remain unreconciled, as per the OAG's audit query in the audited financial statements for 2022.

#### **Recent or ongoing reform activities**

Reconciliation of bank accounts and cash balances has been taking place to address the cash balances audit query by the OAG.

### 27.2 Suspense account

Traceable suspense accounts are the below-the-line suspense accounts as shown in Table 27.2. These go as far back as 2008/2009. In the audited financial statements for 2022, the Auditor General raised a concern regarding these accounts and their balances not having been reconciled and brought forward since 1 April 2009, with the result that misstatements in the Consolidated Financial Statements of GoL had been included for thirteen (13) years. These below-the-line accounts have still not been written off, despite the Auditor General's recommendation in 2022 to the Minister of Finance to put them before Parliament and the Cabinet for an appropriate decision to write off the balances. No action on these accounts has been taken to date.

**Table 27.2: Suspense accounts**

Below- the-line account	GOLFIS (M000's)	Bank (M000's)	Comments
Cash at Bank (401)	-2,629,192	3,661,176	Bank
Cash Foreign Missions (402)	-76,289	16,451	Bank
Investments Abroad (426)	3,914	37,213	Bank
Investments Special Funds (427)	201,520	201,520	Bank
Cash on Deposit (403)	-24,588		Ledger Balances
Cash in Transit (404)	-1,010,853		Ledger Balances
Cash with Projects (405)	-801,939		Ledger Balances
Imprests (411)	10,570		Ledger Balances
Advances (423)	-78,814		Ledger Balances
Advances Public Officers (424)	-2,102		Ledger Balances
Contingencies (425)	3,704		Ledger Balances
Advances Clearing Accounts (428)	3,830,265		Ledger Balances
Suspense Clearing Accounts (431)	7,739		Ledger Balances
Trading Accounts (432)	4,679		Ledger Balances
Deposits – Other (503)	-113,011		Ledger Balances
Deposits – General (504)	-2,318		Ledger Balances
Special Funds (511)	-273,104		Ledger Balances

Source: Audited annual financial statements 2022

#### **Dimension Score = D**

#### **Performance change since the 2017 PEFA Assessment**

Below-the-line suspense accounts have remained unreconciled since the last PEFA Assessment to date. Consequently, no change in performance has been reported.

#### **Recent or ongoing reform activities**

None.

#### 27.3 Advance accounts

The audited Consolidated Financial Statements for 2022 disclose a number of accrual items, including advances, that had not been cleared as of the reporting date for the FY 2021/22 Audit Report. The Treasury Regulations, 2014 Sections 40 (1) and 41 (8), state that a standing advance must be retired before 31st March of each year. According to the same regulations, a travel advance must be acquitted within fourteen days of an official's return from travel. Section 42 also requires that if it is not possible to recover or acquit an outstanding advance amount within the period specified, the amount shall be treated as a loss of public money on the account of the advance holder, and will be dealt with in accordance with Part XIV on Losses of Public Money. An audit query was raised regarding the accounting for an outstanding amount of M1.3 million of irrecoverable travel advances (excluding misclassified imprests) which were not treated as a loss of public funds on the accounts of the advance holders in the year ending 31 March 2022.

**Table 27.3: Advance accounts**

Analysis by Spending Unit	Advances		Imprests		Rentals		Refunds of overpayments		Surcharges		Sale of Goods and Services		Total Arrears at 31 March 2022	
	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development	Recurrent	Development
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Head 001 - Agriculture & Food Security		12,920	16	11	232								249	12,932
Head 002 - Health			26,068						909				26,977	-
Head 004 - Finance			10,379		572								10,951	-
Head 005 - Trade & Industry				105									-	105
Head 008 - Home Affairs									2				2	-
Head 009 - Prime Minister's Office			184										184	-
Head 011 - Law & Constitutional Affairs											5,129		5,129	-
Head 012 - Foreign Affairs & Int. Relations			50		43								93	-
Head 013 - Public Works & Transport			41										41	-
Head 016 - Labour & Employment			32										32	-
Head 017 - Tourism, Environment & Culture									4				4	-
Head 035 - National Security Services			35										35	-
Head 037 - Defence & National Security					702								702	-
Head 038 - National Assembly							15						15	-
Head 039 - Senate			47										47	-
Head 041 Independent Electoral Commission			60										60	-
Head 042 - Local Government & Chieftainship					113								113	-
Head 043 - Gender, Youth, Sports & Recreation			481										481	-
Head 044 - Public Service			26		4				7,558		193		7,781	-
Head 047 - Directorate on Corruption & Economic Offences			15										15	-
Head 049 - Police & Public Safety					48		848		27				922	-
Head 050 - Small Business			152						37				190	-
Head 051 - Water	104,525				427				31				104,983	-
<b>TOTAL</b>	<b>104,525</b>	<b>12,920</b>	<b>37,588</b>	<b>117</b>	<b>2,139</b>	<b>-</b>	<b>863</b>	<b>-</b>	<b>8,568</b>	<b>-</b>	<b>5,322</b>	<b>-</b>	<b>159,006</b>	<b>13,037</b>

Source: Audited annual financial statements 2022

## Dimension Score = D

### Performance change since the 2017 PEFA Assessment

There has been no improvement since the last assessment. Advance accounts had balances at the end of the fiscal year that indicated that no clearance and reconciliations had been performed as stipulated in the Treasury Regulations and the PFMA Act.

### Recent or ongoing reform activities

None.

### 27.4 Financial data integrity processes

IFMIS is managed by the MoFDP, and if any ministry requires a transaction change, the initial transaction must be cancelled and recaptured. With IFMIS, access to information is limited to authorised staff only, and changes can only be made to transactions that have not been processed. The system generates audit trails to make it possible to trace an entry to the authorizing personnel. Processed data is encrypted; users have access passwords that are changed periodically by the system administrator. There is also a team of individuals assigned to assist with issues relating to the system. However, it should be noted that in the years under assessment, no internal audit exercise was performed regarding the assurance of data integrity.

## Dimension score = A

## Performance change since the 2017 PEFA Assessment

The performance remains the same as for the previous assessment. In addition, IFMIS has been upgraded from EPICOR version 7 to EPICOR version 10.

### Recent or ongoing reform activities

IFMIS coverage has been expanded to include the Local Authorities and foreign diplomatic missions, and PFM digitisation processes

## PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy, and timeliness of information regarding budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow the monitoring of budget performance and the timely use of corrective measures, if necessary. The following regulatory frameworks deal with budget monitoring: the Public Financial Management and Accountability (PFMA) Act 2011, (Section 12, 4(c) and (e); 27; 34(1)(a)), which specify that every spending unit must prepare quarterly reports and annual reports showing how they spent Government funds; and the Treasury Regulations, 2014 (sections 12(2); 13; 14; 93(1); 98), which state that the AG is the custodian of the in-year budget reports, and that these reports must be presented to Parliament quarterly, and regularly to the Cabinet.

The Office of the Accountant General is responsible for all cash flow management, including the monitoring of both revenue and expenditure. Quarterly warrants are issued to spending units to facilitate procurement and expenditure payments in line with the prescribed procurement plans, taking into account the extent of the existing commitments. All procurement and payment transactions are processed via IFMIS, which is managed by the Office of the Accountant General. Real-time reports are available on a daily basis on IFMIS, thereby enabling proper monitoring.

**Table 28.1 Summary Table of Scores**

PI-28 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>28</b>	<b>In-year budget reports</b>		<b>D+</b>	<b>D+</b>
<b>28.1</b>	Coverage and comparability of reports	The in-year budget report is compatible with approved budget classification and allows for direct comparison. However, expenditure for deconcentrated units such as the extra-budgetary units is still not incorporated into the consolidated reports.	C	C
<b>28.2</b>	Timing of in-year budget reports	In-year budget reports are supposed to be issued quarterly and presented to the Cabinet and Parliament by the Office of the Accountant General. However, the only report available was the mid-year budget review report for 2022/2023 on the website and Budget Office of the Ministry of Finance. Quarterly reports were not available.	D	D
<b>28.3</b>	Accuracy of in-year budget reports	There are still significant concerns regarding data integrity due to possible backdating and adjustments even after year-end. Expenditure in the reports reflects the payment and commitment stage.	C	C

### 28.1 Coverage and comparability of reports

IFMIS can be used to generate reports, and is accessible to all ministries. There is a standardized Chart of Accounts in place, and the entire budget is manually captured into the IFMIS and updated when the budget is adjusted. At the stage of issuing a Government order, the IFMIS is updated by registering the commitment, and the eventual payment is processed against the commitment. This ensures the

alignment of expenditure by ministries, departments, and agencies, and in accordance with administrative and economic sub-votes and sub-sub-votes.

Transfers to extra-budgetary units within Central Government are considered as expenditures and are captured into the IFMIS, as these units are regarded as autonomous and not integrated into the reporting processes.

In the 2022 Audit Report, the OAG highlighted that although the Government implements the IPSAS cash basis, it does not comply fully because the financial statements do not consolidate all the Government-controlled entities, such as state-owned enterprises, autonomous institutions, and other extra-budgetary units. This is regarded as a material concern.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

There has been no improvement since the past assessment, because the reports produced by the extra-budgetary units are still not being consolidated into the Central Government's IFMIS reports.

#### **Recent or ongoing reform activities**

IFMIS coverage has been expanded to include the Local Authorities and foreign diplomatic missions.

#### 28.2 Timing of in-year budget reports

Section 98 of the Treasury Regulations clearly specifies that the Accountant General is the custodian of the in-year budget reports; however, no reports were found for the financial year 2022/23. The only document available was the Mid-Term Budget Review report from the Office of the Budget Controller and the MoFDP website. Monitoring in this area is weak because no office has been tasked with following up on the monthly and quarterly spending reports of the spending units to the Office of the Accountant General. The regulations also state that the reports from the spending units must be submitted to the Accountant General within 14 days of the end of each month, inclusive of the bank reconciliations.

**Dimension score = D**

#### **Performance change since the 2017 PEFA Assessment**

Instead of an improvement since the last assessment there has been a deterioration of performance, as no in-year quarterly budget reports were produced during the financial year 2022/23.

#### **Recent or ongoing reform activities**

Introduction of a team of personnel responsible for monitoring the monthly and quarterly report submissions to the AG's office..

#### 28.3 Accuracy of in-year budget reports

Financial data from IFMIS is available on a real-time basis, providing electronic information ready for reporting on both payments to date and commitments. However, there is still significant concern regarding data integrity, as the system still allows for backdated entries due to not being closed off monthly. No internal audit was done in the year under assessment to confirm issues of data integrity.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

The level of performance remains the same as for the previous assessment, because IFMIS still makes possible the backdating of adjustments and post-year-end events.

#### Recent or ongoing reform activities

None.

### PI-29. Annual financial reports

This indicator assesses the extent to which the annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system.

Section 35 of the Public Financial Management Accountability (PFMA) Act 2011 requires the Minister of Finance to prepare the Government's Consolidated Financial Report every year-end, i.e. 31 March. They must be prepared in accordance with International Public Sector Accounting Standards (IPSAS) and must be submitted to the Auditor General for audit within five months of the end of the financial year to which they relate.

The following frameworks are used as the basis for preparing financial statements, timeframes, responsibilities, and target dates:

- The PFMA Act, Act 12 of 2011 (sections 34; 35; 36; 37); Public Entities (PART VI).
- The Treasury Regulations, 28 March 2014 (PART XVI).
- International Standard on Cash Basis issued by the Public Sector Accounting Standards Board (IPSAS).

**Table 29.1 Summary Table of Scores**

PI-29 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>29</b>	<b>Annual financial reports</b>		<b>D+</b>	<b>D+</b>
<b>29.1</b>	Completeness of annual financial reports	Financial Statements are prepared annually and are consistent with the approved budget. All of the minimum requirements of IPSAS cash basis have been complied with. Annual Financial Statements contain information on revenue, expenditure, financial assets and financial liabilities, guarantees, and long-term obligations.	B	B
<b>29.2</b>	Submission of reports for external audit	Financial statements are supposed to be submitted for audit within 5 months of the end of the financial year. However, the financial statements for 2023 were submitted 15 months later.	D	B
<b>29.3</b>	Accounting standards	The financial statements are prepared in accordance with the IPSAS cash basis. Accounting standards have been consistently applied for the last three years under assessment.	A	D

#### 29.1 Completeness of Annual Financial Reports

Annual financial statements are prepared using the IPSAS cash basis. As a result, all the elements required in the preparation of financial statements are included, except for tangible assets, which are

not included in the report (even though the ministry has a specific office that deals with non-current assets).

The Government's annual financial statements are comparable with the budgets originally approved. The GoL's consolidated annual financial statements for 31 March 2023 (unaudited at the time of the drafting of this report) are prepared on the IPSAS cash basis, and consist of the following:

- i. Report by the MoFDP
- ii. Report by the Accountant General
- iii. Consolidated Financial Statements for the year ended 31 March 2023
  - Consolidated Statement of Cash Receipts and Payments
  - Consolidated Statement of Comparison of Budget and Actual Amounts
  - Statement of Accounting Policies
  - Statement of Consolidated Entities
  - Notes to the Consolidated Financial Statements
- iv. Disclosure Schedules to the Consolidated Financial Statements
  - Schedule 1: Investments
  - Schedule 2: Accounts Receivable and other revenue arrears
  - Schedule 3: Pension Liabilities
  - Schedule 4: Public Debt
  - Schedule 5: On-lending Agreements
  - Schedule 6: Payment Arrears
  - Schedule 7: Contingent Liabilities
  - Schedule 8: Losses and Accidents
  - Schedule 9: Other Cash balances
- v. Appendices
  - Appendix 1: Analysis of Receipts and Payments by Spending Unit
  - Appendix 2: Budget Comparison – Analysis by Spending Unit
  - Appendix 3: Controlled entities and investments – Status of annual reporting at 31 March 2023

Data source: 2022/2023 AFS submitted for auditing

A generic template is in use for ministries for compiling the 31 March 2024 individual financial statements. It provides for the inclusion of the following elements:

- Report by the Accounting Officer
- Certificate by the Chief Accounting Officer
- Statement 1: Statement of Cash Receipts and Payments
- Statement 2: Statement of comparison of Budget and Actual amounts
- Statement 3: Special Funds
- Statement 4: Accounting Policies
- Notes to the financial statements
- Schedule of Cash Balances
- Schedules of Revenue Arrears and other debtors
- Schedule of Payment Arrears
- Schedule of Contingent Liabilities
- Schedule of Losses and Write-off
- Schedule of Spending Units
- State-owned Entities



- External Assistance and borrowings
- Below-the-line accounts

Local Authorities are now included in the Consolidated Financial Statements, while public entities (i.e. state-owned enterprises and autonomous bodies) and extra-budgetary units are excluded from the Consolidated Financial Statements for the year ending 31 March 2023.

**Dimension rating = B**

#### **Performance change since the 2017 PEFA Assessment**

Since the PEFA 2017 report, which indicated that the Local Authorities did not form part of the Consolidated Financial Statements, the 2023 financial statements now include them as part of the Consolidated Financial Statements, whereas public entities and other extra-budgetary units remain excluded from the Consolidated Financial Statements for the year ending 31 March 2023.

#### **Recent or ongoing reform activities**

The fully-fledged Treasury Single Account (TSA) optimizes the processes involving budgeting, funding, and the reporting pertaining to projects. In this regard, the AG's office has proposed changes in how project cash receipting, the processing of expenditures, the generation of payments, and reporting are handled. The objectives of the envisaged TSA will be to:

- Enable a consolidated view of cash balances and reporting
- Improve transparency regarding the flow of public funds from receipting through to payment
- Improve processing and accountability.

The MoFDP is implementing the Asset Management Policy and developing an Asset Register.

#### **29.2 Submission of Reports for External Audit**

The Office of the Auditor General (OAG) is required to issue an opinion only on the consolidated annual financial statements as prescribed by the PFMA Act 2011. As Table 29.2 shows, the Accountant General submitted consolidated annual financial statements long after the five months following the end of the fiscal year prescribed by the PFMA Act 2011.

**Table 29.2: Submission of reports for external audit  
(last annual financial report submitted for audit)**

Financial Year (FY) of the last financial report submitted for audit	Date of submission for external audit	Number of months after the end of the FY
2022/2023	16 June 2024	15

Data source: OAG (Entrance Invitation Letter), Treasury 2022/2023 Unaudited Financial Statements

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

Performance has deteriorated since the last PEFA Assessment from a rating of B to one of D. This is due to delays by the Office of the Auditor General in completing the audit of financial statements for 2022 within the time limit stipulated by the Act. The Audit Report for 2022 was released two years later, after the submission of the 2022 AFS, thereby causing the submission of the 2023 AFS to be delayed.

**Recent or ongoing reform activities**

None.

29.3 Accounting Standards

The national framework prescribes that the financial statements must adopt a fully IPSAS cash basis. The financial statements for the past three years have been consistent in applying the IPSAS, even though some spending units are not incorporated in the consolidated AFSs.

**Dimension rating = A**

**Performance change since the 2017 PEFA Assessment**

The consolidated statements for the last three years under assessment (2021, 2022, 2023) are mostly IPSAS cash basis-compliant – unlike the last PEFA Assessment, where only one of the financial years, namely 2015/2016, was almost IPSAS-compliant. Accounting standards have been consistently applied over the last three years, with the caveat that according to OAG the financial statements still report a small number of accrual items which had not been cleared by the reporting date for the 2021/2022 fiscal year.

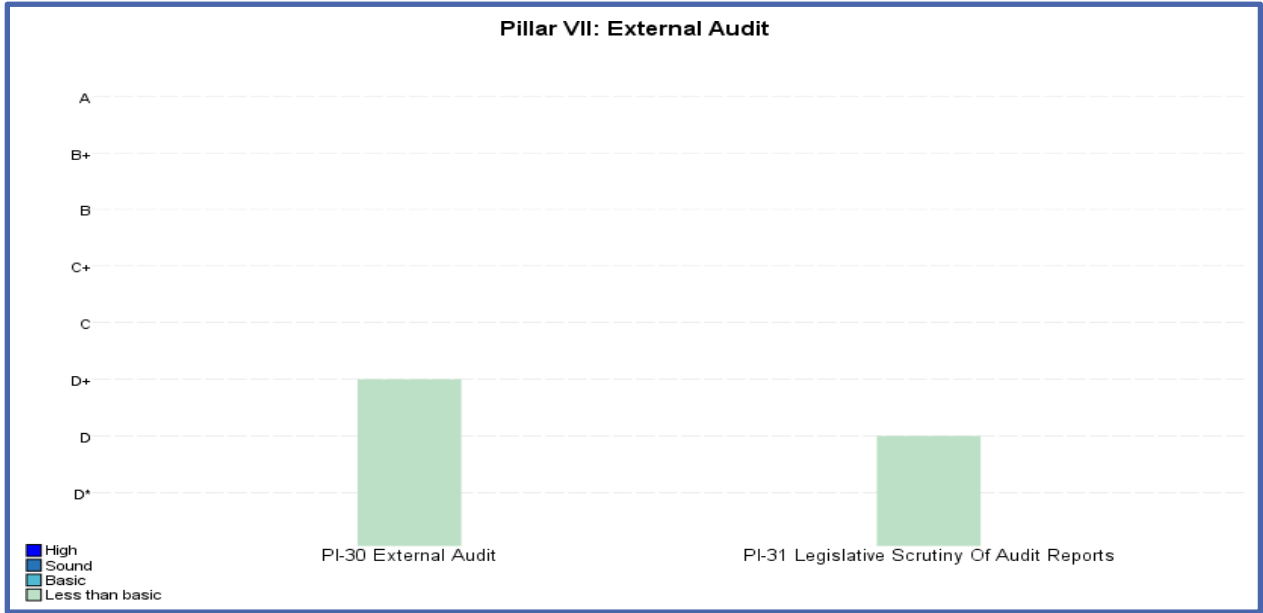
**Recent or ongoing reform activities**

None.

**Pillar VII: External scrutiny and audit**

Pillar VII measures the extent to which effective external audit and scrutiny by the Legislature make it possible to hold the Government’s executive branch to account for its fiscal revenue and expenditure policies and their implementation. The pillar therefore assesses whether the public finances are being independently reviewed, and whether there is any external follow-up on the implementation of recommendations for improvement by the executive. The pillar has two key indicators: External Audit and Legislative scrutiny of Audit Report.

**Figure 7.1: Pillar 7 – Summary of PEFA Scores**



## Overall Performance: Key Strengths and Weaknesses

### Strengths

- The Office of the Auditor General (OAG) is functional.
- There is evidence that the executive made formal responses to audits for which follow-up was expected during the last three completed fiscal years.
- By law, the OAG has unrestricted access to the majority of the requested records, documentation, and information.
- In-depth hearings on the key findings of the audit reports take place occasionally.

### Weaknesses

- The OAG has no formal depository of the entities that have been audited, relative to the total number of entities that should be audited.
- The OAG has been submitting the audited financial reports to the Legislature more than nine months after it received the reports, instead of within the expected 3 months.
- The executive's formal responses to the audits for which follow-up was expected were not comprehensive and timely.
- Access to information provided by the OAG, such as the Accountant General's reports, is seldom possible within the specified time period.
- None of the audit reports for the years under review have been fully scrutinised by the Legislature.
- In-depth hearings on the key findings of audit reports cover only a few audited entities.
- There was no completed audit scrutiny by the Legislature during the 3 years under consideration, so no recommendations could emanate from the reports.
- The PAC reports on audit hearings have not been published for the years under review. The last PAC report on audit hearings published on the PAC's website is its report for 2013-2016 .

The external audit procedures of Lesotho are regulated by the Constitution and several local and international laws (as listed below), and the OAG is a member of some international affiliations that could facilitate improvements in the audit process involving the adoption of standard global practices. However, the clarity and comprehensiveness of existing policies, the delays in the submission of the consolidated financial report to the OAG, the limited human and financial resources at the OAG, and the actual submission of the audited reports to the Legislature via the Minister of MoFDP, all comprise challenges with the external auditing and scrutiny of the Government of Lesotho.

In alignment with previous indicators, indicators 31.1 and 31.2 corroborate indicators 29 and 30.2 insofar as the production and submission to the Legislature of the audited reports takes far longer than expected, and because the audit hearings only cover a few audited entities. In fact, for the fiscal years under review, the audit reports have only been prepared and finalized by the OAG for the 2020/2021 and 2021/2022 fiscal years. The Audit Report for the 2022/2023 fiscal year has not yet been completed. The findings of the audit coverage and standards, as well as the submission of audit reports to the Legislature as highlighted in indicators 30.1 and 30.2, are also corroborated by indicator 29.

### PI-30. External audit

This indicator focuses on the characteristics of the external audit. The indicator examines the audit coverage and standards, the timing of the submission of audit reports to the Legislature, the existence of external audits and follow-ups, and the independence of the Office of the Auditor General (OAG). These are all internationally recognized standard practices that ensure the sanctity and independence

of the OAG and provide it with ample access and capacity to perform its oversight functions effectively. It is worth noting that the Auditor General is the Supreme Audit Institution for the GoL.

The regulatory framework that determines the mandate and requirements for the OAG is as follows:

- The Lesotho Constitution
  - Section 117 addresses the independence, access to information, and functions of the Auditor General
  - Section 142 addresses the issues of appointment, length of service, and removal of the Auditor General.
- The 2011 Public Financial Management and Accountability Act includes the following:
  - Sections 35 and 37 empower the Auditor General to audit the consolidated annual financial statements of the GoL;
  - Section 39 authorizes the Auditor General to audit the annual financial statements of the Local Authorities;
  - Section 45 vests the Auditor General with the powers to audit the annual financial statements of public enterprises.
- The 2016 Audit Act includes the following:
  - Sections 3-10 address the functions, appointment, removal, suspension, length of service and remuneration of the Auditor General.
  - Sections 22 and 23 address the issues of access to information, documents and property.
  - Sections 37-41 specify the financial provisions and accountability pertaining to the OAG.
- International Affiliations of the OAG of Lesotho:
  - International Standards for Supreme Audit Institutions (INTOSAI)
  - Organisation Africaine des Institutions Supérieures de Contrôle des Finances Publiques (AFROSAI)
  - African Organisation of English-speaking Supreme Audit Institutions (AFROSAI-E)

In line with the mandate of the OAG, the Auditor General of Lesotho currently conducts three types of audit: financial audits, compliance audits, and performance audits. Reports on all three types of audit are combined in the audited financial reports that are submitted to the Minister for onward submission to the Legislature. The summary scores for indicator 30 are shown below. The aggregate score is based on the M1 methodology of the PEFA framework.

**Table 30.1 Summary Table of Scores**

PI-30 (M1)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>30</b>	<b>External Audit</b>		<b>D+</b>	<b>D+</b>
<b>30.1</b>	Audit coverage and standards	Insufficient information to merit a valid score.	D*	C

30.2	Submission of audit reports to the Legislature	Performance is less than required for a C score.	D	D
30.3	External audit follow-up	A formal response was made by the executive or the audited entity on audits for which follow up was expected, during the last three completed fiscal years.	C	C
30.4	Supreme independence of the audit institution	Performance is less than required for a C score.	D	D

### 30.1 Audit Coverage and Standards

The Office of the Auditor General (OAG) has audited some of the financial reports that include the revenue, expenditure, assets, and liabilities of the Central Government entities for the fiscal years 2019/20, 2020/21 and 2021/22 that were covered during the years under consideration. However, there is no formal depository of the entities that have been audited relative to the total number of entities that should be audited. We therefore had an insufficient basis of evidence for assigning a definite score.

**Dimension rating = D\***

### **Performance change since the 2017 PEFA Assessment**

The dimension therefore deteriorates from a score of “C” in 2017 to “D\*”.

### 30.2 Submission of Audit Reports to Legislature

The PFMA Act’s Section 35(3) states that the Consolidated Financial Statements shall be prepared in accordance with International Public Sector Accounting Standards, and shall be submitted to the Auditor General for audit within five months of the end of the financial year. After the completion of the audit exercise, the OAG is expected to submit its reports to the Minister of Finance. According to Section 37(1) of the PFMA Act, it is the Minister’s responsibility to submit the audit reports to Parliament within eight months of the end of the financial year under review. Table 30.2 below outlines the progression of the audit reports and the dates of submission to Parliament. It is worth noting that the OAG submitted the audited reports for the fiscal years 2019/20, 2020/21 and 2021/22 to the Minister and published them on their website, and that these reports have been submitted to the Legislature. However, they were submitted to the Legislature more than nine months after the OAG received the financial reports. The delays in submitting the audited financial report for the 2021/2022 fiscal year were due to the errors identified in the financial statements which were returned to the Treasury, and further delays resulted from the changes that took place in the management of the OAG. Other challenges include delays in the submission of the financial statements, the failure to submit some financial statements in time, the shortage of financial auditors with requisite competencies, and a shortage of auditing tools.

**Table 30.2: Schedule of date of receipts of Audited Reports by Parliament**

Last three completed fiscal years	Fiscal year covered by the report	Dates of receipt of the financial reports by the audit office	Dates of submission of the financial audit reports to the Minister of MoFDP	Period between receipt by the OAG and submission to the Minister	Tabled to Legislature by Minister	Period between receipt by the OAG and the Minister’s submission to the Legislature
2020/2021	2019/2020	05/11/2020	22/07/2021	8.5 months	28/10/2021	11.7 months
2021/2022	2020/2021	06/10/2021	3/05/2022	7 months	22/07/2022	9.5 months

2022/2023	2021/2022	23/09/2022	16/05/2024	20 months	22/05/2024	20 months
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Data source: OAG records, Hansards of the Parliamentary and <https://auditorgeneral.org.ls/publications/>

The audited reports were submitted to the Legislature over nine months after receipt of the financial reports by the OAG rather than within the expected 3 months.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

This Dimension retains its score of “D” from the 2017 report.

#### 30.3 External Audit Follow-Up

The executive provides formal responses to the OAG audit queries. These include the queries, responses to individual queries, and clarifications regarding the figures, where applicable. However, this was not done in all instances for the three years under review, and was not timely. As is evident with the delays in submitting the Consolidated Financial Statements and the eventual issuing of the audit reports, the opportunity to address the audit findings effectively and in a timely manner so that better audit outcomes can be achieved is constrained.

Section 30 of the Audit Act states that the Auditor-General shall, once every financial year, submit an annual performance report which shall include financial statements of the Office of the Auditor-General to the Minister for presentation to Parliament *six months* after the end of the financial year. In practice, when the OAG undertakes performance and compliance audits, queries may be issued regarding the management of the audited entities. If a query is responded to and resolved during the audit, it is left out of the final report, and a corresponding recommendation is made. However, if it is not resolved, it is included as a finding in the Audit Report. For financial and compliance audits, the auditors consider the extent of implementation during the following year’s audit (“prior year matters”). For performance audits, the auditors follow up the recommendations after a year or more. This could either be as a follow-up on the audit recommendations, or an in-depth follow-up audit. Some audit recommendations are implemented, but most are not. This is evident from the similarity of audit the findings/queries year after year.

There is evidence that during the last three completed fiscal years the executive produced formal responses to audits for which follow-up was expected. However, the responses were neither comprehensive nor timely.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

This Dimension retains the score of “C” from the 2017 report.

#### 30.4 Independence of the Supreme Audit Institution

The Constitution of the GoL and the 2016 Audit Act specify that the OAG will be an independent and autonomous body. The Constitution, PFMA, and Audit acts clearly state the procedures for the appointment, reappointment, suspension, and removal of the Auditor General, who acts as the Supreme Audit Institution (SAI) of the GoL and is appointed by the King; and the Auditor General appoints a deputy with recommendations from the Audit Advisory Committee. Details of the remuneration and financing of the SAI’s activities are specified in the Constitution and Audit Act, as stated in Table 30.3 below.

According to the law, the planning of audit engagements, the arrangements for publicizing reports, and the approval of the SAI's budget are not independent of the executive. In practice, it executes the budget of the OAG, but the approval is subject to the national budget process. In addition, the SAI has unrestricted access to public records, though not usually in a timely manner. For example, the Consolidated Financial Statements were submitted to the Auditor General at least 7 months after the end of the financial year, as opposed to the 5 months prescribed by the PFMA Act.

**Table 30.3: Independence of SAI in relation to INTOSAI standards**

Element/Requirements	Met (Y/N)	Evidence used/Comments
<b>1. The SAI operates independently from the executive with respect to:</b>		
<ul style="list-style-type: none"> <li>Procedures for the appointment and removal of the head of the SAI</li> </ul>	Yes	The Auditor General is appointed by the King with advice from the Prime Minister, and can only be removed by the King with recommendation from a tribunal that the King appoints in accordance with the Constitution's Sections 142(1) and (5). The Constitution guarantees the AG's tenure in office until retirement age (60 years). Section 115 (1) and (5) of the Constitution states that the salary and benefits of the Auditor-General shall be in accordance with the Statutory Salaries Act, 1972.
<ul style="list-style-type: none"> <li>The planning of audit engagements</li> </ul>	Yes	The OAG is responsible for preparing its Annual Work Plan independently from ministries, Parliament or parliamentary committees, such as the PAC, but is expected to submit it with the budget to the Minister.
<ul style="list-style-type: none"> <li>Arrangements for publicizing reports</li> </ul>	Yes	The OAG must submit its reports to the Minister of MoFDP before they are submitted to the Legislature. But in practice, the OAG publicizes its submissions to the Minister on its website.
<ul style="list-style-type: none"> <li>The approval and execution of the SAI's budget</li> </ul>	No	Section 37 of the Audit Act states that the Auditor-General shall prepare and submit to the Minister an annual operational plan that describes the proposed work and programme of the Auditor General for the financial year; and a detailed budget in support of the annual plan for presentation to the Parliament. This implies that the financing of the OAG is subject to the budget process, which often comes with budget ceilings that could impose constraints limiting the expansion of capacity, and/or with prescribed salary scales that prevent the OAG from attracting persons with skills and experience. The SAI executes but does not approve its own budget.
<b>2. This independence is assured by law.</b>	No	The independence of execution and implementation is assured by law. But the assurance pertains to independence in making submissions to the Legislature, not to financial independence.
<b>3. The SAI has unrestricted and timely access to records, documentation and information for:</b>	No	Section 117(3) of the Constitution provides that the Auditor-General and any officer authorized by him shall have access to all books, records, returns, reports and other documents that in his opinion relate to any public accounts of the Government and government officials and to all cash, stamps, securities, stores and other property of whatever kind. This is corroborated by the PFMA and Audit Act. The law guarantees unrestricted and timely access to all audited entities, but the timelines are not followed in practice.
<ul style="list-style-type: none"> <li>All audited entities</li> </ul>		
<ul style="list-style-type: none"> <li>Most audited entities</li> </ul>		
<ul style="list-style-type: none"> <li>The majority of requested records</li> </ul>		

Source: The Constitution of Lesotho, Audit Act and the PFMA Act

The OAG may have unrestricted but not timely access to the majority of the requested records, documentation and information. For example, the consolidated financial records from the Accountant General for the preparation of the Audit Report were not produced in a timely manner as required by the PFMA Act.

**Dimension rating = D**

## Performance change since the 2017 PEFA Assessment

This Dimension retains its score of “D” from the 2017 report.

### Recent or ongoing reform activities

None.

## PI-31. Legislative scrutiny of audit reports

This indicator assesses the legislative scrutiny of the audited financial reports of central governments. It centres on the legal requirements for the submission of audit reports by institutional units or their ability to respond to questions/queries and take action on their behalf. Specifically, it measures the timing of Audit Report scrutiny, hearings on audit findings, and recommendations on audit by the Legislature as well as the transparency of the process and outcome of the legislative scrutiny of audit reports.

Lesotho’s political system is modelled on the Westminster system of government, with a bicameral parliamentary system that appropriates more power to the National Assembly than to the senate. The Public Accounts Committee (PAC) is principally responsible for the parliamentary scrutiny of the OAG’s reports. The functions of budget scrutiny are also performed by the Portfolio Committees on social cluster, economic and development cluster, law and public safety, and natural resources, of the Parliament. The following regulatory frameworks specifically direct the functions of the Public Accounts Committee:

- The Constitution of Lesotho, 1993, Section 81(1);
- The Parliamentary Powers and Privileges Act 1994, Act No 8 of 1994, sections 9 and 10;
- The Standing Orders No 77(1); 95, 97(5) and 105(1);
- International Best Practices Guidelines issued by APAC, AFROPAC and SADCOPAC;
- The Public Financial Management and Accountability Act, Act 12 of 2011; and
- The Treasury Regulations 2014.

The PAC is a sessional Committee of the National Assembly (the committee is reconstituted for each parliamentary session. This is unlike the Portfolio Committees, which continue until the next General Election). The Parliamentary Powers and Privileges Act 1994 and the Standing Orders give the PAC powers to summon persons, and to require the production of any documents and records, as well as an account of their detailed duties and responsibilities.

The timing of the processes of the scrutiny of audits by the Legislature is delayed by the multiple stages that precede their arrival at the Legislature, which also faces its own delays due to political interests and intrigues. This affects the committees’ ability to effectively perform their oversight function and achieve the desired budgetary outcomes. The audit reports for the years under review took more than a year following the end of the fiscal year to reach the Legislature, which therefore constrains the timely and efficient access to information and limits the capacity to undertake comprehensive scrutiny because so much time has already been wasted.

The summary scores for indicator 31 are shown below. The aggregate score is based on the M2 methodology of the PEFA framework.

### Table 31.1 Summary Table of Scores



PI-31 (M2)	Dimension	Justification for 2024 score	2024 Score	2017 Score
<b>31</b>	<b>Legislative Scrutiny of Audit Reports</b>		<b>D</b>	<b>D</b>
<b>31.1</b>	Timing of Audit Report Scrutiny	Performance is less than required for a C score.	D	D
<b>31.2</b>	Hearings on Audit Findings	In-depth hearings on key findings of audit reports take place occasionally, covering a few audited entities or may take place with Ministry of Finance officials only.	C	D
<b>31.3</b>	Recommendations on Audit by the Legislature	None of the audit reports for the years under review have been fully scrutinised by the Legislature.	D	D
<b>31.4</b>	Transparency of Legislative Scrutiny of Audit Reports	Performance is less than required for a C score.	D	D

### 31.1 Timing of Audit Report Scrutiny

The OAG has completed the audit reports for the fiscal years 2019/20, 2020/21 and 2021/22, which are reflected in their 2020/2021-2022-2023 Reports . These audit reports have been submitted to the Parliament and are still under review. This implies that the Audit Report scrutiny for the available reports is not yet complete. The delays increased due to the prevalence of the Covid-19 pandemic, and worsened further due to the 2022 election campaigns and the political instability involving the Parliament and the Cabinet of the Executive.

**Table 31.2: Timing of Audit Report scrutiny (Last three completed fiscal years)**

Last three completed fiscal years	Fiscal years covered (*)	Dates of receipt of the financial audit reports	Dates of scrutiny by the Legislature
2020/2021	2019/2020	28-10-2021	Not completed
2021/2022	2020/2021	22-07-2022	Not completed
2022/2023	2021/2022	22-05-2024	Not completed

Data source: OAG records, Hansards of the Parliamentary and <https://auditorgeneral.org.ls/publications/>

None of the audit reports for the years under review have been fully scrutinised by the Legislature.

**Dimension rating = D**

### **Performance change since the 2017 PEFA Assessment**

The Dimension retains the “D” score from the 2017 report.

### 31.2 Hearings on Audit Findings

Section 76(b) of the Standing Orders states that the National Assembly and its committees shall facilitate public participation in its legislative and other processes by conducting public hearings as and when necessary. In addition, Section 68(3) states that the Committee (PAC) may decide to invite inputs from experts, stakeholders, or the public on the estimates, and may conduct public hearings thereon. In practice, there is evidence that the hearings on the key findings of external audit reports are in-depth. The hearings include representatives from the OAG to explain the observations and findings,

as well as representatives from the audited agency, to provide clarifications and an action plan to remedy the situation. Third parties may also participate if required.

In-depth hearings on key findings of audit reports take place occasionally, covering a few (but not all) of the audited entities.

**Dimension rating = C**

#### **Performance change since the 2017 PEFA Assessment**

This Dimension scores a “C” compared to the “D” score from the 2017 report.

#### **31.3 Recommendations on Audit by the Legislature**

Given that the audit scrutiny for all three fiscal years under review by the Legislature has not been completed, there is no record of any recommendations that could arise from the anticipated completed oversight and consequently no possible follow-ups.

No audit scrutiny has been completed by the Legislature for any of the three years under review and therefore it has made no recommendations.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

This dimension retains its score of “D” score from 2017.

#### **31.4 Transparency of Legislative Scrutiny of Audit Reports**

All hearings are conducted in public except for strictly limited circumstances such as discussions relating to national security or similarly sensitive topics. Television Lesotho captures the proceedings of PAC when the plenary is not sitting. These proceedings are aired to the public in summary form on the news channels and some social media channels of the National Assembly. Schedules of the PAC’s public hearings that specify their dates are published on Parliament’s website and certain social media outlets, where it is stated that the hearings are open to the public, meaning that members of the public can physically attend the meetings.

However, PAC reports on the Audit hearings have not been published for the years under review. The last PAC report on Audit hearings published on the official website is the 2013-2016 PAC Report. In 2020, there was not much to be done due to the prevalence of COVID-19, and in winter 2020, there was a change of Cabinet. Those removed from the Cabinet disrupted the functioning of PAC. In 2021, there were still tensions in the Committee. In summary, the investigations that were underway could not be completed, and hence no report was published. The PAC is currently preparing a report that will cover the Audit hearings between 2017 and 2022.

The PAC reports on Audit hearings have not been published for the years under review. The last PAC report published on the official website on Audit hearings is the 2013-2016 PAC Report.

**Dimension rating = D**

#### **Performance change since the 2017 PEFA Assessment**

Though the public hearings are viewable on live TV, this dimension retains its score of “D” score from the 2017 report, due to the failure to publish the PAC report for the years under review.

#### **Recent or ongoing reform activities**

None.

Table 32.1: Overview of the scores of the PEFA indicators

PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating	
			i.	ii.	iii.	iv.	2024	2017
Pillar 1: Budget Reliability								
PI-1	Aggregate expenditure outturn	M1	A				A	D
PI-2	Expenditure composition outturn	M1	C	C	B		C+	C+
PI-3	Revenue outturn	M2	B	B			B	C+
Pillar II: Transparency of Public Finances								
PI-4	Budget classification	M1	C				C	C
PI-5	Budget documentation	M1	C				C	C
PI-6	Central government operations outside fiscal reports	M2	D	D	D		D	D
PI-7	Transfers to sub-national governments	M2	C	D			D+	D+
PI-8	Performance information for service delivery	M2	D	D	D	D	D	D
PI-9	Public access to key fiscal information	M1	D				D	D
Pillar III: Management of Assets and Liabilities								
PI-10	Fiscal risk reporting	M2	D	D	C		D+	D+
PI-11	Public investment management	M2	C	D	B	C	C	B
PI-12	Public asset management	M2	D	D	B		D+	D+
PI-13	Debt management	M2	C	B	B		B	D+
Pillar IV: Policy-Based Fiscal Strategy and Budgeting								
PI-14	Macroeconomic and fiscal forecasting	M2	D	B	C		C	D+
PI-15	Fiscal Strategy	M2	C	D	A		C+	D+
PI-16	Medium-term perspective in expenditure budgeting	M2	B	A	A	C	B+	C+
PI-17	Budget preparation process	M2	C	A	C		B	B
PI-18	Legislative scrutiny of budgets	M1	B	A	C	C	C+	C+
Pillar V: Predictability and Control in Budget Execution								
PI-19	Revenue administration	M2	A	A	D*	B	B	B
PI-20	Accounting for revenues	M1	A	B	D*		D+	D+
PI-21	Predictability of in-year resource allocation	M2	C	A	B	B	B	C
PI-22	Expenditure arrears	M1	B	C			C+	D+
PI-23	Payroll controls	M1	B	A	A	D	D+	D
PI-24	Procurement	M2	D	D	D	A	D+	D
PI-25	Internal controls on non-salary expenditure	M2	A	C	D		C+	C+
PI-26	Internal audit	M1	C	D	C	D	D+	D+
Pillar VI: Accounting and Reporting								
PI-27	Financial data integrity	M2	D	D	D	A	D+	D+
PI-28	In-year budget reports	M1	C	D	C		D+	D+
PI-29	Annual financial reports	M1	B	D	A		D+	D+
Pillar VII: External Scrutiny and Audit								
PI-30	External audit	M1	D*	D	C	D	D+	D+
PI-31	Legislative scrutiny of audit reports	M2	D	C	D	D	D	D



## 4. Overall Analysis of PFM Performance

### 4.1. Integrated assessment of PFM performance

#### 4.1.1 Budget reliability

In each of the three years reviewed, the PFM system developed good estimates of aggregate expenditure, with deviations between the outturn and the approved budget being less than 5 percent for two of the last three completed fiscal years. Successful PFM reforms, like the Medium-Term Expenditure Framework (MTEF) and Central Budget Management System, enhanced data accuracy.

However, the composition variance was higher in terms both of functional and economic classifications. Changing the spending patterns due to emergencies and shifting priorities requires better oversight. Such budget reallocations render the budget less reliable at the economic and functional levels. Frequent budget reallocations raise questions about budget credibility, as well as about the delivery of government services based on the original policy intent.

On the revenue side, SACU remains the primary source of revenue, although there has been a slight decline in collections compared to normal for the financial years under review, which is attributed to reduced trading activities during the COVID-19 pandemic. For FY 2021/22, there was a significant increase in revenue collection of 98.4 percent. This was despite the low initial collection base that had been anticipated due to the pandemic's negative impact on economic activities. The increase was primarily driven by a rise in corporate income tax (CIT), as most companies fulfilled their tax obligations.

By contrast, FY 2020/21 saw a collection performance of 94.6 percent, and a slight decrease overall. This period was marked by fiscal losses associated with COVID-19, including reduced economic activities during and after lockdowns. There was also a decline in CIT collection due to higher-than-expected refund claims, particularly from the mining, finance and insurance sectors. However, a rise in income tax and VAT collections partly offset these declines, supported by relief measures for businesses and households.

FY 2022/23 experienced a major decline to 85.1 percent in the collection rate. This decline was mainly driven by a continuous decrease in PAYE due to job losses and low investment levels during and after the pandemic.

#### 4.1.2. Transparency of Public Finances

Budget formulation, execution and reporting are based on the administrative and economic classification using GFS 2014 standards and the Classification of the Functions of Government (COFOG). The Integrated Financial Management Information System (IFMIS) was upgraded from Epicor 7.3.5 to Epicor 10.2 in April 2019, along with the adoption of the new Lesotho Chart of Accounts (COAs) and full implementation of International Public Sector Accounting Standards (IPSAS) cash basis.

The lack of legislation on the allocation of resources to the sub-national governments (SNGs) is problematic. The most challenging issue with sub-national transfers is the significant delays and unreliability pertaining to transfers, especially with capital grants, which therefore negatively affects the implementation of investment projects. SNGs develop their budgets as part of the budget preparation process of MoLGCHAP, following the issuance of the Call Circular regarding the preparation of the Budget Framework Paper and Budget. Subsequently, MoLGCHAP circulates its own guidelines to the Maseru Urban and District Councils, outlining budget ceilings and requesting

detailed proposals for budget expenditure allocations by a specified deadline. The proposed budget allocations from SNGs are incorporated into MoLGCHAP's overall budget submission and estimates.

The budget contains a forecast of the fiscal deficit, the previous year's budget outturns, consistent budget estimates, and an aggregation and detailed presentation of budget estimates for both revenues and expenditures. However, neither the budget estimates nor the financial reports have comprehensively captured all the Central Government revenues for both donor-financed projects and non-tax revenues.

Macroeconomic forecasts on interest rates and exchange rates are already generated by CBL but are not captured in the budget documentation.

Although the Public Private Partnership (PPP) Policy has been established since 2017, there have been delays in establishing the legal and institutional framework for it, as well as capacity building aimed at regulating and managing the contracts for the PPPs and the contingent liabilities relating to them. There is a lack of monitoring of the state-owned enterprises (SOEs) and extra-budgetary units (EBUs) by the Ministry Department Agencies (MDAs), the Ministry of Finance and Development Planning (MoFDP), and the Legislature.

The MoFDP's Department of Private Sector Development and Financial Affairs (PSD&FA) reports that there are approximately 22 SOEs, 24 EBUs and 68 CHAL institutions. These entities, in addition to receiving subsidies from the CG, generate non-tax revenue through various activities, including student tuition fees, residence fees, and the sale of pharmaceuticals, as detailed in Table 6.2. Furthermore, development assistance from international NGOs and foundations is not reflected in the financial statements of the CG. Discussions with GoL officials indicate that over 10 percent of CG revenue is not included in its financial reports.

Service delivery benchmarks are not clearly identified and are likewise not published. Monitoring and reporting on the resources received by front-line service delivery units is poor or non-existent. Both the Budget Book and budget speech also focus on budget allocations, not necessarily highlighting key performance indicators, performance outputs or performance outcomes.

Public access to fiscal information is very limited, with the exception of the bidding opportunities advertised in weekly newspapers. Information on contract awards and the resolution of procurement complaints is not publicised. In-year budget reports are posted on the MoFDP website, (<https://www.finance.gov.ls>) but significantly late. The publication of annual financial statements (both audited and unaudited) is significantly delayed.

#### 4.1.3 Management of assets and liabilities

Lesotho has well-established institutional arrangements for managing public investment projects. The Government has set up the Public Sector Investment Committee (PSIC) as the highest administrative authority for the economic appraisal of projects that will be implemented by any Ministry Department Agency (MDA) of the Government of Lesotho. The Department of Project Cycle Management (PCM) in the Ministry of Finance and Development Planning (MoFDP) is the secretariat of the committee. The economic analysis of all capital investment projects begins with ministerial-level appraisal, which is then forwarded to the PSIC for further scrutiny to ensure that the projects align with the National Strategic Development Plan (NSDP). Once proposed projects pass the appraisal criteria set out in the guidelines, they are included in the Public Sector Investment Programme (PSIP) report (feasibility study report) and submitted to Cabinet for final approval. While the physical progress of the projects is monitored, no standard procedures and rules for project

implementation have been put in place by either the Department of PCM or the PSIC. This lack of procedures might be one of the reasons for the lower capital budget outturn by projects financed by GoL. According to the FY 2022/2023 Consolidated Financial Statements, the overall project expenditure was M3.281 billion versus the budget of M6.764 billion, representing an execution rate of 49 percent. The implementation rate varied considerably across the three funding categories, ranging from 68 percent of domestic resources to 43 percent and 41 percent for grant- and loan-funded expenditures respectively.

The systems for managing fiscal risk are inadequate (PI-10). Audited annual financial statements for public corporations are mostly submitted late. The submission of annual financial reports by Local Government councils is subject to long delays, and their reports are not published. Nor is there a consolidated report on the financial position of the district or local councils that gets published at least once a year. This lack of a comprehensive, independently monitored report means that information on the financial performance and accountability of local councils is less than transparent, and is potentially unreliable.

Asset management systems are fragmented, with major gaps (PI-12). In the FY 2021/2022 Audit Report, it was noted that several government ministries have failed to maintain asset registers, leading to a lack of disclosure of government-owned assets, including infrastructure, property, and equipment. Many of these assets have been abandoned and are in a state of disrepair.

As far as financial asset monitoring is concerned, the Government maintains a record of its holdings in the major categories of financial assets. The management and reporting of cash, securities, and foreign reserves is well-documented, being recognized at both acquisition cost and fair value, and their performance is published annually. Securities and IMF contributions also comply with international accounting standards. However, there is a lack of proper record-keeping regarding equity in state-owned entities.

Records from the Treasury, Commissioner of Land, and various ministries indicate that the Government keeps partial records of its non-financial assets, such as land and infrastructure. However, these registers lack crucial information on the age and usage of these assets. There are established procedures for the transfer and disposal of non-financial assets. Some information, including information about the proceeds from disposals, is included in the 2022/2023 financial statements.

Debt management systems are in better shape (PI-13). The Public Debt and Aid Management Department (PDAMD) produces an Annual Debt Management Report at the end of every fiscal year to evaluate the performance of debt management operations against the Medium-Term Debt Strategy (MTDS), and to set the Annual Borrowing Plan for the next financial year. The report is built on the quarterly debt transparency statistics reports. The Annual Debt Management Report includes the stock of external and domestic debts, along with the disbursement and debt service by debt instruments for domestic debts, as well as by creditors for external debts. The report also includes a stock of publicly guaranteed debt to SOEs and private enterprises, as well as the results of the June 2022 Debt Sustainability Analysis (DSA), which suggests that Lesotho's public debt is at a moderate risk of debt distress, with some space to absorb shocks. The contingent liability stress test revealed no substantial threat to the debt sustainability outlook, but highlighted the need for closer monitoring of these so-called hidden deficits to mitigate their potential impact on the country's debt sustainability outlook.

#### 4.1.4 Policy-based fiscal strategy and budgeting

The Macroeconomic Policy and Management Department (MPMD) of the Ministry of Finance and Development Planning (MoFDP) calculates its forecasts and submits them for review and presentation to the Technical Working Group (TWG). After the comments from the TWG are incorporated, the forecasts are again presented to the Macro Economic Working Group (MWG) for its inputs. The MPMD mainly uses an IMF-type financial programming (FP) model to produce its three-year medium-term macro-fiscal forecasts. After approval by the MWG, the forecasts are usually presented for interrogation to the IMF at least twice a year. These forecasts feed into the formulation of the Budget Strategy Paper.

The findings for pillar IV are corroborated by similar indicators from other pillars. For example, indicator 14.1 is supported by indicator 9. This shows that except for GDP and inflation, macroeconomic forecasts are not included in the budget documents. Also, 14.2 stipulates that fiscal forecasts for revenues and aggregate expenditure for the budget year and the two following fiscal years should be included in the Budget Strategy Paper, Budget Call Circular, and Budget Speech, but does not include an explanation of the main differences between these forecasts and those made in the previous year's budget. This aligns with 3.1 and 3.2. In addition, 16.1 is corroborated by information regarding 2.1, 2.2, 4, and 9 which confirms that the annual budget presents estimates of expenditure for the budget year and the following two fiscal years allocated by administrative and economic classification. The finding for 16.4 agrees with 14.2 that the budget documents explain some of the changes to expenditure estimates between the second year of the last Medium-Term Budget and the first year of the current Medium-Term Budget only at the aggregate level, and not at the ministry level.

Medium-term expenditure estimates and expenditure ceilings are both present in Lesotho's PFM, with a B+ overall score for this pillar. In other respects, the medium-term perspective is less positive, since links between strategic plans and medium-term budgets require strengthening, and more explanation is needed for any changes in the estimates for the same period between any given year's budget and the budget for the following year. For most ministries, medium-term strategic plans are prepared and costed in line with the NSDP II. The objectives of the ministries' budgets are aligned with the specific priorities of the NSDP II. These estimates are calculated for the budget year and the two outer years. This is clearly seen in the CBMS, where each *ministry* is expected to align its budget goals, vision and mission with the priorities of the NSDP II when filling in its budget estimates. However, the *budget documents* do *not* show the budget goals, vision and mission and their alignment with the priorities of the NSDP II.

The annual budget preparation process (PI-17) is good in terms of the budget circular's inclusion of the aggregate and ministry-level of expenditure ceilings for the budget year and the following two fiscal years, which are approved by the Government before the first budget circular is issued. However, more time needs to be allowed to the MDAs for the preparation of their final budget submissions after they receive the budget circular.

The legislative scrutiny of budgets is well established. Well-established procedures exist to review the budget proposal, and are followed. These involve the use of the EPC.

#### 4.1.5 Predictability and control in budget execution

The tax revenue administration is good in terms of providing information to taxpayers on their tax liability, with the Client Service Department of RSL assisting taxpayers with regard to their tax obligations. Credibility and trust have been enhanced through the RSL's development of the Compliance Model for managing risks. RSL records and monitors its stock of revenue arrears.



Information on non-tax revenue is very limited; there is currently no dedicated Non-Tax Revenue Unit within the MoF to coordinate and monitor the budgeting and collection of non-tax revenue. The Office of the Accountant General performs the back-end function of recording and reporting non-tax revenues. Revenue risk management has been enhanced since the adoption of the OECD Compliance Model in 2016. The foundation of the model is the taxpayer cycle, which includes registration, filling out, declaration and payment. The framework of the model contains additional tools. Among them, to mention just a few, are compliance risk assessment, a register of compliance risks, compliance improvement plans, and compliance evaluation.

RSL has established its Internal Audit process, which assists it in accomplishing its objectives of evaluating and improving the effectiveness of its own governance, risk management, and control processes. However, for the financial year 2022/2023, no evidence was provided of audits and fraud investigation reports by RSL as the entity that collects the most revenue. Nor were any audits for non-tax revenue performed by the other collecting entities.

RSL collects revenue on a daily basis using commercial bank accounts across the ten districts, but sweeps to the Treasury's Main Revenue Account on a weekly basis. The Ministry of Natural Resources (MoNR), through the Department of Water and Energy, sweeps revenues into the Treasury's Main Revenue Account on a daily basis. There is no doubt that the Government is losing revenue to the commercial banks, which are trading with the Government's cash. To reduce the revenue losses to the Government, daily transfers would be ideal; alternatively, a centralised revenue account should be established at CBL.

Non-tax revenue loss is quite high when compared to total domestic revenue, since not all of it is collected and properly accounted for. The two entities collecting the majority of the non-tax revenue (MoM and MoNR) provided no information pertaining to where income was collected, who did not pay, how much was swept into the Main Revenue Account, how much was owed (i.e. was in arrears), or how much was paid.

The Bank Account Register shows that the Government has 368 bank accounts outside the Treasury system that are operated and maintained by the line ministries. Of these bank accounts, eight are included in the Treasury Single Account (TSA) and are being consolidated on a daily basis, while most of the other bank accounts are consolidated monthly. At the end of every fiscal year, all line ministries transfer their account balances to the Main Revenue Account, except for the Long-term Training Program, which sweeps on a weekly basis. Bank accounts included in the Treasury Single Account are consolidated on a daily basis, while most of the other bank accounts are consolidated monthly.

Line ministries are required, as prescribed under Section 13 of the Treasury Regulations 2014, to prepare and submit annual cash flow plans (called execution plans in the CBMS) to MoF for quarterly consolidation by the Cash Management Unit. The cash flow forecasting is prepared at the beginning of every fiscal year and is updated on a daily basis thereafter. The Cash Management Unit (CMU) was established in 2014, and at the beginning of the fiscal year it is responsible for preparing monthly revisions, quarterly projections, and daily monitoring of the annual consolidated cash plan.

The CMU serves as a secretariat to two committees which were set up in 2018 and mandated to coordinate cash management and debt management activities. These two committees are the Liquidity Management Committee (LMC) and the Liquidity Technical Committee (LTC). The LTC is a technical committee reporting to the LMC. The main responsibilities of the LMC are approval of the annual cash plan, borrowing plan, Debt Sustainability Analysis (DSA), Medium-Term Debt Strategy

(MTDS), and the overall limits for the quarterly release of warrants. For the 2022/23 period, projected cash flows were available and updated daily.

According to PFMA Act 2011, Section 15, the Chief Accounting Officer may approve the transfer of annual appropriations for a program's spending unit up to an amount equal to 10 to 20 percent; or for a capital project, up to an amount equal to 10 percent of the allocation from which the transfer is made. However, if the transfer of annual appropriations exceeds this threshold, the Minister of Finance is responsible for approvals. In the periods under review, requests and approvals of significant budget adjustments were made and recorded.

The monitoring and reporting of expenditure arrears began in 2015/2016. There has been a positive trend regarding the percentage share of expenditure arrears to total Central Government expenditure, indicating that arrears are increasing over time. The stock of expenditure arrears for all periods is less than 6 percent of total expenditure in all the last three completed fiscal years, i.e. 2020/2021, 2021/2022, and 2022/2023. In Lesotho, expenditure arrears are kept outside the system and are only recorded at the time of payment under the arrears payment line items.

The Government of Lesotho reported the stock of expenditure arrears in its consolidated annual financial statements, with the statements for 2020/2021 and 2021/2022 having been audited, while 2022/2023 is still undergoing the audit process. The monitoring and reporting of expenditure arrears has been performed annually for the periods under review. The analysis of expenditure arrears contained in the consolidated annual financial statements provides an age analysis of arrears classified as more than a year, over six months, over three months, and less than three months. This was achieved by activating Section 35(3) of the PFMA Act 2011, which requires the preparation of annual financial statements in accordance with International Public Sector Accounting Standards (IPSAS); IPSAS requires the full disclosure of expenditure arrears falling due within each arrears period.

The new Human Resource Management Information System (HRMIS) was procured and implemented in October 2021. The HRMIS is a decentralised system through which each MDA manages its own payroll. Every ministry is responsible for the accuracy of its payroll information, and reports are being produced which even show the reconciliation monthly. This system is integrated with the Central Budget Management System (CBMS), the Integrated Financial Management Information System (IFMIS), and the Central Deductions Administration System (CDAS), which helps to avoid the net income of zero for civil servants. MDAs are responsible for their own reconciliations, and there are built-in system controls. The HR cadre is being trained by Lesotho Institute of Public Administration and Management (LIPAM).

Procurement is decentralized, with each ministry managing its own procurement process in line with the regulatory framework. During the time of the assessment, there was no evidence of ministries, departments, and agencies maintaining records of what has been procured under the various thresholds. The legal and regulatory framework for procurement exists, and bidding opportunities are made available for public scrutiny in the newspapers, whereas the rest of the procurement information is not made available. There are three tiers for the management of procurement complaints internally within the Government before a service provider can approach a court of law. At the first level, within the ministry, although there is no segregation of responsibilities, it falls within the mandate of the Procurement Office. The second tier is the PPAD in the MoFDP, and the third tier is the Procurement Tribunal. The Tribunal is an independent body which does not charge fees to concerned parties and publicizes the complaints after reviewing them. The Tribunal reaches its decisions within 10 working days. The Tribunal issues binding decisions on the concerned parties and has the authority to suspend a procurement process.

The general internal control framework is weak. Processes for non-salary expenditure are clearly defined for the purposes of the separation of duties; however, compliance remains a challenge. There are instances where commitments are raised outside IFMIS, for example, or payments for infrastructure projects where the projects span over multiple financial years, implying that though commitment control procedures exist, they are only partially effective. Most line ministries have their own internal auditors, though some of them are still not functional. Where audits were performed, internal audit reports were produced. For the two fiscal years 2020/21 and 2021/22 there were nine internal audits undertaken in line with the international audit standards. There is an operational plan for MoFDP. There were also few internal audit reports produced in the 2022/23 financial year. Though limited in scope, there has been some indication of executive action or response prompted by the audit findings, though only for the fiscal years 2020/2021 and 2021/2022.

#### 4.1.6 Accounting and reporting

Reconciliation of all active bank accounts is performed, but there is no evidence to show whether it takes place on a monthly basis, as there is a lack of monitoring relating to submissions to the Treasury, and no dates and/or signatures are attached to the reconciliations. However, most donor-funded project accounts are reconciled regularly and within 4 weeks after month-end. These reconciliations are more regular due to donor insistence and periodic monitoring. These are lacking within the governmental framework. Meanwhile, Treasury-managed bank accounts appear to be reconciled on a monthly basis, but the authorization and approval signatures are not dated, making it difficult to assess the timeframes of the reconciliations. In the 2022 Audit Report, the Office of the Auditor General (OAG) also highlighted that some centrally managed bank account balances were still not fully reconciled as of 31 March 2022.

Traceable suspense accounts are below-the-line suspense accounts. These go as far back as 2008/2009. In the audited financial statements for 2022, the Auditor General raised a concern regarding these accounts and their balances not having been reconciled and brought forward since 1 April 2009, with the result that misstatements in the Consolidated Financial Statements of GoL had been included for thirteen (13) years. These below-the-line accounts have still not been written off, despite the Auditor General's recommendation in 2022 to the Minister of Finance to put them before Parliament and the Cabinet for the appropriate decision, namely to write off the balances. No action on these accounts has been taken to date. The audited 2022 Consolidated Financial Statements disclose a number of accrual items that had not been cleared at the reporting date, including advances in the FY 2021/22 Audit Report.

IFMIS is managed by the MoFDP, and if any ministry requires a transaction change, the initial transaction must be cancelled and recaptured. With IFMIS, access to information is limited to authorised staff only, and changes can only be made to transactions that have not been processed. The system generates audit trails to make it possible to trace an entry to the authorizing personnel. Processed data is encrypted; users have access passwords that are changed periodically by the system administrator. There is also a team of individuals assigned to assist in issues relating to the system. However, it should be noted that in the years under assessment, no internal audit exercise was performed regarding the assurance of data integrity.

The in-year budget report is compatible with the approved budget classification, and allows for direct comparison. But expenditure for deconcentrated units such as the extra-budgetary units is still not incorporated into the consolidated reports. In-year budget reports are supposed to be issued quarterly and presented to the Cabinet and Parliament by the Office of the Accountant General. However, the only report available was the Mid-Year Budget Review Report for 2022/2023 on the

websites of the Ministry of Finance and the Budget Office. Quarterly reports were not available. There are still significant concerns regarding data integrity due to the possibility of backdating and adjustments even after year-end. Expenditure in the reports reflects the payment and commitment stage.

Consolidated Financial Statements are prepared annually and are consistent with the approved budget. All the minimum requirements of IPSAS cash basis have been complied with. Annual Financial Statements contain information on revenue, expenditure, financial assets and financial liabilities, guarantees, and long-term obligations. Financial statements are supposed to be submitted for audit within 5 months of the end of the financial year. However, the financial statements for 2023 were submitted 15 months later. The financial statements are prepared in accordance with the IPSAS cash basis. Accounting standards have been consistently applied for the last three years under assessment. Local Authorities are now included in the Consolidated Financial Statements, while public entities (i.e. state-owned enterprises and autonomous bodies) and extra-budgetary units are excluded from the Consolidated Financial Statements for the year ending 31 March 2023.

#### 4.1.7 External scrutiny and audit

The Office of the Auditor General (OAG) has audited some of the financial reports that include the revenue, expenditure, assets, and liabilities of the Central Government entities for the fiscal years 2019/2020, 2020/2021 and 2021/2022 that are under consideration. However, there is no formal depository of the entities that have been audited relative to the total number of entities that should be audited.

The OAG submitted the audited reports for the 2019/2020, 2020/2021, and 2021/2022 fiscal years to the Minister and published them on its own website, and these reports have been submitted to the Legislature. However, they were submitted to the Legislature more than nine months after the receipt of the financial reports by the OAG. The delays in submitting the audited financial report for the 2021/2022 fiscal year were due to the errors identified in the financial statements which were returned to the Treasury, and the further delays were a result of the changes that took place in the management of the OAG. Other challenges include delays in the submission of the financial statements, failure to submit some financial statements in time, a shortage of financial auditors with the requisite competencies, and a shortage of auditing tools.

The executive provides formal responses to the OAG audit queries. These include the queries, responses to individual queries, and clarification regarding the figures, where applicable. However, this has not been done in all instances for the three years under review, and is not timely. As is evident with the delays in submitting the Consolidated Financial Statements and the eventual issuing of the audit reports, the opportunity to address the audit findings effectively and in a timely fashion so that better audit outcomes can be achieved is constrained.

The timing of the processes of the scrutiny of audits by the Legislature is delayed by the multiple stages that precede their arrival at the Legislature, which also faces its own delays due to political interests and intrigues. This affects the ability of the committees to effectively perform their oversight function and achieve the desired budgetary outcomes. The audit reports for the years under review took more than a year following the end of the fiscal year to reach the Legislature, which therefore constrained the timely and efficient access to information and limited the capacity to undertake comprehensive scrutiny because so much time had already been wasted.

## **4.2. Effectiveness of the internal control framework**

### **4.2.1 Control Environment**

The control environment is strengthened by the existence of the 1993 Constitution of Lesotho, plus additional laws and regulations. Specifically, these are the Public Finance Management Accountability Act of 2011, the Treasury Regulations of 2014, and the Audit Act of 2016, among others. The PFMAA (Sections 1(a) and 2(g)) makes it the responsibility of both the Minister and Chief Accounting Officer to implement and maintain sound systems of internal control. However, the Auditor General still raises concerns regarding the issues of non-compliance with the control systems within the public sector.

The organizational structures are clear, with clearly defined positions and reporting lines within ministerial departments, and between the ministries and the Cabinet, as well as with the parliamentarians, who act as an oversight body. The PFMAA, the Treasury Regulations, and other circulars issued by the Treasury through the Office of the Accountant General clearly stipulate the responsibilities of both the finance and non-finance-related employees in terms of the organizational structures and reporting lines. These structures are put in place to promote compliance with the rules and regulations applicable to the public sector. The Government is committed to the continuous improvement of its business processes. Accordingly, various reforms are underway, such as the PFMA bill that is currently being reviewed.

In an effort to make sure that the controls are adhered to, each ministerial department has an internal audit unit that is centrally controlled by the Treasury Department. These units are vital in evaluating the effectiveness of their operations and systems, as well as for conducting performance audits and making sure that the recommendations of the Auditor General are implemented as highlighted in the audit reports. However, the audit units appear to be non-functional, as there seems to be a reluctance to perform audits in the ministerial departments.

Although the issue of commitment to competency could not be ascertained in depth by the team of assessors, the qualifications, experiences, knowledge, and positions of senior office bearers are clearly defined. The Public Service Commission is responsible for selecting individuals to hold offices in the public service having the required skills, knowledge, and qualifications. These include appointments, confirmations, and the separation of office bearers. Moreover, the Government is committed to training staff, such as in the Accounting and Procurement Department through the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Procurement and Supply (CIPS), via professional programs run by the Centre for Accounting Studies and LIPAM respectively.

### **4.2.2 Risk Assessment**

The 2011 PFMAA requires the Chief Accounting Officer to establish an internal audit function within his or her spending unit that will “assess risks facing the spending unit in achieving its program objectives and the mitigation measures in place; evaluate the effectiveness of internal controls and report significant findings to the Chief Accounting Officer”. However, there are currently no organization-wide risk assessments being conducted at the ministries to identify, evaluate, assess, and develop responses to risks and their impact on the external environment, and their impact on all aspects of the existing systems of control that relate to their internal processes. So for all ministries, there exist no such systematic and robust internal control systems for risk assessment.

### 4.2.3 Control Activities

Authorization and approval procedures are clearly defined and established in the regulations. Even though ministerial departments are accountable for warrants and budgets, all payments and cash movements are managed centrally by the Ministry of Finance and Development Planning, which funds the line ministries and allows them to make transactions and pay for goods and services in accordance with their approved budgets. There is a clear separation of duties even within the ministries. The official who initiates payments is different from the one who approves payments, and the one who approves the payments is also different from the one who authorizes the payments. There is also an examination office which is responsible for checking that all the payment processes and steps have been adhered to by responsible officers. This also applies to the IFMIS, where too there is a segregation of duties from initial requisition of transactions to authorization; individuals can only access a single functionality relating to their role within the IFMIS.

As is clearly outlined above, the separation of roles and responsibilities exists in all transactional processes. The responsibilities of different public officers in the accounting cadre are also outlined in the PFMA Act and the Treasury Regulations of other Acts.

There are controls over the access to resources and records. Physical controls, such as having lockable cash boxes that can be accessed by an individual responsible for collection, are used in some offices that collect revenue. For automated controls, every user of IFMIS has unique roles with different passwords that allow them to access the system. No individual can access the system unless they have first been created in the system. All transactions that take place in the IFMIS result in an audit trail by which it can be established with certainty who accessed the system and what they did while they were there.

To verify some of the activities that took place during the period under review, the OAG conducted a performance audit, though not all ministries were included in that exercise. P1-11.4 tasks the Department of Project Cycle Management (PCM) in the Ministry of Finance and Development Planning (MoFDP) with monitoring all capital investment projects. Thus there is monitoring and evaluation to verify the project activities of all capital projects, involving both the physical progress of their work and their financial progression.

Inspection is the best-accepted practice for the verification of goods and services. While physical inspections are carried out for certain projects, there is no formal standard documented procedure in place to define how the monitoring is to be carried out, and what the critical items are that should be flagged or be confirmed as being in order during the verification process and exercise (refer to project inspection PI-11.4) The implementing government unit or line ministry carries out the inspection and monitoring for verification purposes.

However, most donor-funded project accounts are reconciled regularly due to donor insistence and periodic monitoring. This is lacking within the governmental framework. Meanwhile, Treasury-managed bank accounts appear to be reconciled on a monthly basis, but the authorization and approval signatures are not dated, making it difficult to assess the timeframes of the reconciliations. In the 2022 Audit Report, the Office of the Auditor General (OAG) also highlighted that some centrally managed bank account balances were still not fully reconciled as of 31 March 2022.

Performance management is assessed through the MDAs' annual budgets, and budget reports are supposed to be produced on a quarterly basis. However, there is a bit of a challenge in this area, as no in-year and quarterly budget reports were available for a period under review except for a Mid-Year Budget Review Report. It is difficult to monitor the performance of the line ministries when no

reports are produced. There is also a lack of submissions of monitoring reports to the Office of the Accountant General in this area.

The reviews of operations, processes, and activities are minimal, as the Auditor General's report on the ministries mostly concerns financial performance. There were also no reviews performed by the internal audit unit.

#### 4.2.4 Information and communication

There is now a marked improvement in information and communication from the last review, due to the significant increase in the online publication of key documents by the MFDP and a few other ministries. Information regarding internal control procedures and roles is freely available on the website through various Acts and regulations. Circulars concerning control manuals, procedures, and in-year budget reviews are published on the website for anyone to access. The audited financial statements are also published, and the public can access the hearings via live broadcasts on national TV and radio. However, the 2023 AFS has not yet been audited and published.

#### 4.2.5 Monitoring

The monitoring effectiveness of the internal control mechanism in Lesotho can be assessed at four key levels. These are the operations monitoring mechanisms; internal auditors; external auditors; and the PAC Committee of the National Assembly.

The MoFDP through the Treasury is failing to monitor the submissions of reports from the line ministries, including the submissions of bank reconciliations, and there is no evidence of the payment vouchers for the period under review. A challenge also exists with regard to in-year budget reports. They are supposed to be submitted quarterly to the Accountant General by the spending units on the annual plans, but the AG is not able to monitor these spending units in a timely manner because the in-year budget reports are being submitted late.

The Internal Audit Department is also supposed to monitor the control systems, but they are not performing as expected. Most line ministries have their own internal auditors, some of which are producing internal audit reports. However, some line ministries do not have functional internal auditors.

The OAG has audited some auditing entities with regard to some of the financial reports that include the revenue, expenditure, assets, and liabilities of the Central Government entities for the 2019/2020, 2020/2021 and 2021/2022 fiscal years. However, for all three years, the audited reports were submitted by the OAG to the Legislature more than nine months after it had received the financial reports, instead of within 3 months. These delays in submission reduce the effectiveness of the monitoring process and generally lead to late responses and follow-ups by the Legislature.

The PAC committee of the Legislature has held some Audit hearings on the audited reports submitted. However, no PAC reports on the Audit hearings have been published since the 2013-2016 PAC Report. The PAC is currently developing a report that will cover the audit hearings between 2017 and 2022.

These indicators paint a very gloomy picture regarding the monitoring effectiveness of the internal control mechanisms in the entities responsible for Lesotho's administration of its public finances.

### **4.3. PFM strengths and weaknesses**

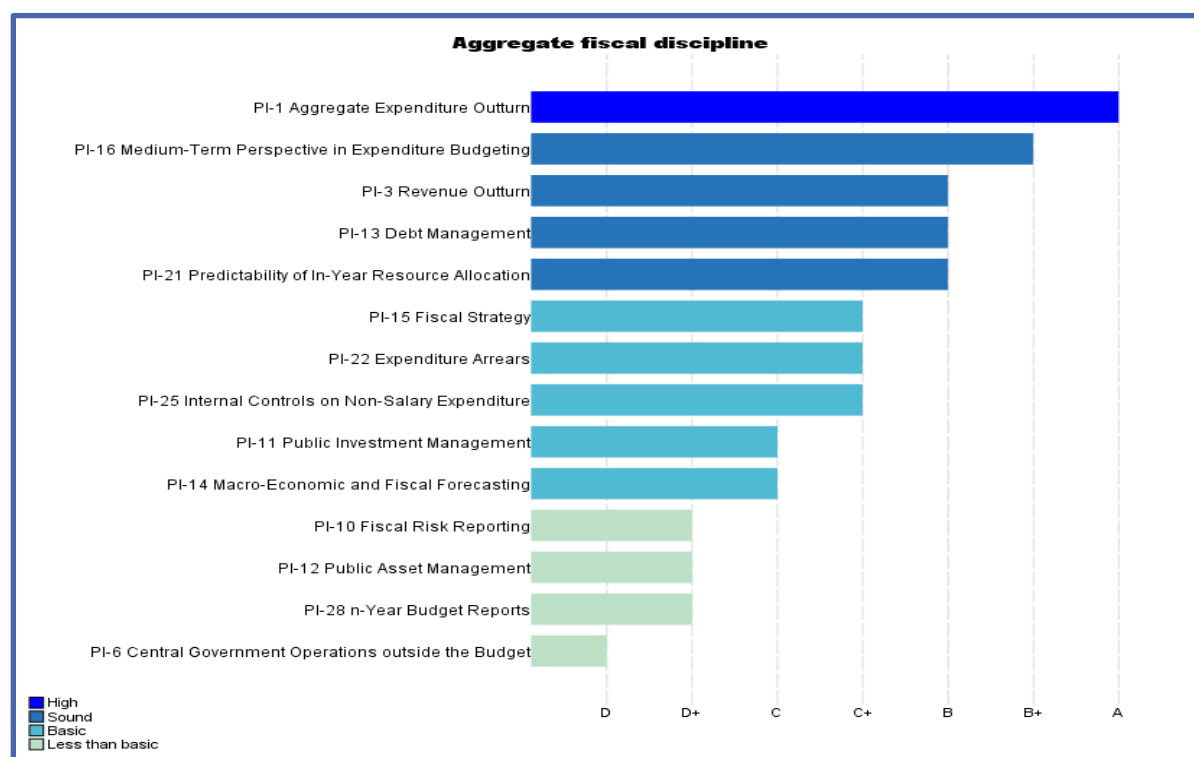
This section assesses the extent to which the PFM system, as measured by the performance indicators, enables the achievement of the planned fiscal and budgetary outcomes that encompass

aggregate fiscal discipline, the strategic allocation of resources, and the efficient use of resources for service delivery.

### 4.3.1 Aggregate Fiscal Discipline

Aggregate fiscal discipline requires that the budget should be delivered as planned, with effective systems for ensuring financial compliance by all staff engaged in PFM activities. The PFM functions that are focused on compliance must work well as measured by the relevant PFM performance indicators.

**Figure 8.4.3.1: Aggregate fiscal discipline**



The strengths of the PFM system in supporting aggregate fiscal discipline are evident in the strong control over expenditures, with spending consistently remaining within the approved limits of the Budget. This fiscal reliability is further reinforced by consistent revenue performance, where actual revenue collections align closely with forecasts, providing stability and enhancing the credibility of the Budget. The system's transparency is enhanced by minimal off-budget operations, which limits the fiscal risks. Additionally, the comprehensive management of both domestic and foreign debt ensures fiscal stability through the maintenance of accurate records of obligations. Long-term fiscal planning is supported by a clear and well-defined fiscal strategy and a robust Medium-Term Expenditure Framework that guide the allocation of resources over several years, ensuring consistency and discipline. Adherence to established rules for budget amendments strengthens fiscal stability by ensuring that any adjustments to the Budget are made within a controlled and predictable framework.

However, there are notable weaknesses. Weak fiscal risk reporting, particularly from local councils and state-owned enterprises, undermines the system's ability to fully monitor and control fiscal

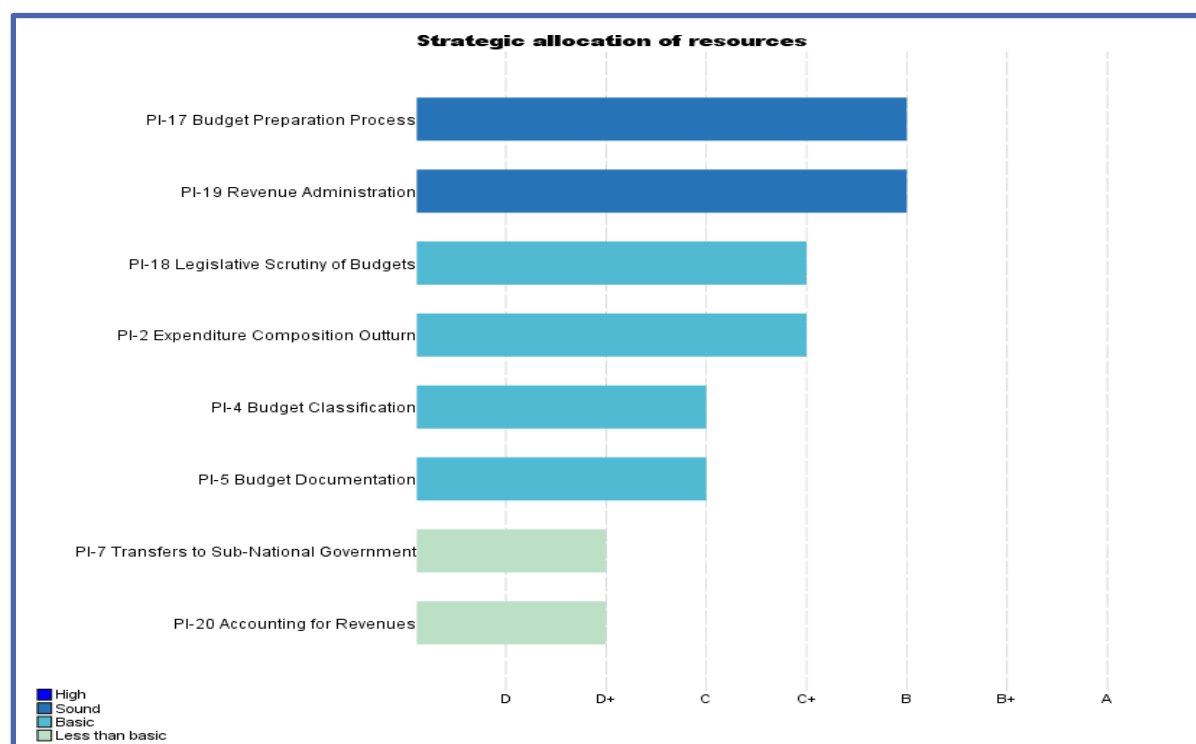


risks. Although expenditure arrears are relatively low at less than 6 percent of total expenditures, their presence signals occasional fiscal strain, indicating that fiscal stress can arise during certain periods. The reporting of in-year budget performance is also weak, which hampers timely interventions when spending deviates from the budget. Furthermore, the tracking and management of public assets remain ineffective, with incomplete records hindering overall fiscal control. Moreover, weaknesses in non-salary expenditure controls leave room for inefficiencies, adversely affecting budget execution and fiscal discipline.

#### 4.3.2 Strategic Allocation of Resources

The strategic allocation of resources requires the planning and execution of the budget to be in line with those Government priorities that are aimed at achieving its policy objectives.

**Figure 8.4.3.2 Strategic Allocation of Resources**



The budgeting process is robust, with clear documentation and detailed planning that help to ensure that resources are allocated efficiently. Comprehensive budget documents provide clear information for decision-makers, facilitating informed choices about how the resources are distributed. Additionally, strong revenue administration ensures that the Government collects the necessary funds to support its expenditures, reinforcing the strategic allocation of resources.

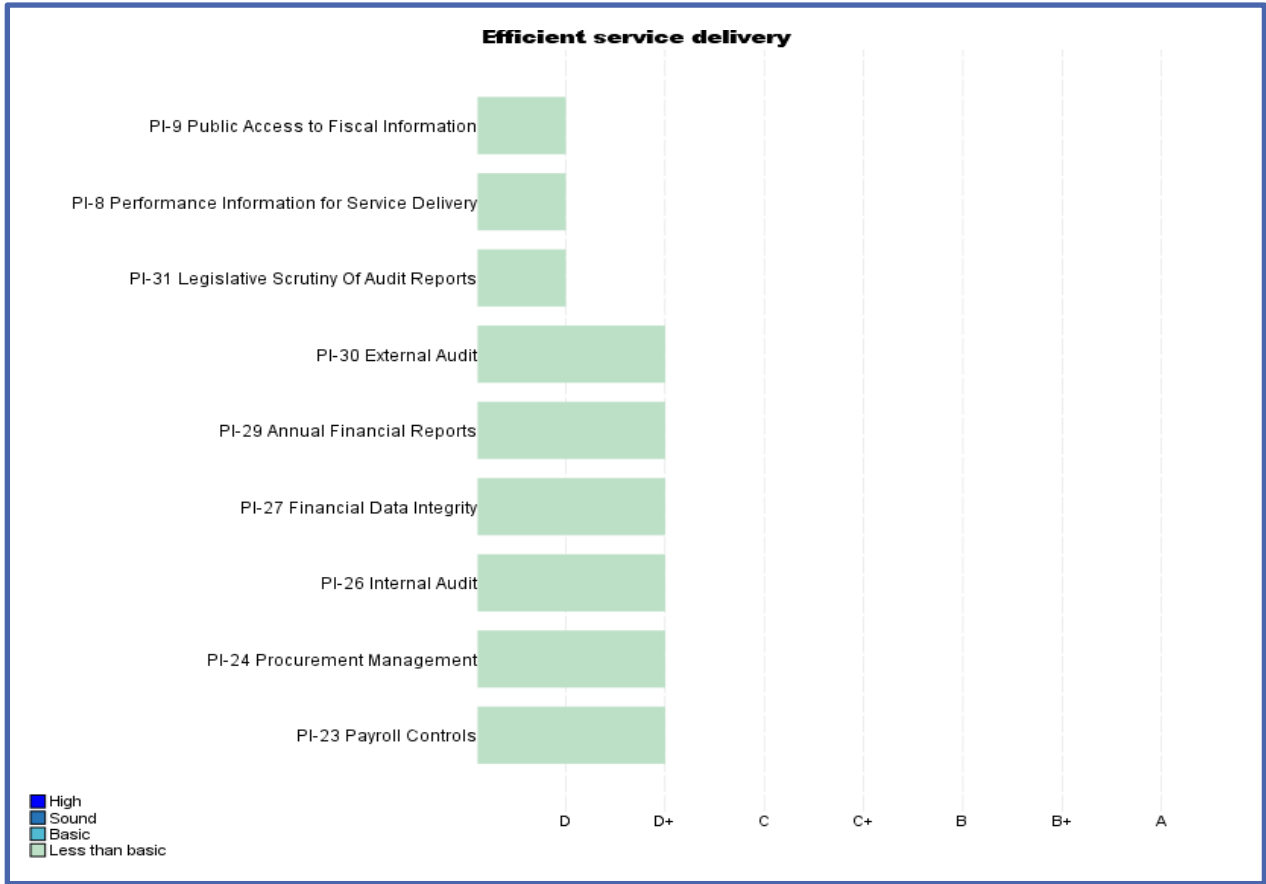
Despite these strengths, there are several challenges. Allocations to sub-national governments are often made without clear rules, leading to inefficiencies and a lack of predictability in resource distribution. Legislative scrutiny of the budget is also weak, with insufficient oversight to ensure that the allocations align with broader policy objectives. Furthermore, frequent reallocations of the budget during the fiscal year undermine the original allocation, diverting resources from priority areas. The management of public assets is weak as well, with incomplete records and ineffective tracking systems that hinder the efficient use of resources. Strengthening the rule-based allocation

of funds, enhancing legislative oversight, and improving asset management are necessary to ensure that resources are allocated more effectively and in line with strategic priorities.

4.3.3 *Efficient Service Delivery*

Efficient service delivery requires that the actual spending matches the budget allocation of the resources available for service delivery as planned, and that costs are minimised. Non-compliance with the budget may lead to a shift across expenditure categories.

Figure 8.4.3.3: Efficient Service Delivery



Several weaknesses within the Lesotho PFM system are impeding service delivery. For service delivery to be efficient, it must be supported by transparent systems that allow the public to access critical fiscal information, thereby fostering accountability and trust. The lack of published performance information reduces transparency and makes it difficult to assess whether services are being delivered effectively. Delayed scrutiny of audit reports by the Legislature hampers the ability to address issues on time, preventing necessary corrective actions from being implemented. In addition, the misalignment between physical progress on projects and financial data impacts the ability to accurately assess whether resources are being used effectively to meet service delivery goals. There are also inefficiencies in procurement reporting that undermine the overall effectiveness of public spending. Addressing these challenges by improving performance reporting, ensuring timely audits, and better aligning physical progress with financial data, will be crucial to improving the efficiency and effectiveness of service delivery.

Overall, the PFM system is generally supported by strong fiscal discipline and the strategic allocation of resources. However, service delivery is one of the areas that needs immediate improvement to realize the full benefits of a well-behaved PFM system. The Aggregate Fiscal Discipline Indicators reveal sound performance, particularly in areas such as aggregate expenditure outturn, medium-term perspectives in expenditure budgeting (PI-16), and revenue outturn, all of which are rated highly. Similarly, the Strategic Allocation of Resources dimension reflects commendable results in accounting for revenues and the budget preparation process, which are essential for prioritizing resources efficiently. By contrast, indicators under Efficient Service Delivery exhibit relatively weak outcomes, with most of them, such as payroll controls, internal audit, and financial data integrity, receiving low ratings. Moreover, critical areas like external audit and legislative scrutiny of audit reports also require significant strengthening to ensure transparency and accountability in service delivery. Addressing the gaps in service delivery while maintaining the strengths in fiscal discipline and strategic resource allocation will be pivotal for enhancing overall PFM effectiveness.

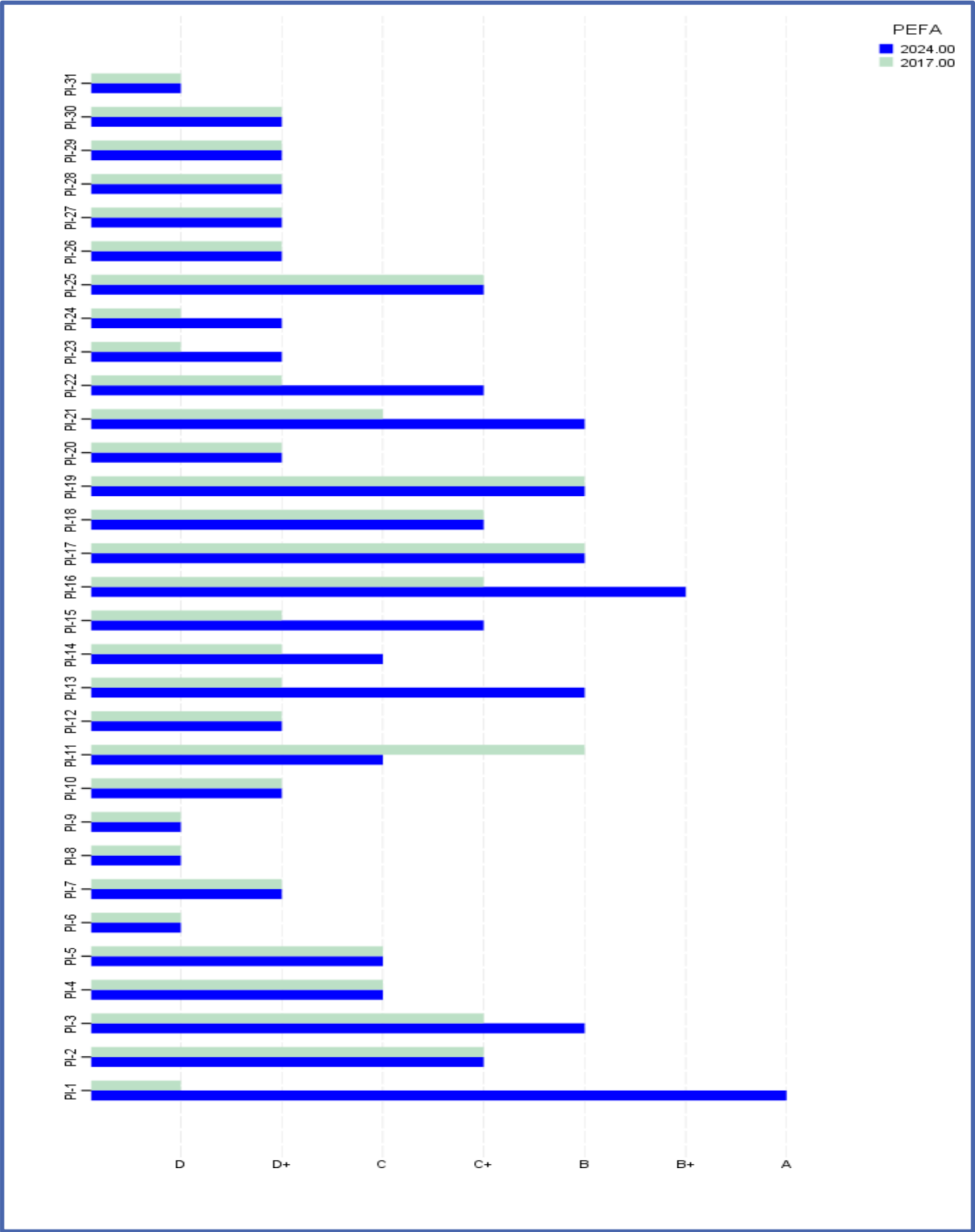
#### **4.4. Performance changes since the 2017 assessment**

This section introduces a dynamic perspective on PFM performance and its impact on achieving the three fiscal/budgetary outcomes. The table in Annex I shows in detail the scores of the 2017 and 2024 PEFA assessments following the 2016 PEFA methodology, while Figure 8.4.4.1 below shows a summary of the scores in terms of the indicators for the two periods.

Of the 31 evaluated indicators, 20 demonstrated no change from the previous assessment. While consistency is generally positive, it may also reflect stagnation or missed opportunities for further development. On the other hand, 10 indicators showed a marked improvement, which is evidence of targeted reform efforts and the successful implementation of enhanced practices. However, one indicator exhibited deterioration, an outcome that requires immediate attention to identify and address the root causes of the decline. This mixed distribution of performance changes demonstrates both progress and inertia, underscoring the need to replicate the successes of improved indicators while addressing areas of concern.

Between 2017 and 2024, notable progress was observed in several areas. The highest score of A, absent in 2017, was achieved in 2024 by one indicator, PI-1, signifying exemplary performance in that domain. Indicators scoring a B increased from three in 2017 to five in 2024, reflecting a move from moderate to good performance, though the B+ category remained unchanged, indicating limited progress into the more advanced levels of competency. The C category saw a slight increase, with the number of indicators rising from three to four, while the C+ category remained stable, with five indicators across both years. Although incremental progress was observed in moderate performance levels, greater strides are necessary to push these scores toward higher rankings.

Figure 8.4.4.1 PEFA Scores in terms of Indicators



The most significant improvement occurred in the D category, where the number of indicators dropped from seven in 2017 to four in 2024, signalling a reduction in the number of poorly performing areas. However, the D+ category only saw a marginal decline, from 13 indicators in 2017 to 11 in 2024. While these reductions in low-performing indicators are encouraging, they also highlight persistent challenges in overcoming entrenched issues. Overall, this comparative analysis reveals a mixed trajectory: while progress is evident in reducing low scores and achieving higher ones, many areas have stagnated, underscoring the need for sustained and systemic reforms to drive further improvements.

### **Aggregate Fiscal Discipline**

Moderate improvements were observed in macroeconomic and fiscal forecasting, with the enhanced reliability and timeliness of forecasts supporting better fiscal planning and policy formulation. Debt management also demonstrated gains, reflecting improved capacity for debt reporting and sustainability analysis. The decline in expenditure arrears highlighted progress in tracking expenditures and prioritizing payments, reducing fiscal vulnerabilities. Fiscal strategy formulation improved through better coordination across ministries and the adoption of enhanced medium-term frameworks, ensuring greater alignment with long-term development objectives.

These improvements were driven by the use of advanced modelling tools for fiscal forecasting, which enhanced the accuracy and timeliness of economic projections. These tools allowed the Government to include qualitative assessments of alternative macroeconomic scenarios in its fiscal forecasts. Collaboration with international organizations provided capacity-building opportunities in debt management, enabling better reporting and sustainability analysis. The 2022 Debt Sustainability Analysis (DSA) included stress tests for contingent liabilities, such as those from state-owned enterprises (SOEs) and public/private partnerships (PPPs). The implementation of stringent expenditure prioritization policies reduced arrears. These constituted less than 6 percent of total expenditure over the last three fiscal years, demonstrating progress in expenditure monitoring and timely payments. The adoption of structured fiscal strategies strengthened fiscal discipline across sectors.

### **Strategic Allocation of Resources**

Significant progress was observed in several areas under this outcome. For instance, improvements in expenditure composition outturn reflect better alignment between approved budgets and actual spending. This indicates that monitoring systems and reallocation mechanisms have been strengthened, allowing resources to be effectively directed toward priority areas. Budget classification systems also demonstrated enhancements, with reforms leading to better alignment with international standards. These improvements facilitated more accurate reporting and supported strategic decision-making processes. Additionally, budget documentation saw significant advancements in terms of comprehensiveness and transparency. Stakeholders now have access to more detailed and complete fiscal information, which aids in assessing national priorities and fiscal sustainability. The budget preparation process became more predictable and inclusive, with well-defined timelines and broader stakeholder engagement. This reflects a shift toward a more collaborative and transparent approach to budget formulation. Legislative scrutiny of budgets also showed marked improvement, with strengthened oversight mechanisms fostering greater accountability and enhancing the role of legislative bodies in fiscal governance.

Several factors drove these changes. The adoption of internationally recognized standards for budget classification improved reporting and comparability, which supported strategic alignment in

budgeting. The Government's budget classification now adheres to GFS/COFOG standards, at least at level 2, which enhances the comparability and transparency of financial data. Investments in institutional capacities and legal frameworks are ensuring the timely production of complete and transparent budget documentation. In addition, the alignment of budget preparation processes with medium-term expenditure frameworks (MTEF) further strengthened the connection between short-term budgets and long-term national priorities. Strengthened legal frameworks for legislative oversight also played a key role in enhancing the scrutiny of budgets, ensuring greater accountability in fiscal management. The Public Financial Management and Accountability Act (2011) has provided the foundation for better legislative oversight.

### **Efficient Service Delivery**

The provision of performance information for service delivery improved due to enhanced reporting and monitoring systems. These advancements have enabled policymakers and stakeholders to better evaluate service delivery outcomes, ensuring that public resources were effectively translating into tangible benefits. Public access to fiscal information also demonstrated marginal improvements, with the increased availability of key fiscal documents and data contributing to greater transparency and accountability. Payroll controls showed significant progress, with a reduction in ghost workers and the improved management of personnel records. These achievements were largely attributable to the digitalization and automation of payroll systems, which enhanced efficiency and reduced fraud. Similarly, procurement management improved through the implementation of centralized oversight mechanisms. These reforms resulted in better compliance with established frameworks and more efficient procurement processes. Internal audit systems also became more effective, enabling the timely identification and resolution of gaps in financial management.

The drivers behind these changes included the adoption of digital technologies, which streamlined processes and enhanced transparency. For example, the automated payroll systems addressed long-standing issues of inefficiency and fraud. Capacity-building initiatives in internal auditing and financial data management also played a key role in strengthening financial oversight. Furthermore, citizen engagement initiatives increased public access to fiscal information, fostering trust and accountability in governmental processes. By improving access to fiscal information, including budget documents and fiscal reports, the Government has empowered the citizens to engage with the budgeting process, leading to enhanced transparency and accountability in the use of public funds.

#### 4.5. PEFA Self-assessment 2024: Process, Outcomes and Way forward

In 2024, the Ministry of Finance and Development Planning (MoFDP) of the Government of Lesotho (GoL) conducted a Public Expenditure and Financial Accountability (PEFA) Self-Assessment (SA), with support from the EU Multi-Annual Indicative Programme (MIP) Cooperation Facility, Technical Assistance (TA) Project.

The PEFA methodology is a structured approach for producing reliable and actionable Public Finance (PF) datasets for seven PEFA Pillar Indicators. The PEFA Self-Assessment Approach aims to build enhanced PFM understanding, ownership and capacity within a critical mass of selected Government officials.

**The objectives of the Government of Lesotho's PEFA Self-Assessment (2024) are to:**

- 1) Use the PEFA (SA) Methodology as an entry-point to (a) provide updated evidence and analysis of PEFA Pillars Assessment Scores that will (b) trigger the PFM reforms more effectively. This objective is the key element in the Way Forward, with the PEFA SA analysis and findings being a catalyst for improved GoL PFM Reform implementation actions, to be captured in an updated GoL PFM Reforms Action Plan.
- 2) Institutionalize capacity and capability by involving and mobilizing a critical mass of GoL officials and developing a group of local economists as PEFA Experts who can take this methodology and the momentum in PFM Reform further. The institutionalization of capacity is also worked out in the Way Forward.

The Government's PEFA Self-Assessment 2024 report findings were finalized and shared with relevant stakeholders in December 2024, and will be handed over by the PEFA-SA lead, the Budget Controller/MoFDP, to the Principal Secretary Ministry of Finance and Development Planning in January 2025, marking the start of the Way Forward.

**PEFA 2024 Self-Assessment**

Following two PEFA assessments in 2012 and 2017, and a participatory needs-assessment carried out in March 2024 by the MoFDP and the EU's TA Project, it was concluded that an updated PEFA Assessment could streamline the GoL PFM Reform Agenda and strengthen the Government's PFM implementation capacity.

A major lesson learned from the two previous PEFA exercises was that Government ownership of the PEFA findings is crucial for stimulating the effective implementation of a Government-driven PFM reforms agenda. It was therefore decided that the PEFA 2024 would be **conducted as a PEFA Self-Assessment (SA)**, to systematically develop datasets in a participatory manner, mobilizing a critical mass of Government officials and counterparts to fully own "their" data sets, and allowing them to drive the Government's PFM reforms more effectively, to improve financial governance practices, and to better serve the citizens of Lesotho.





The PEFA SA exercise was led by the Office of the Budget Controller of the MoFDP, supported by an EU TA Project local Non-Key Expert and 7 local facilitators who were mobilized for this SA Exercise, and a regional PEFA Expert who quality controlled the PEFA SA process and results and ensured that the PEFA Secretariat (<https://www.pefa.org/>) Guidelines and Standards were followed in principle..

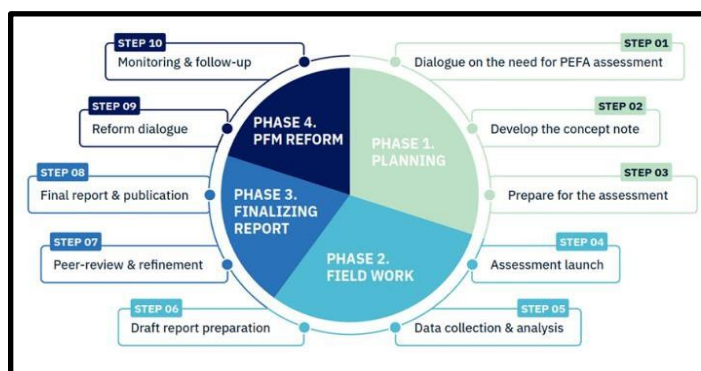
A critical mass of Government officials and stakeholders were mobilized:

- A targeted group of over 80 Government officials, from the MoFDP, line ministries and agencies
- The Government of Lesotho's Committee of Principal Secretaries
- Selected members of the Department of Economics of the National University of Lesotho (NUL), who were mobilized and engaged as PEFA Facilitators
- The Lesotho Institute of Public Administration (LIPAM) has been mobilized to institutionalize PEFA SA capacity through the development and delivery of tailored PEFA Training courses as part of the Way Forward actions.

### **PEFA SA Phases and Timeline**

The principles of the Lesotho PEFA Self-Assessment process followed the 4-phase, 10-step process outlined in the PEFA Secretariat chart (Source: PEFA Secretariat Guideline I).

- Phase 1: Planning started in Quarter 1 2024.
- Phase 2: Fieldwork was conducted in Quarters 2 and 3 of 2024.
- Phase 3: Report Finalization during Quarter 3 and 4 of 2024.
- Phase 4: PFM Reforms are scheduled to start from Quarter 4 of 2024.



The timeline of the GoL MoFDP PEFA Self-Assessment included some milestone moments that demonstrated the participatory process and mobilization of a critical mass of PEFA officials and counterparts. **Annex 6** provides details regarding the participatory SA process, which stretched from March to November 2024.

- March/April 2024: Identification of Government officials and other Government counterparts and mobilization of the EU TA Project Experts and the PEFA Facilitators.
- April 2024: Preparation of PEFA Documentation and Guidelines (Hard/Soft), drawing on the PEFA Secretariat Guidelines documents. This was issued to the selected facilitators.
- May 2024: PEFA Self-assessment exercise started with an action plan. The Budget Controller of the MoFDP led PEFA SA 2024, supported by CF TA Project Experts and facilitators. The Principal Secretary of the MoFDP guided the process, with identification of the configuration of Government officials and counterparts to be engaged.
- June 2024: Launch Meeting (10/6/24) of seven facilitators drawn from the NUL's Department of Economics. The facilitators interacted with PEFA Pillar/Indicator clusters of Government officials.
- June 2024: Mobilization of the Lesotho Institute of Public Administration (LIPAM). LIPAM is to participate in the PEFA SA exercise and the development of the LIPAM PEFA Training Courses.
- June 2024: GoL Counterparts Launch Meeting held at LIPAM Training Centre (21/6/24) for a targeted group of over 80 Government counterpart officials from line ministries and agencies.



- July 2024: First two-day Mission (26 & 27/7/24) to Maseru, where the regional PEFA Expert (a) quality controlled the PEFA SA Process, and (b) continued to provide on-the-job training to the PEFA Facilitators and selected GoL officials.
  - June/July 2024: Seven PEFA Facilitators started assessments with clusters of Government officials/Counterparts for each PEFA Pillar, and collected additional data to finalize a PEFA Pillar/Indicator assessment and score.
  - August/September 2024: PEFA Non Key Expert (NKE) and PEFA facilitators concluded with the PEFA Pillar clusters of selected Government officials, and initiated the first discussion about possible PFM Reforms to be triggered by the PEFA Pillar assessment.
- September 2024: The PEFA Pillar assessments were concluded and the PEFA Pillars were scored. The assessments and scores were presented (10/9/2024) by the Budget Controller and the PEFA Lead in a PEFA Findings dissemination workshop that was attended by about 60 Government PEFA counterpart officials.
- September 2024: A presentation of the PEFA SA findings was made separately to the Government of Lesotho Committee of Principal Secretaries on 19/09/24. In addition to presenting the PEFA SA 2024 findings, a first tentative discussion was initiated on possible PFM Reforms that could be triggered by the PEFA findings, which would require guidance and leadership from the Principal Secretaries.
  - October/November 2024: Finalization of the PEFA Report, following a 5-day (11-15/11/24) quality control visit by the regional PEFA Expert.
  - December 2024: Dissemination of the PEFA SA 2024 Report to the Government and relevant counterparts.
  - Jan/Feb 2025: Formal handover by the PEFA SA lead and Budget Controller of MoFDP of the PEFA SA Report to the PS MoFDP, GoL officials and PFM Development Partners.

OVERALL SUMMARY PEFA/PUBLIC FINANCIAL MANAGEMENT PERFORMANCE SCORES 2024										2017
PEFA/PFM Performance Indicator (PI)		Scoring Method	Dimension Ratings				Overall Rating		Overall Rating	
			I.	II.	III.	IV.				
Pillar I: Budget Reliability										
PI-1	Aggregate expenditure outcome	M	A				A		D	
PI-2	Expenditure composition outcome	M	C	C	B		C+		C+	
PI-3	Revenue outcome	M	B	B			B		C+	
Pillar II: Transparency of Public Finances										
PI-4	Budget classification	M	C				C		C	
PI-5	Budget documentation	M	C				C		C	
PI-6	Central government operations outside fiscal reports	M	D	D	D		D		D	
PI-7	Transfers to sub-national governments	M	C	D			D+		D+	
PI-8	Performance information for service delivery	M	D	D	D	D	D		D	
PI-9	Public access to key fiscal information	M	D				D		D	
Pillar III: Management of Assets and Liabilities										
PI-10	Fiscal risk reporting	M	D	D	C		D+		D+	
PI-11	Public investment management	M	C	D	B	C	C		B	
PI-12	Public asset management	M	D	D	B		D+		D+	
PI-13	Debt management	M	C	B	B		B		D+	
Pillar IV: Policy-Based Fiscal Strategy and Budgeting										
PI-14	Macroeconomic and fiscal forecasting	M	D	B	C		C		D+	
PI-15	Fiscal Strategy	M	C	D	A		C+		D+	
PI-16	Medium-term perspective in expenditure budgeting	M	B	A	A	C	B+		C+	
PI-17	Budget preparation process	M	C	A	C		B		B	
PI-18	Legislative scrutiny of budgets	M	B	A	C	C	C+		C+	
Pillar V: Predictability and Control in Budget Execution										
PI-19	Revenue administration	M	A	A	D+	B	B		D	
PI-20	Accounting for revenues	M	A	B	D+		D+		D+	
PI-21	Predictability of in-year resource allocation	M	C	A	B	B	B		C	
PI-22	Expenditure arrears	M	B	C			C+		D+	
PI-23	Payroll controls	M	B	A	A	D	D+		D	
PI-24	Procurement	M	D	D	D	A	D+		D+	
PI-25	Internal controls on non-salary expenditure	M	A	C	D		C+		C+	
PI-26	Internal audit	M	C	D	C	D	D+		D+	
Pillar VI: Accounting and Reporting										
PI-27	Financial data integrity	M	D	D	D	A	D+		D+	
PI-28	In-year budget reports	M	C	D	C		D+		D+	
PI-29	Annual financial reports	M	B	D	A		D+		D+	
Pillar VII: External Scrutiny and Audit										
PI-30	External audit	M	D+	D	C	D	D		D+	
PI-31	Legislative scrutiny of audit reports	M	D	C	D	D	D		D	

### **Outcome of the PEFA SA process**

The PEFA Self-Assessment 2024 approach enhanced the understanding, ownership and capacity of the selected group of over 80 Government officials who were involved. These officials were facilitated to define, produce, and analyze the PEFA Pillars data sets that were relevant to the policy or technical areas of their official work assignments. **Annex 5** provides details regarding the GoL officials engaged in the SA process.

The major outcome of the PEFA Self-Assessment 2024 is the capacitation of this critical mass of Government officials and other stakeholders who will be able to take forward more effectively the Government PFM Reforms Agenda. They will build on the systematically developed datasets and

PEFA Pillars assessments, which are fully owned by the Government officials and counterparts who engaged in this participatory PEFA SA exercise, thereby promoting more prudent financial governance practices that will better serve the citizens of Lesotho.

The critical mass of Government PEFA counterparts who have participated are selected officials of the line ministries' planning units and budget sections and officials from the relevant Agencies, such as the Central Bank, the Office of the Auditor General and the Department on Corruption and Economic Offences.

The PEFA SA 2024 will be shared with the PFM Development Partners – in particular, WB, USAID, IMF, EU, AfDB, UNICEF and GIZ – to facilitate the coordination of the respective PFM DP's support interventions in the Government's PFM Reform Agenda.

The immediate outcomes of the PEFA SA 2024 affect the targeted custodians, who are now better capacitated to address the Government PFM Reforms in their respective PEFA Pillar task areas.

### **The Way Forward: Priority PFM Reforms SA process**

A key objective of the Government of Lesotho PEFA Self-Assessment is to use the PEFA (SA) 2024 updated evidence and analysis of the PEFA Pillars Assessment Scores as a catalyst to identify and trigger priority PFM reforms, and to more effectively implement a GoL PFM Reforms Action Plan through the mobilized critical mass of Government counterpart officials. **Annex 6 provides details on the Way Forward.**

To develop a list of Priority PFM Reforms ("low-hanging fruit") that can be triggered by the PEFA SA findings, the Ministry of Finance and Development Planning, together with the Committee of Principal Secretaries, is to identify and prioritize the GoL's PFM Reforms, drawing on the PEFA SA 2024 findings. **The Office of the PS Finance of the MoFDP is proposed to lead the identification and prioritization of PFM Reform as triggered by the PEFA SA 2024, starting in Q1 2025.**

At present there is no comprehensive "stand-alone" consolidated GoL PFM reform agenda. The list of indicative GoL PFM Reforms is to be used as a guide, and was drawn and collated from the following GoL sources: 1) Budget Strategy Paper 2025/26, 2) Budget Speech (2024/25), 3) Budget Mid-Term Review (2024/25), 4) MoFDP Budget Matrix Speech/Recurrent/Capital (2024/25), 5) The NSDP-II Key Priority Area (KPA) IV (2023/24-2027/28), 6) NSDP-II KPA IV Reporting Template, 7) MoFDP Operational Plan (2024/25), 8) MoFDP Performance Contract (2024/25), 8) MoFDP Service Charter (2024), 9) the PFMA Act (2023) and 10) RSL Strategic Plan – Lesokoana (2024-2027), MoFDP Fiscal Rules (December 2024).

In addition, selected GoL PFM Reforms are triggered and supported by the major PFM DP's projects and programmes: 1) World Bank; Competitiveness and Financial Inclusion (CAFI) Project (2022-2028), Public Sector Foundations for Service Delivery (PSFSD) Project (2024-2027), Development Policy Operation (DPO) Prior Actions & Triggers (2024), 2) IMF: Article IV Policy Recommendations (2024), Tax Administration Diagnostic Assessment Tool (TADAT 2023) Risk Management, Fiscal Risk Statement (2024/25) Mitigation Measure, Global Public Finance Partnership (GFPF) Trust Fund Capacity Development Project (2024-2027), 3) US Millenium Challenge Account - II Passing Indicators (2022 - 2028), UNDP/EU Integrated National Financing Framework (INFF) Facility Lesotho, 4) AfDB Institutional Support Project for Debt and Expenditure Management (ISPDEM 2022-2025), and 5) EU Central Bank Lesotho TA/Capacity-building and the CF TA Project PEFA SA 2024.

The summary list of possible priority ("low-hanging fruit") PFM Reforms links the PFM Reform to the relevant PEFA SA 2024 Pillar, and proposes follow-through by:

- 1) **addressing that particular PFM Reform plus a specific working group of GoL Officials** who will draw on the insights obtained in the PEFA SA Exercise 2024, and in the process,
- 2)) **upgrade specific PFM routines and thereby realize improved PEFA Pillar scores.**

#	PFM Reform	Link to PEFA Pillar(s)
	Identify and select a specific GoL PFM Reform (“low-hanging fruit”) to be pursued for implementation	Link that PFM Reform to a relevant PEFA SA Pillar assessment-enhanced insight and findings, and activate the relevant mobilized PEFA Pillar cluster of Government officials

### **The Way Forward: Follow-up Actions**

The Government’s PEFA Self-Assessment 2024 Report is the end result of a collaborative process, and marks the start of the Way Forward actions that aim to institutionalize the PEFA capacity and capability that has been established through the PEFA Self-Assessment exercise in 2024. The Way Forward institutionalization measures address the **WHO, WHAT & WHEN** for the improved implementation of the Government’s PFM Reform.

- 1) **WHO Accredit the Lesotho local Experts as PEFA Experts.** These are the Lesotho local Experts who facilitated the Government officials, internalized the PEFA Secretariat Manuals and Guidelines and were provided with on-the-job training by the regional PEFA Expert. A deliberate follow-up accreditation track is to be activated to create a cadre of Lesotho PEFA Experts. The CF TA Project will develop an accreditation programme to “groom and graduate” the Lesotho Facilitators as PEFA Experts, seeking guidance from the PEFA Secretariat, the Collaborative Africa Budget Reform Initiative (CABRI), and the Lesotho Institute of Public Administration and Management (LIPAM). The Office of the Budget Controller of Mod, which was leading the PEFA 2024 Self-Assessment exercise, will coordinate the accreditation process from the Government’s side. This is scheduled for Q1-2025.
- 2) **WHO Institutionalize the configuration of Government officials by establishing Working Groups that will address specific (priority) PFM Reforms triggered by the PEFA-SA 2024.** The configuration of Government officials who have been engaged and mobilized in the PEFA 2024 exercise will be given guidance, and will interact and continue to enhance their analytical and operational understanding and ownership of their PEFA assessments and data sets, allowing them to maintain and update their (task area) PEFA indicators, and to activate updated policy-reform and actions. Fiscal Policy Actions and PFM Reforms are (effectively) implemented at Department level and in the relevant line ministries and agencies. To enhance the effectiveness of the implementation of specific PFM Reforms and Government Fiscal Policy Actions, the Government Officials will be clustered in Working Groups by PEFA Pillar, and/or according to a specific PFM Reform area/action. The PEFA SA Report Annex presents the critical mass of Government officials who will be mobilized in PFM Working Groups. The Office of the Principal Secretary (PS) d of the MoFDP and the Committee of Principal Secretaries are to lead the institutionalization and mobilization of these PFM Working Groups. The EU CF TA Project will provide targeted logistics support. This will be a continuous capacity-building effort starting in Q1 2025.

- 3) **WHAT & WHEN** The Lesotho PEFA SA 2024 was quality controlled by a PEFA Expert, and followed the steps described in the PEFA Secretariat Manuals and Guidelines. To strengthen the validity of the PEFA SA 2024 Analysis and Findings, **a series of Ex-post PEFA SA 2024 Report Peer Review Validations** are scheduled to:

- a) further improve the understanding of the Ministry of Finance and Development Planning regarding the PEFA process steps and methodology, and to draw on this understanding for future total PEFA updates or specific PEFA Pillar assessment updates, and strengthen the quality and usefulness of future PEFA reporting in providing accurate, reliable and actionable assessment of PFM performance
- b) validate the evidence, accuracy and relevance of the scores and findings of the 2024 PEFA Pillars assessments and Indicators, and to confirm that these provide accurate reflections of the status of the public financial management systems and institutions of the Government as captured in the indicator scores and narrative assessment, thereby supporting the priority PFM Reforms that are triggered by the PEFA SA 2024 findings.

The PEFA SA Report assessments and findings will be peer-reviewed and validated with the following relevant authoritative entities, further strengthening their ownership of the PEFA datasets and Pillar Scores: 1) Auditor General, 2) Accountant General, 3) Macro-Economic and Technical Working Groups, 4) Office of the Budget Controller, 5) Bureau of Statistics, 6) Public Debt Management Department, 7) Central Bank, 8) Planning/Budget Units of line ministries/agencies, 9) Department on Corruption and Economic Offences (DCEO), 10) Revenue Services Lesotho (RSL), 11) Lesotho National Development Cooperation (LNDC), 12) Open Budget Survey Representative, 13) Selected PFM Development Partners, 14) PEFA Expert/Consultant (to be identified), 15) the PEFA Secretariat and 16) Any other relevant Organization (to be identified). The peer review meetings will validate the PEFA SA Report assessments and findings.

The Office of the Budget Controller of MoFDP, who was leading the PEFA SA 2024, will coordinate the ex-post peer review validations, with support from the CF TA project and other PFM DPs, starting in Q1 2025.

- 4) **WHAT & WHEN** Develop and list **Priority PFM Reforms that are triggered by the PEFA SA findings (see Annex 6)**. The Ministry of Finance and Development Planning, together with the Committee of Principal Secretaries, is to identify and prioritize the GoL PFM Reforms, drawing on the PEFA SA 2024 findings. Related to this Way Forward action is the development of a comprehensive GoL PFM reform agenda which incorporates these priority PFM Reforms. The Office of the DPS Finance of the MoFDP is to lead the identification and prioritization of PFM Reform as triggered by the PEFA SA 2024, starting in Q4 2024.
- 5) **WHAT & WHEN** **Include PEFA SA Datasets in GoL Data Portals**. In addition to the PEFA SA Report and Annexes, the PEFA SA 2024-generated datasets, covering FY 2020/21, FY 2021/22, and FY 2022/23, are to be included in GoL Data Portals, enhancing these databases with authoritative quantitative and qualitative data, to be extracted for use in GoL public finance, budget, and accounting routine reports, and to further contribute to informed and reliable analysis. The GoL Data Portals are to be jointly updated and maintained by the relevant custodians. The GoL Data Portals are maintained by the Government: MoFDP, Budget Controller (CBMS/MTBF), Director of Macro (MTFF), Accountant General/AG (MTEF), Office of the Auditor

General/OAG (MTEF), Central Bank Lesotho, or another relevant GoL Department/Agency. Updating the GoL data portals will start from Q1-2025.

- 6) **WHAT & WHEN** **Develop LIPAM/NUL PEFA Courses.** The PEFA capacity established under the PEFA SA 2024 exercise is to be institutionalized by developing PEFA Training Modules and PEFA Training Courses that draw on the PEFA Guidelines and Training Materials and transform them into a LIPAM PEFA Training Course that is to be vested in the Lesotho Institute of Public Administration and Management, with lecturers to be drawn from the PEFA Facilitators, the National University of Lesotho's Department of Economics, and LIPAM. The NUL/LIPAM PEFA short and focused courses are intended to train a wider group of Government officials. The short and focused LIPAM PEFA Course will include (1) A general component on the PEFA Methodology (one full day), and (2) An applied part addressing a specific case or PFM Reform (2 days). The specific part targets and engages a specific working group/cluster of relevant GoL officials and addresses the PFM Reforms they are engaged with, taken from the GoL PFM reform agenda. MoFDP should prioritize the cases to be taken up in the LIPAM Courses. The DG LIPAM is to coordinate the development of the LIPAM PEFA course. CF TA will provide logistics and TA support. The development of the first LIPAM Pilot PEFA course is scheduled for Q1 2025.

## Annex 1. Performance indicator summary

Current assessment				Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
PI-1	Aggregate expenditure outturn	A		D	Major Improvement
	1. Aggregate expenditure out-turn	A	Aggregate expenditure outturn was between 95% and 105% of the approved aggregate budgeted expenditure in at least two of the last three years.	D	<b>Improvement:</b> Government Expenditure has been well-managed and balanced, with revenue growth. Aggregate expenditure deviations from the originally approved budget were well within acceptable limits in the last three completed fiscal years.
PI-2	Expenditure composition outturn	C+		D+	Improvement
	1.Expenditure composition outturn by function	C	Variance in expenditure composition by program, administrative or functional classification was less than 15% in at least two of the last three years.	D	<b>Improvement:</b> This dimension improved from a rating of D in 2017 to C in the current assessment. In the 2017 assessment, expenditure composition outturn by administrative heads exceeded 15 percent in each of the three years prior. However, in the current assessment, it remained below 15 percent in two of the last three years. This indicates improvements in budget formulation and preparation by line ministries, as well as more realistic budget forecasts.
	2.Expenditure composition outturn by economic type	C	Actual expenditure charged to a contingencies vote was on average more than 3% but less than 6% of the original budget.	D	<b>Improvement:</b> This dimension went from a rating of A in 2017 to a B in the current assessment. This is because of the increased expenditure that was primarily due to the response to the COVID-19 pandemic, which included assisting vulnerable people, providing rent subsidies to MSMEs, salary subsidies for factory workers, and general pandemic response efforts. Additionally, funds were used to address the effects of heavy rains and to implement cost-cutting measures necessitated by liquidity crises following the pandemic and natural disasters. As a result of these factors, the score for this dimension has decreased from the 2017 score.
	3.Expenditure from contingencies reserves	B	Actual expenditure charged to a contingencies vote was on average more than 3% but less than 6% of the original budget.	A	<b>Deterioration:</b> The use of the contingencies reserve has increased significantly since the 2017 assessment. Actual expenditures charged to the Contingencies Fund averaged 4 percent. This exceeds 3 percent but is less than 6 percent of the original budget. This increased expenditure was primarily due to the response to the COVID-19 pandemic. Additionally, funds were used to address

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
				the effects of heavy rains and to implement cost-cutting measures necessitated by liquidity crises following the pandemic and natural disasters.
PI-3	Revenue outturn	B	C+	Improvement
	1. Aggregate revenue outturn	B	B	No Change
	2. Revenue composition outturn	B	C	<b>Improvement:</b> In the previous PEFA Assessment (2017), the Revenue Composition Outturn had shown consistent performance with variance levels typically below 10 percent. Recent results reveal a composition variance of 8.8 percent in 2020/21 and 7.8 percent in 2021/22, both of which align with the previous standards. However, there was a notable increase to 15.7 percent in 2022/23, indicating a significant deviation from the original approved budget and highlighting a decline in the predictability of revenue sources compared to earlier assessments.
PI-4	Budget Classification	C	C	No Change
	1. Budget classification	C	C	No Change
PI-5	Budget documentation	C	C	No Change
	1. Budget documentation	C	C	No Change
PI-6	Central government operations outside financial reports	D	D	No Change



Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
1. Expenditure outside financial reports	D	Performance is less than required for a C score; at least half of Government expenditure from non-tax revenue and the expenditure from donor financed projects (more than 10% in total) are not captured in the CG's financial reports.	D	No Change
	D	Performance is less than required for a C score; interactions with GoL officials, along with a list of extrabudgetary units provided by PSD&FA, suggests that more than 10% of CG revenue falls outside its financial reports.	D	No Change
	D	Performance is less than required for a C score; according to the CG consolidated audited annual financial statements report for 2021/22, the majority of extra budgetary units and all CHAL institutions submit their annual financial statements to their respective ministries nine months or more after the end of the fiscal year.	D	No Change
<b>PI-7</b>	<b>Transfers to sub-national governments</b>	<b>D+</b>	<b>D+</b>	<b>No Change</b>
	1. System for allocating transfers	C	C	No Change
	2. Timeliness of information on transfers	D	D	No Change
<b>PI-8</b>	<b>Performance information for service delivery</b>	<b>D</b>	<b>D</b>	<b>No Change</b>



Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
	8.1. Performance plans for service delivery	D Performance is below a C score; some MDAs use outdated strategic plans, and their performance indicators in operational plans, the budget speech, and the budget book do not meet the PEFA framework requirements or the PFMA Act 2011.	D	No Change
	8.2. Performance achieved for service delivery	D Performance is below a C score; the performance indicators in the MDAs' operational plans, budget speech, and budget book do not meet the PEFA framework requirements or the PFMA Act 2011.	D	No Change
	8.3. Resources received by service delivery units	D Performance is below a C score; there are no surveys, evaluations, or follow-up reports for the past three years regarding the resources received by service delivery units.	D	No Change
	8.4. Performance evaluation for service delivery	D Performance is below a C score; there have been no independent evaluations or performance audits of the four ministries, including MoET and MoH, during the review period. Additionally, the Office of the Auditor General conducts performance audits only as needed, not for all ministries.	D	No Change
PI-9	Public access to fiscal information	D	D	No Change
	1. Public access to fiscal information.	D Performance is less than required for a C score; only two basic elements and one additional element out of the nine fiscal information benchmarks fully meet the PEFA Assessment criteria.	D	No Change
PI-10	Fiscal risk reporting	D+	D+	No Change
	1. Monitoring of public corporations	D PSD&FA rarely publishes a report on the financial performance of SOEs because many of them fail to submit their financial statements within the stipulated time. Nonetheless, the some SOEs submit their	D	No Change

Current assessment			Previous assessment (applying PEFA 2016 framework)		
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
			financial statements to their respective ministries and publish them.		
	2. Monitoring of sub-national governments	D	While the financial statements of district councils are audited together with MoLGC financial statements, there is no consolidated report on the financial position and performance of local governments.	D	No Change
	3. Contingent liabilities and other fiscal risks	C	The consolidated annual financial statements (AFS) of the Government of Lesotho quantify some of the significant explicit contingent liabilities and other fiscal risks. However, there are no contingent liabilities arising from one of the largest PPPs under the Ministry of Health.	D*	The consolidated annual financial statements (AFS) of the Government of Lesotho quantify some of the significant explicit contingent liabilities and other fiscal risks. This is in stark contrast to the previous assessment, where there was no information on contingent liabilities.
PI-11	Public investment management	C		B	Deterioration
	1. Economic analysis of investment projects	C	Some capital projects undergo PSIC and are appraised following the set guidelines. However, the results are not published and the economic analyses are not reviewed by any entity other than the sponsoring entity.	C	No Change
	2. Investment project selection	D	PSIC does not have standard criteria for prioritisation and selection of capital projects before they are included in the budget. The Cabinet considers and approves capital projects or budget as part of the National Budget.	B	<b>Deterioration:</b> There is an absence of clear criteria for assessing and prioritizing capital projects before they are included in the budget. The 2017 PEFA Assessment assumed that after the economic appraisal by the PSIC, the Cabinet would review and approve the projects using its own criteria. However, it was discovered during the data collection for this assessment that after the PSIC appraises the projects, they are directly sent to the Budget Office for inclusion in the budget, and the Cabinet provides comments on them as part of the proposed national budget.
	3. Investment project costing	B	The MTEF includes the includes the capital and recurrent costs of major investment projects for the next three years.	B	No Change

Current assessment				Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
	4. Investment project monitoring	C	The Department of Project Cycle Management (PCM) undertakes physical monitoring of all capital projects, but information on the implementation or deviations from the original plan is not published.	B	<b>Deterioration:</b> There is an absence of standard procedures and rules for project implementation, and the M&E reports on the implementation of major investment projects are published annually.
PI-12	Public asset management	D+		D+	No Change
	1. Financial asset monitoring	D	Private Sector Development and Financial Affairs (PSD&FA) keeps a record of major categories of financial assets financial assets, including equity holdings in state-owned entities (SOEs). However, the market value of these assets is unknown, and information on the performance of these assets is seldom published. The Central Bank of Lesotho (CBL) also manages financial assets such as foreign reserves, loans, and securities owned by the Government of Lesotho (GoL).	D	No Change
	2. Non-financial asset monitoring	D	The Treasury, Commissioner of Land, and some ministries maintain a partial register of some fixed assets owned by GoL. However, information on their age and usage is lacking.	D	No Change
	3. Transparency of asset disposal	B	The legal and regulatory framework provide for fixed asset disposal procedures. The consolidated annual financial statements provide partial information on the proceeds of fixed assets disposed of.	C	<b>Improvement:</b> This indicator increased from “C” to “B” because of the new Public Procurement Act of 2023 and changes made in the 2022/2023 financial statements, such as the recording of proceeds from the disposal of assets.
PI-13	Debt management	B		C+	Improvement
	1. Recording and reporting of debt and guarantees	C	The Public Debt and Aid Management Department (PDAMD) produces reports of both domestic and foreign debt, including debt guarantees, and most of the information is updated and reconciled at least quarterly. The June 2022 Debt Sustainability Analysis (DSA) included a contingent liability stress test designed to assess risks associated with	C	No Change

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
		extrabudgetary units, state-owned enterprises (SOEs), Public/private partnerships (PPPs), and financial market shocks.		
	B	There is a robust legal framework for managing public debt and issuing guarantees in Lesotho. Annual borrowing is budgeted for in the annual national budgets, which must be approved by the Cabinet and Parliament. However, there is a lack of compliance with the law, as new on-lent loans are still issued despite the defaulting status of some SOEs.	C	<b>Improvement:</b>
	B	The latest MTDS, dated November 2022, covers FY 2022/23-2024/25, includes a description of the existing debt portfolio's composition and evolution over time, as well as target ranges for indicators such as interest rates, refinancing, and foreign currency risks.	D	<b>Improvement:</b> The country has a medium-term debt management strategy that covers at least three years and has been published on the Ministry's website. The strategy also includes target ranges for debt sustainability indicators such as interest rates, refinancing, and foreign currency risks.
<b>PI-14</b>	<b>C</b>		<b>D+</b>	<b>Improvement</b>
1. Macroeconomic forecasts	D	The Government prepares forecasts of key macroeconomic indicators for the budget year and the two following fiscal years.	C	<b>Deterioration:</b> The Government has always included forecasts of only two of the four key macroeconomic indicators into the budget document, namely GDP and inflation; the exchange rate and interest rates were not included. It is unclear how the dimension scored a C in the last report.
2. Fiscal forecasts	B	The Government prepares forecasts of the main fiscal indicators, including revenues (by type), aggregate expenditure and the budget balance, for the budget year and two following fiscal years. These forecasts, together with the underlying assumptions, are included in budget documentation submitted to the Legislature.	C	<b>Improvement:</b> The dimension improved because the budget includes the underlying assumptions in the speech that is presented to the Legislature.
3. Macro-fiscal sensitivity analysis	C	The macro-fiscal forecasts prepared by the Government include a qualitative	D	<b>Improvement:</b>

Current assessment				Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
			assessment of the impact of alternative macroeconomic assumptions.		The improvement is due to the inclusion of the qualitative assessment of the impact of alternative macroeconomic assumptions in the macro-fiscal forecasts.
PI-15	Fiscal Strategy	C+		D+	Improvement
	1. Fiscal impact of policy proposals	D	The Government prepares estimates of the fiscal impact of only a few (not all) proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years.	D	No Change
	2. Fiscal strategy adoption	C	The Government has prepared for its internal use a current fiscal strategy that includes qualitative objectives for fiscal policy.	C	No Change
	3. Reporting on fiscal outcomes	A	The Government has submitted to the Legislature and published with the annual budget a report that describes the progress made against its fiscal strategy and provides an explanation of the reasons for any deviation from the objectives and targets set. The report also sets out actions planned by the Government to address any deviations, as prescribed in legislation.	C	<b>Improvement:</b> The mid-term review reports have led to an improvement of the score for this dimension from C to A.
PI-16	Medium-Term Perspective in Expenditure Budgeting	B+		C+	Improvement
	1. Medium-Term Expenditure Estimates	B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.	B	No Change
	2. Medium-Term Expenditure Ceilings	A	Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are approved by the Government before the first budget circular is issued.	A	No Change

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
3. Alignment of Strategic Plans and Medium-Term Budgets	A	Medium-term strategic plans are prepared for the majority of ministries and include cost information. The majority of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.	D	<b>Improvement:</b> The use of the CBMS has enabled this dimension's score to improve from a D to an A.
	C	The budget documents provide an explanation of some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.	D	<b>Improvement:</b> The improvement is due to the inclusion of explanations for some of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level
<b>PI-17</b>	<b>Budget Preparation Process</b>	<b>B</b>	<b>B</b>	<b>No Change</b>
	1. Budget Calendar	C	C	No Change
	2. Guidance on Budget Preparation	A	A	No Change
	3. Budget Submission to the Legislature	C	C	No Change
<b>PI-18</b>	<b>Legislative Scrutiny of budgets</b>	<b>C+</b>	<b>C+</b>	<b>No Change</b>
	1. Scope of budget scrutiny	B	B	No Change

Current assessment				Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
	2. Legislative procedures for budget scrutiny	A	The Legislature’s procedures for reviewing budget proposals are approved by the Legislature in advance of budget hearings and are adhered to. The procedures include arrangements for public consultation.	A	No Change
	3. Timing of budget approval	C	They also include internal organizational arrangements, such as specialized review committees, technical support, and negotiation procedures.	C	No Change
	4. Rules for budget adjustments by the Executive	C	The Legislature has approved the annual budget within one month of the start of the year in two or more of the last three fiscal years.	C	No Change
PI-19	Revenue administration	B		B	No Change
	1. Rights and obligations for revenue measures	A	RSL provides information regarding taxpayers’ obligation and rights on its website for easy access, which is simple to comprehend and download. Also, the Ministry of Natural Resource, through the Departments of Energy and Water, as well as Ministry of Mining, has made information about the obligations and rights of their customers readily available in their respective websites.	A	No Change
	2. Revenue risk management	A	Unlike in the previous PEFA Assessment, RSL (then the LRA) has developed the Compliance Model in 2016 to assist in understanding the factors that influence taxpayer behaviour (business/industry-related, industry, sociological, financial and psychological) and apply the most appropriate compliance strategy.	C	<b>Major Improvement:</b> The non-compliance with revenue laws is a violation that severely impacts the Government’s budgeting due to inadequate funding. In this regard, the RSL (then known as the LRA) has launched an initiative to assist in understanding the factors that influence taxpayer behaviour (business/industry-related, sociological, financial and psychological) and applying the most appropriate compliance strategy, by developing a compliance model in 2016. The foundation of the model is the taxpayer cycle, which includes Registration, Filing, Declaration and Payment.
	3. Revenue audit and investigation	D*	For the fiscal year 2022/2023, there were no audited reports produced by RSL and other	C	<b>Deterioration:</b> The RSL has no audit reports for the period under the review.

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
		collecting entities, implying that no audit was performed.		
	4. Revenue arrears monitoring	B The other agencies collecting most government revenue did not report their stock of revenue arrears, so the results are mainly from RSL.	B	No Change
PI-20	Accounting for revenue	D+	D+	No Change
	1. Information on revenue collections	A RSL collects from its clients on weekly basis, while the Ministry of Natural Resources (MoNR), through the Department of Water and Energy collects on a daily basis.	D	<b>Improvement:</b> The Treasury Main's Revenue Account obtains revenue data at least weekly from entities collecting the most Central Government revenue, namely RSL and line ministries, broken down by revenue type and consolidated into status reports.
	2. Transfer of revenue collections	B RSL collects revenue on daily basis to its commercial bank accounts across the ten districts but sweeps to the Treasury's Main Revenue Account on a weekly basis.	B	No Change
	3. Revenue accounts reconciliation	D* Both the Tax Revenue and Non-Tax Revenue are not subjected to reconciliation of collections, transfers and arrears.	D	<b>Deterioration:</b> In 2024, there was no information provided on revenue reconciliation of tax assessments, collections, transfers and arrears for the entity collecting the most revenue, namely the RSL, which collects tax revenue.
PI-21	Predictability of in-year resource allocation	B	C	Improvement
	1. Consolidation of cash balances	C The bank accounts in the Treasury Single Account (TSA) are being consolidated on daily basis, while most of the other bank accounts are consolidated monthly.	D	<b>Improvement:</b> The Bank Account Register shows that the Government has 368 bank accounts outside the Treasury system operated and maintained by the line ministries. Of these bank accounts, eight are included in the Treasury Single Account (TSA) and are consolidated on a daily basis, while most of the other bank accounts are consolidated monthly. At the end of every fiscal year, all the line ministries transfer their account balances to the Main Revenue Account, except for the Long-term Training Program, which sweeps on a weekly basis.
	2. Cash forecasting and monitoring	A The cash flow forecasting is prepared at the beginning of every fiscal year and is updated on a daily basis thereafter.	D	<b>Improvement:</b> In the previous assessment, ensuring the existence of a functional cash flow management framework including cash flow monitoring for efficient and effective use of the Government's



Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
				cash resources was not happening, but now cash flow forecasting is being prepared at the beginning of every fiscal year and is updated on a daily basis.
3. Information on commitment ceilings	B	According to the Warrants Release, the Ministry of Finance (MoF) issues quarterly expenditure commitment ceilings to line ministries, though actual cash is released on a weekly basis, or if the need arises.	B	No Change
4. Significance of in-year budget adjustments	B	In the periods under review, requests, and approvals of significant budget adjustments have been made and recorded.	B	No Change
<b>PI-22</b>	<b>Expenditure arrears</b>	<b>C+</b>	<b>D+</b>	<b>Improvement</b>
1. Stock of expenditure arrears	B	The stock of expenditure arrears is less than 6% of total expenditure in the last three completed fiscal years – 2020/2021, 2021/2022 and 2022/2023.	D	<b>Improvement:</b> Unlike in the previous assessments, there has been a record of expenditure arrears for all the financial years under review, even though there is a positive trend in the percentage share of expenditure arrears compared with total Central Government expenditure, indicating that arrears are increasing over time.
2. Expenditure arrears monitoring	C	Even though the analysis of expenditure arrears provides an age analysis of arrears classified as over a year, over six months, over three months and less than three months, they are consolidated on an annual basis.	C	No Change
<b>PI-23</b>	<b>Payroll controls</b>	<b>D+</b>	<b>D</b>	<b>Improvement</b>
1. Integration of payroll and personnel records	B	The Ministry of Public Service runs the payroll, though changes within the system are performed by responsible MDAs, implying that it has been decentralized.	D	<b>Improvement:</b> In the previous assessment, ministries maintained the personnel records whilst management of the payroll was centralised within the Ministry of Finance. However, with the new system, the ministry is responsible for running the payroll, though changes within the system are performed by responsible MDAs, implying that it has been decentralized.

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
2. Management of payroll changes	A	With the new system, HRMIS, the Organisational Development (OD) Department controls establishment management. This includes the creation, filling, abolition, and funding of positions. MDAs are responsible for capturing authorised changes in the system on a monthly basis before the next payroll cycle.	D	<b>Improvement:</b> With the new system, HRMIS, the Organisational Development (OD) department controls establishment management. This includes the creation, filling, abolition, and funding of positions, while in previous assessments Causality Returns (“CRs”) were used to effect changes.
	A	The changes in the MDAs undergo a chain process, with the HR officer executing the changes, the HR manager reviewing the changes and the HR director or HR head approving the changes made within the particular time allowed.	D	<b>Improvement:</b> A new system, HRMIS, has been set up, in which the authority to change records and payroll is restricted.
	D	Nothing has been done regarding the auditing of the payroll.	D	No Change
PI-24	<b>Procurement</b>	<b>D+</b>	<b>D</b>	<b>Improvement</b>
	1. Procurement monitoring	D	D	No Change
	2. Procurement methods	D	D	No Change
	4. Public access to procurement information	D	D	No Change
	4. Procurement complaints management	A	D	<b>Major Improvement:</b> There is a Procurement Tribunal body that is independent, does not charge fees to concerned parties, and publicizes the complaints after reviewing and reaching its decisions in a time frame of 10 working days; this was not the case during the previous assessment.

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
		concerned parties and has the authority to suspend a procurement process.		
<b>PI-25</b>				
<b>Internal controls on non-salary expenditure</b>	<b>C+</b>		<b>C+</b>	<b>No Change</b>
1. Segregation of duties	A	The Public Financial and Management and Accountability Act, 2011 and Treasury Regulations, 2014, Public Procurement (Amendment) Regulation, 2018, contain rules, regulations and procedures that guides the segregation of duties regarding the Government of Lesotho (GoL) expenditure processes.	A	No Change
2. Effectiveness of expenditure commitment controls	C	In IFMIS, budget line items show the budget for the given financial year and the available funds at that particular point in time, implying that it is not possible to commit beyond what is available. Hence there is monitoring of the commitments.	C	No Change
3. Compliance with payment rules and procedures	D	There is no evidence of the payment vouchers of the period under review.	D	No Change
<b>PI-26</b>				
<b>Internal audit</b>	<b>D+</b>		<b>D+</b>	<b>No Change</b>
1. Coverage of internal audit	C	Line ministries do have their own auditors, though some are still not functional. This implies that where audits were performed, audit reports will be produced.	C	No Change
2. Nature of audits and standards applied	D	For the two fiscal years 2020/21 and 2021/22, there were nine internal audits undertaken in line with the audit standards.	D	No Change
3. Implementation of internal audits and reporting	C	There is an operational plan for Ministry of Finance, and there were also a few reports produced in the 2022/23 financial year.	C	No Change

Current assessment				Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension		Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
	4. Response to internal audits	D	Though limited in scope, there has been some indication of executive action or response prompted by the audit findings, though only for the fiscal years 2020/2021 and 2021/2022.	D	No Change
PI-27	Financial data integrity	D+		D+	No Change
	1. Bank account reconciliation	D	Reconciliations of all active bank accounts do take place, but there is no evidence to show whether they take place on a monthly, quarterly or whatever time basis, as there is a lack of monitoring relating to submissions to the Treasury, and there are no dates and/or signatures attached to the reconciliations.	D	No Change
	2. Suspense accounts	D	The only suspense accounts are the below-the-line accounts which date as far back as 2009 and have not been reconciled since then.	D	No Change
	3. Advance accounts	D	Advance accounts still had balances at reporting dates, indicating that they are not being cleared in a timely manner.	D	No Change
	4. Financial data integrity processes	A	Financial data is kept in the IFMIS electronic system. IFMIS assures financial data integrity process with audit trails; access is limited to authorized personnel only, and changes to records and data are restricted and recorded through separation of duties and access in line with duties through controlled passwords.	A	No Change: Performance is still the same as the previous assessment. However, IFMIS has been upgraded from Epicor version 7 to Epicor version 10.
PI-28	In-year budget reports	D+		D+	No Change
	1. Coverage and comparability of reports	C	The in-year budget report is compatible with approved budget classification and allows for direct comparison. However, expenditure for devolved units such as the extra-	C	No Change

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
		budgetary units is still not incorporated into the consolidated reports.		
	D	In-year budget reports are supposed to be issued quarterly and presented to Cabinet and Parliament by the Office of the Accountant General. However, the only report available was the mid-year budget review report for 2022/2023 on the website of the Ministry of Finance and Budget Office. Quarterly reports were not available.	D	<b>No Change:</b> Instead of an improvement since the last assessment, there is a deterioration of performance, since no in-year quarterly budget reports were reported during the financial year 2022/2023.
	C	There are still significant concerns regarding data integrity due to possible backdating and adjustments even after year end. Expenditure in the reports reflects the payment and committed stage.	C	No Change
<b>PI-29</b>	<b>D+</b>		<b>D+</b>	<b>No Change</b>
1. Completeness of annual financial reports	B	Financial Statements are prepared annually and are consistent with the approved budget. All of the minimum requirements of IPSAS cash basis have been complied with. AFS contains information on revenue, expenditure, financial assets and financial liabilities, guarantees and long-term obligations.	B	<b>No Change:</b> Since the last PEFA 2017 report which indicated that Local Authorities were not included in the Consolidated Financial Statements, the 2023 financial statements now include Local Authorities as part of the Consolidated Financial Statements, while public entities (state-owned enterprises and autonomous bodies) and other extra-budgetary units are still excluded from the Consolidated Financial Statements for the year ending 31 March 2023.
2. Submission of reports for external audit	D	Financial statements are supposed to be submitted for audit within 5 months of the end of the financial year. However, the financial statements for 2023 were submitted 15 months later.	B	<b>Deterioration:</b> This is due to delays by the Office of the Auditor General in completing the 2022 financial statements audit within the time stipulated by the Act. The Audit Report for 2022 was released 2 years later following the AFS submission for audit, thereby causing delays in the submission of the 2022/2023 audit of annual financial statements.
3. Accounting standards	A	<b>The financial statements are prepared in accordance with IPSAS cash basis. Accounting standards have been</b>	D	<b>Improvement: The consolidated statements for the last three years under assessment (2021, 2022, 2023) are mostly IPSAS – Cash basis compliant, as opposed to the last PEFA Assessment, where only one financial year 2015/2016 was</b>

Current assessment			Previous assessment (applying PEFA 2016 framework)	
Pillar Indicator/Dimension	Score	Description of requirements met	Score	Explanation of change (Including comparability issues)
		consistently applied for the last three years financial under assessment.		almost IPSAS compliant. Accounting standards have been consistently applied over the last three years, even though according to the Office of the Auditor General, the financial statements still reveal a small number of accrual items which had not been cleared at the reporting date of 2021/2022 fiscal year.
PI-30	External Audit	D+	D+	No Change
	1 Scope of Budget Scrutiny	D*	C	Deterioration: There was insufficient information.
	2. Submission of Audit Reports to The Legislature	D	D	No Change
	3. External Audit Follow-Up	C	C	No Change
	4. SAI Independence	D	D	No Change
PI-31	Legislative Scrutiny of Audit	D	D	No Change
	1. Timing of Audit Report Scrutiny	D	D	No Change
	2. Hearings on Audit Findings	C	D	Improvement: There have always been in-depth hearings on the key findings of audit reports for a few audited entities; this qualifies for a 'C' score. In the last report, the score was downgraded to a 'D' score due to time delay impacts, which should not be a qualifying factor for this dimension.
	3.Recommendations on Audit by the Legislature	D	D	No Change
	4. Transparency of Legislative Scrutiny of Audit Reports	D	D	No Change



## Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a consistently supportive attitude toward internal control throughout the organization.	In an effort to make sure that the controls are adhered to, each ministry has an internal audit unit technically supported by the Ministry of Finance and Development Planning through the Treasury Department. These units are vital in evaluating the efficiency and effectiveness of operations and systems in line ministries, and may facilitate a response for the implementation of recommendations of the Auditor General reports. However, these units appear to be ineffective due to a lack of implementation of the recommendations, high staff turnover, lack of utilization, and management support to auditors.
1.2 Commitment to competence	Although the issue of commitment to competency could not be ascertained in depth by the team of assessors, the qualifications, experience, knowledge, and positions of senior office bearers are clearly defined. The Public Service Commission is responsible for selecting persons to hold offices in the public service having the required skills, knowledge, and qualifications. These include appointments, confirmations, and separation of office bearers. Moreover, the Government is committed to training staff. For example, in the accounting and procurement department, through the Chartered Institute of Public Finance and Accountancy (CIPFA) and Chartered Institute of Procurement and Supply (CIPS), professional programs are run by the Centre for Accounting Studies and LIPAM respectively.
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	The control environment is strengthened by the existence of the 1993 Constitution of Lesotho, plus additional laws and regulations. Specifically, these are the Public Finance Management Accountability Act 2011, the Treasury Regulations from 2014, and the Audit Act of 2016, among others. The PFMAA (Sections 1(a) and 2(g)) makes both the Minister and Chief Accounting Officer responsible for implementing and maintaining sound systems of internal control. However, the Auditor General still raises concerns regarding issues of non-compliance to the public sector’s control systems.
1.4 Organisational structure	<p>The organizational structures in the MDAs are established with clearly defined positions, job descriptions and reporting lines. This applies even to Cabinet and/or Parliament, which act(s) as an oversight body.</p> <p>Rules, regulations and policies such as the PFMAA and Treasury Regulations clearly stipulate the duties, responsibilities and reporting lines of employees (including both finance and non-finance officers) in their areas of work. These structures are put in place to promote strong controls and compliance with rules and regulations in the public sector.</p> <p>The Government is committed to the continuous improvement of business processes. Accordingly, a variety of reforms are ongoing, such as the PFMA bill that is currently being reviewed.</p>
1.5 Human resource policies and practices	Job descriptions are in place to guide employees on the responsibilities and key performance areas in their MDAs.
<b>2. Risk assessment</b>	
2.1 Risk identification	



2.2 Risk assessment (significance and likelihood)	During the period of assessment, organization-wide risk assessments were not conducted at the ministries for the assessment and evaluation of the impact of the external environment and internal processes on the existing systems of control. Therefore the assessors could not established the levels of risk appetite.  However, Enterprise Risk Management has recently been introduced in the GoL, whereby the Internal Audit has been assigned to facilitate the implementation of this process to line ministries. Four ministries were selected to pilot this process, during which risk profiles and registers will be established.
2.3 Risk evaluation	
2.4 Risk appetite assessment	
2.5 Responses to risk (transfer, tolerance, treatment or termination)	
<b>3. Control activities</b>	
3.1 Authorization and approval procedure	Authorization and approval procedures are clearly defined and established in the regulations. Even though ministries are accountable for the warrants and budgets, all payments and cash movements are managed centrally by the Ministry of Finance and Development Planning which funds the line ministries and allows them to transact and pay for the acquisition of goods and services based on their approved budgets. There is a clear segregation of duties, even within the ministries. The official who initiates payments is different from the one who approves payments, and the one who approves the payments is also different from the one who authorizes the payments. There is also an examination office which is responsible for checking that all payment processes and steps have been adhered to by responsible officers. This also applies to the IFMIS, where too there is a segregation of duties from initial requisition of transactions to authorization; individuals can only access a single functionality relating to their role within the IFMIS.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	As has been clearly outlined above, the segregation of roles and responsibilities exists in all transactional processes. The responsibilities of different public officers in the accounting cadre are also outlined in the PFMA Act, the Treasury Regulations and other Acts.
3.3 Controls over access to resources and records	There are controls over the access to resources and records. Physical controls such as having lockable cash boxes that can be accessed by an individual responsible for collection are used in some offices that collect revenue. For automated controls, every user of IFMIS has unique roles with different passwords that allow them to access the system. No individual can access the system unless they have first been created in the system. All transactions that take place in the IMFIS result in an audit trail by which it can be established with certainty who accessed the system and what they did there. However, a challenge remains with hard copies, including source documents, which may easily be missed.
3.4 Verifications	To verify some of the activities that took place during the period under review, the Office of the Auditor General conducted a performance audit, though not all ministries were included in that exercise. Inspection is also one form of verification for goods and services rendered. Reference is made to P1-11.4. The Department of Project Cycle Management (PCM) in the Ministry of Finance and Development Planning (MoFDP) is tasked with monitoring all capital investment projects. Therefore, there is monitoring and evaluation of all capital projects that involves verifying the project activities in terms of both the physical progress of the work and its financial progression. Inspection is the most accepted practice for verifying goods and services. While physical inspections are carried out for certain projects, there is no formal standard documented procedure in place to define how the monitoring is to be carried out, and what the critical items are that should be flagged or be confirmed as being OK during the verification process and exercise (refer to project inspection PI-11.4) The implementing government unit or line ministry carries out the inspection and monitoring for verification purposes.

3.5 Reconciliations	Most donor-funded projects are reconciled regularly on a monthly basis at the donors' insistence, and are subjected to periodic monitoring – something that is lacking in the governmental framework. While Treasury-managed bank accounts appear to be reconciled on a monthly basis, approval and authorization signatures to verify the monthly reconciliations are not dated. The Office of the Auditor General (OAG) also highlighted in the 2022 Audit Report that some centrally managed bank account balances were still not fully reconciled as of 31 March 2022.
3.6 Reviews of operating performance	Performance management is assessed through the MDAs' annual budgets, and budget reports are supposed to be produced on a quarterly basis. However, this seems to something of a challenge in this area, as no in-year and quarterly budget reports were available for any of the periods under review except for a mid-year budget review report. It is difficult to monitor the performance of the line ministries when no reports are produced. There is also a lack of submissions of monitoring reports to the Office of the Accountant General in this area.
3.7 Reviews of operations, processes and activities	There are minimal reviews of operations, processes, and activities, as the Auditor General's reports on the ministries mostly concern financial performance. There were also no reviews performed by the Internal Audit Unit.
3.8 Supervision (assigning, reviewing and approval, guidance and training)	The repetitive negative findings reported by both the internal and external auditors indicate a weak system of supervision. Management has failed to introduce and/or apply systems and processes to quality-assure performance and promote compliance.
<b>4. Information and communication</b>	Information regarding internal control procedures and roles in the form of various Acts and regulations is freely available on the website. Any circulars concerning these controls are always shared with different ministries. In sum, there is communication regarding the available manuals and procedures. In-year budget reviews are published on the website for anyone to access. The audited financial statements are also published, and the public can access the hearings as they are broadcast live on national TV and radio. However, the 2023 AFS had not been audited and published at the time this report was written.
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	There is a challenge with in-year budget reports, which the spending units are supposed to submit quarterly to the Accountant General in their annual plans. The MOFDP (via the Treasury) is failing to monitor the reports submitted by the line ministries, including their bank reconciliation statements. The Internal Audit Department is also supposed to monitor the control systems, but they are not performing as expected.
5.2 Evaluations	Reviews and evaluations are mainly conducted independently by the OAG and Internal Auditors.
5.3 Management responses	As discussed above, the responses and undertakings given to both internal and external audit observations are not formalized as a plan or working document.  This prevents management from monitoring and conducting its own assessments of progress, risks, and any weaknesses that need to be addressed.

## Annex 3: Sources of information

### Annex 3C: Sources of information used to extract evidence for each of the indicator scores

#### General

- Public Expenditure and Financial Accountability (PEFA) Lesotho Final Report, 5 November 2012, ACE Consultants, funded by the EU
- Public Expenditure and Financial Accountability (PEFA) Assessment 2016 Final Report, April 2017, LINPICO Consultants, funded by the EU
- PEFA Handbook, Volume I: The PEFA Assessment Process – Planning, Managing and Using PEFA Second edition, November 2018, PEFA Secretariat
- PEFA Handbook, Volume II: PEFA Assessment Field Guide Second edition, December 2018, PEFA Secretariat
- PEFA Handbook, Volume III: Preparing the PEFA Report Third edition, September 2023, PEFA Secretariat
- PEFA Handbook, Volume IV: Using PEFA to Support Public Financial Management Improvement, PEFA Secretariat
- Guidance on how to use PEFA for fiduciary assurance March 2023, PEFA Secretariat
- AGILE REPORT - TONGA Jan 20-PFMPR-Public with PEFA Check
- Agile\_PEFA\_EN\_final\_updated
- Nauru-PEFA-2016-Self-Assessment-Report
- PEFA PFM and Good Governance – 2019
- Stocktaking of Public Financial Management Diagnostic Tools: Global Trends and Insights (2022), Published August 2023:  
<https://www.pefa.org/resources/stocktaking-public-financial-management-diagnostic-tools-global-trends-and-insights-2022>
- PEFA 2016 Framework: <https://www.pefa.org/book-pefa-2016-framework>
- PEFA Lesotho: <https://www.pefa.org/country/lesotho>
- PEFA Videos:  
<https://www.bing.com/videos/search?q=PEFA+Self+assessment&qpv=PEFA+Self+assessment&FORM=VDRE>
- PEFA Online Course:  
<https://www.pefa.org/resources/pefa-check-quality-endorsement-pefa-assessments> and  
<https://www.pefa.org/news/pefa-e-learning-course-available-olc-and-edx-platform>
- Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report 2020 Final Report February 21, 2021: Maldives
- Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report 2020 Final Report February 21, 2021: Tanzania Mainland

Indicator/dimension	Data Sources
I. Budget Reliability	
PI-1 Aggregate Expenditure Outturn	Central Budget Management System 2020-21 Consolidated Annual Financial Statements 2021-22 Consolidated Annual Financial Statements – 2022-23 Consolidated Annual Financial Statements - Pre-Audit Report Appropriation 2020-2021 Act, 2020 Appropriation 2021-2022 Act, 2021 Appropriation 2022-2023 Act, 2022
1.1 Aggregate expenditure outturn	
PI-2 Expenditure Composition Outturn	Central Budget Management System 2020-21 Consolidated Annual Financial Statements 2021-22 Consolidated Annual Financial Statements – 2022-23 Consolidated Annual Financial Statements - Pre-Audit Report Appropriation 2020-2021 Act, 2020 Appropriation 2021-2022 Act, 2021 Appropriation 2022-2023 Act, 2022
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingencies reserves	
PI-3 Revenue outturn	Central Budget Management System Statement of Government Operations
3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	
II. Transparency of Public Finances	
PI-4 Budget Classification	GFS 2014 Manual Chart of Accounts Manual for Lesotho 2022/23 Chart of Accounts Call circular 2022/23 Budget Strategy Paper 2022/23 Budget book 2022/23 Budget Speech 2022/23 Mid-term Budget Review 2022/23 PFMA Act 2011 Interviews with GoL officials www.ministryoffinance.gov.ls
4.1. Budget classification	
PI-5 Budget documentation	Call Circular 2022/23 Budget Strategy Paper 2022/23 Budget Book 2022/23

Indicator/dimension	Data Sources
5.1. Budget documentation	Budget Speech 2022/23 Public Debt Transparency Quarterly Reports for 2021/22 and 1st & 2022/23 Guidelines for implementing bottom-up medium-Term Framework Budget PFMA Act 2011 Loans and Guarantees Act,1967 Public Private Partnership Policy,2017 Interviews with GoL officials www.ministryoffinance.gov.ls
<b>PI-6 Central government operations outside financial reports</b>	Financial data on expenditure from donors, Audited Annual Financial statements of extra-budgetary Units, Consolidated annual Audited Financial Statements, 2021/22 Interviews with GoL officials Financial data on Revenue from donors, Audited Annual Financial statements of extra-budgetary units [2021/22 & 2022/23] Consolidated annual Audited Financial Statements,2021/22 Annual Audited Financial Statements of extra budgetary units [ 2021/22 & 2022/23] Audit Report on Consolidated Financial Statements 2021/22, www.auditorgeneral.org.ls
6.1. Expenditure outside financial reports	
6.2. Revenue outside financial reports	
6.3. Financial reports of extrabudgetary units	
<b>PI-7 Transfers to sub-national governments</b>	MoLGCHAP Strategic Plan MoLGCHAP Operational Plan MoLGCHAP Payment Vouchers for 2022/23 MoLGCHAP Budget Call Circular Budget Book 2022/23 Interviews with officials
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
<b>PI-8 Performance information for service delivery</b>	MDAs Strategic Plans, MDAs Operational Plans 2023/24, Budget Book 2023/24, Budget Speech 2023/24, MDAs Quarterly Reports 2022/23, Budget Book 2022/24, Budget Speech 2022/23 Budget Book 2022/23, Interviews with GoL officials (Internal Audit & Office of Auditor General)
8.1. Performance plans for service delivery	
8.2. Performance achieved for service delivery	
8.3. Resources received by service delivery units	
8.4. Performance evaluation for service delivery	
<b>PI-9 Public access to fiscal information</b>	Ministry of Finance Website; Call Circular 2022/23 Budget Strategy Paper 2022/23 Budget Book 2022/232 Appropriation Acts 2022/23 Mid-term Budget Review 2022/23 Quarterly Budget Bulletin Citizen's Budget 2022/23 Office of Auditor General website Annual Audited Financial Reports PAC Standing Orders
9.1. Public access to fiscal information.	

Indicator/dimension	Data Sources
	Hansard’s interviews with GoL officials
III. Management of Assets and Liabilities	
PI-10 Fiscal risk reporting	Department of PSD, MoFDP, a report on State-Owned Enterprise Annual Report for 2017/18
10.1. Monitoring of public corporations	State-owned enterprises in Lesotho: A country policy note, Report ACS19193, World Bank
10.2. Monitoring of sub-national governments	Audit of the Consolidated Financial Statements of the Government of Lesotho for the year ended 31 March 2022
10.3. Contingent liabilities and other fiscal risks	Interviews with GoL officials
PI-11 Public investment management	World Bank and IMF. June 2022. Kingdom of Lesotho: Joint Bank-Fund Debt Sustainability Analysis
11.1. Economic analysis of investment projects	The Budget Strategy Paper (BSP)
11.2. Investment project selection	PSIC guidelines
11.3. Investment project costing	FY 2021/2022 budget book
11.4. Investment project monitoring	
PI-12 Public asset management	PFMA Act of 2011
12.1. Financial asset monitoring	Asset Management Policy
12.2. Non-financial asset monitoring	Government Asset Management Operating Procedural Guideline
	FY 2022/2023 Unaudited consolidated annual financial statements
12.3. Transparency of asset disposal	Department of PSD, MoFDP, a report on State-Owned Enterprise Annual Report for 2017/18
	Public Procurement Act of 2023
	Public Financial Management and Accountability (PFMA) Act 2011
PI-13 Debt management	Lesotho Public Debt Management Bill, 2024
13.1. Recording and reporting of debt and guarantees	Annual Public Debt Management Report for FY 2021/2022
13.2. Approval of debt and guarantees	Kingdom of Lesotho. July 2023. 2023 Article IV Consultation - Press Release; and Staff Report. IMF Country Report No. 23/268
13.3. Debt management strategy	MoFDP. Nov 2022 Medium-Term Debt Management Strategy
IV. Policy-Based Fiscal Strategy and Budgeting	
PI-14 Macroeconomic and fiscal forecasting	Budget Speech Documents
14.1. Macroeconomic forecasts	2020_2021 Budget Speech (finance.gov.ls)
	2020/21 Mid-Term Budget Review (finance.gov.ls)
	Budget Speech Final 2022-23 (finance.gov.ls)

Indicator/dimension	Data Sources
14.2. Fiscal forecasts	Existence of Underlying assumptions from the Macro department of the MoFDP (presented but not submitted to the Legislature)
14.3. Macro-fiscal sensitivity analysis	Sample invitations Draft Macroeconomic Working Group Terms of Reference that shows the TWG and MWG procedure for reviewing the projections Macro fiscal forecasts showing impact of alternative macroeconomic assumptions. (Not published)
<b>PI-15 Fiscal Strategy</b>	Budget Speech Documents 2020_2021 Budget Speech (Finance.Gov.Ls) 2020/21 Mid-Term Budget Review (Finance.Gov.Ls) Budget Speech Final 2022-23 (Finance.Gov.Ls) Screenshots From CBMS showing fiscal strategy that includes Qualitative Objectives, Mission, Vision, Objectives, Targets and Objectives
15.1. Fiscal impact of policy proposals	Mid-Term Budget Reviews 2022-23 Midterm Budget Review (Finance.Gov.Ls) 2021-2022 Midterm Budget Review Statement 24-11-2021 (Finance.Gov.Ls) 2020-2021 Mid-Term Budget Review Report By Districts (Finance.Gov.Ls)
15.2. Fiscal strategy adoption	
15.3. Reporting on fiscal outcomes	
<b>PI-16 Medium-Term Perspective in Expenditure Budgeting</b>	Budget Speech Documents 2020_2021 Budget Speech (finance.gov.ls) 2020/21 Mid-Term Budget Review (finance.gov.ls) Budget Speech Final 2022-23 (finance.gov.ls) Records of Cabinet approvals Budget Call Circulars 2020-2021 Budget Call Circular (finance.gov.ls) 2021-2022 Budget Call Circular (finance.gov.ls) 2022-2023 Budget Call Circular (finance.gov.ls) Screenshots from CBMS showing costing for ministries that aligns with NSDPPII and covers the medium-term
16.1. Medium-Term Expenditure Estimates	
16.2. Medium-Term Expenditure Ceilings	
16.3. Alignment of Strategic Plans and Medium-Term Budgets	
16.4. Consistency of Budgets with previous Year Estimates	
<b>PI-17 Budget Preparation Process</b>	Budget Speech Documents 2020_2021 Budget Speech.pdf (finance.gov.ls) 2020/21 Mid-Term Budget Review (finance.gov.ls) Budget Speech Final 2022-23.pdf (finance.gov.ls) Screenshots of the submission pages on the CBMS system Budget Call Circulars 2020-2021 Budget Call Circular.pdf (finance.gov.ls) 2021-2022 Budget Call Circular.pdf (finance.gov.ls) 2022-2023 Budget Call Circular.pdf (finance.gov.ls)
17.1. Budget Calendar	
17.2. Guidance on Budget Preparation	
17.3. Budget Submission to the Legislature	
<b>PI-18 Legislative Scrutiny of budgets</b>	Quarterly Progress assessment template given to ministers by Parliament Sample Invitation for presentation of Ministerial Plans and Budgets National Assembly Standing Orders <a href="https://nationalassembly.parliament.ls/wp-content/uploads/2022/11/Standing-Order-2022-L.N.-No.-114-of-2022.pdf">https://nationalassembly.parliament.ls/wp-content/uploads/2022/11/Standing-Order-2022-L.N.-No.-114-of-2022.pdf</a> Powerpoint slides used for capacity building
18.1. Scope of budget scrutiny	
18.2. Legislative procedures for budget scrutiny	
18.3. Timing of budget approval	

Indicator/dimension	Data Sources
18.4. Rules for budget adjustments by the Executive	Business Transacted records of the Parliament, showing time of approval of appropriation bills PFMA Act 2011 Lesotho Constitution
<b>V. Predictability and Control in Budget Execution</b>	
<b>PI-19 Revenue administration</b>	Compliance Model Document v1 20160729 Status Report, Min. of Energy 2020-2021 Status Report, Min. of Energy 2021-2022 Status Report, Min. of Energy 2022-2023
19.1. Rights and obligations for revenue measures	Status Report, Min. of Mining 2020-2021 Status Report, Min. of Mining 2021-2022 Status Report, Min. of Mining 2022-2023
19.2. Revenue risk management	Status Report, Min. of Water 2020-2021 Status Report, Min. of Water 2021-2022 Status Report, Min. of Water 2022-2023
19.3. Revenue audit and investigation	Consolidated Annual Financial Statements for 2023 FY RSL Integrated Report FY 2022 submitted on 30 June 2023 LRA Annual Report and Audited Financial Statements 2021-2022
19.4. Revenue arrears monitoring	LRA Integrated Report 2020 -21 LRA Integrated Report 2022 RSL Integrated Report FY 2022 submitted on 30 June 2023
<b>PI-20 Accounting for revenue</b>	Status Report, Min. of Energy 2020-2021 Status Report, Min. of Energy 2021-2022 Status Report, Min. of Energy 2022-2023
20.1. Information on revenue collections	Status Report, Min. of Mining 2020-2021 Status Report, Min. of Mining 2021-2022 Status Report, Min. of Mining 2022-2023
20.2. Transfer of revenue collections	Status Report, Min. of Water 2020-2021 Status Report, Min. of Water 2021-2022 Status Report, Min. of Water 2022-2023
20.3. Revenue accounts reconciliation	
<b>PI-21 Predictability of in-year resource allocation</b>	Bank Account Register 2022-2023 Bank Account Register March 2022 Bank Accounts, _FY 2020_21
21.1. Consolidation of cash balances	Treasury Single Account_TSA_31_03_2023 Treasury Single Account_TSA_31_03_2022 Treasury Single Account_TSA_31_03_2021 2020-21 warrant releases report 2021-22 warrant releases report 2022-23 warrant releases report
21.2. Cash forecasting and monitoring	Supplementary Budget Estimates 2022-2023 Supplementary Estimates 2021-2022 Supplementary Estimates Memo 2020-21 Contingencies report 2020-21 Contingencies report 2021-22 Contingencies report 2022-23
21.3. Information on commitment ceilings	Supplementary Appropriation Bill 2021-22 Supplementary Appropriation Bill 2022-23
21.4. Significance of in-year budget adjustments	



Indicator/dimension	Data Sources
<b>PI-22 Expenditure arrears</b>	Annual Audit Report 2022 Annual Audit Report 2021 Consolidated Annual Financial Statements for 2023 FY
22.1. Stock of expenditure arrears	
22.2. Monitoring of expenditure arrears	
<b>PI-23 Payroll controls</b>	Public Sector Modernisation Project (PSMP): Public Service Biometric Payroll Census: Draft Final Report 2019 Establishment list 2020 to 2021 final draft 1 Establishment list 2021 to 2022 draft 1 final Establishment list 2022 to 20223 final Health User Responsibility Report HR Changes Check list_v1 HRMIS Operations Manual Monthly HR Changes in the Oracle System OAP Draft Report, August 2021 Prime Minister's Office 2022 to 2023 List Report on Biometric and Payroll Census Final
23.1. Integration of payroll and personnel records	
23.2. Management of payroll changes	
23.3. Internal control of payroll	
23.4. Payroll audit	
<b>PI-24 Procurement</b>	Annual Procurement Plan Public Works 2020-2021 Annual Procurement Plan Public Works 2021-2022 Annual Procurement Plan Public Works 2022-2023 List of tenders for requests above 100,000.00 threshold Procurement report Activities Public Works from 2020-2021 to 2022-2023 below M100,000.00 Threshold Public Procurement Act, 2023 Public Procurement Amendment Regulations, 2018 Tribunal Registration Database for 2020-2023
24.1. Procurement monitoring	
24.2. Procurement methods	
24.3. Public access to procurement information	
24.4. Procurement complaints management	
<b>PI-25 Internal controls on non-salary expenditure</b>	Public Procurement Act, 2023 PFMA Act 2011 Treasury (Amendment) Regulations, 2014 CBMS Final Report IFMIS Final Report 20-07-22 Internal Audit Procurement Plan For 2024-25 Final Report on Domestic Arrears - 30 March 2023 Summary report on verification of domestic arrears- 30-2023 OAP Draft Report August 2021 BPR Document Review
25.1. Segregation of duties	
25.2. Effectiveness of expenditure commitment controls	
25.3. Compliance with payment rules and procedures	
<b>PI-26 Internal audit</b>	Internal Audit Reports for the financial years 2020/21, 2021/22 & 2022/23 Approved proposal of IA Structure for line ministries Approved revised Internal Audit Charter, October 2020 PFMA Act 2011
26.1. Coverage of internal audit	

Indicator/dimension	Data Sources
26.2. Nature of audits and standards applied	International Standards for The Professional Practice of Internal Auditing (Standards), 2017 Treasury Regulations 2014
26.3. Implementation of internal audits and reporting	Three-year Internal Audit Strategic plan for the year ending 31 March 2021 AUSC Assets & Stores Verification AUSC Procurement and Payments CBMS FINAL REPORT
26.4. Response to internal audits	Ministry of Gender, Youth, Sports and Recreation Internal Audit Final Report, Covid-19 Expenditure, 2022 Internal Audit Draft Report on Commonwealth Meridian System Verification of domestic arrears in Government of Lesotho Ministries, Departments and Agencies (MDAs) Internal Audit Procurement Plan for 2024-25 Internal Audit Reports for the Financial Years 2020/21, 2021/22 & 2022/23 OAP Draft Report August 2021 Internal Audit draft report on the Lesotho Correctional Services projects for the period of 2020/21-2021/22 Ministry of Water Internal Audit draft report on revenue collection for the financial years 2020/21 – 2021/22 Internal Audit draft report on recruitment and payment activities of Tribunal investigating the removal of Director General for Directorate on Corruption and Economic Offences (DCEO), 2023 Ministry Of Water Internal Audit Department Workplan 2022/23 Internal Audit - Annual Operation Plan 2021-22 Ministry of Foreign Affairs Work Plan - 2021-2022 Ministry of GYSR- Annual Work Plan 2021-22 MoF - Annual Operation Plan 2020-21 MoF - Annual Operation Plan 2022-23
VI. Accounting and Reporting	
PI-27 Financial data integrity	CG bank reconciliation statements Working paper files from the ministries Below-the-line accounts – Audited financial statements 2022
27.1. Bank account reconciliation	Letter from AOG to the Minister of Finance
27.2. Suspense accounts	Audited financial statements 2022 Imprest detail reports
27.3. Advance accounts	IFMIS payment audit trail report Vendor update audit trail
27.4. Financial data integrity processes	IFMIS user matrix ICT security policy
PI-28 In-year budget reports	Status of funds 2022_2023 midterm budget review (finance.gov.ls) IFMIS interview
28.1. Coverage and comparability of reports	2022 Audited financial statements

Indicator/dimension	Data Sources
28.2. Timing of in-year budget reports	
28.3. Accuracy of in-year budget reports	
PI-29 Annual financial reports	Audited financial statements 2022 Working papers for 2023 Audited financial statements for 2021 Entrance meeting invitation letter from the Auditor General for 2021, 2022 and 2023 submissions IPSAS Cash basis PFMA Act 2011 Treasury Regulations 2014
29.1. Completeness of annual financial reports	
29.2. Submission of reports for external audit	
29.3. Accounting standards	
VII. External Scrutiny and Audit	
PI-30 External Audit	Audit Reports Records showing submissions to OAG and Accountant General
30.1 Scope of Budget Scrutiny	Daily Hansards of Parliament showing submissions to the Legislature by Minister
30.2. Submission of Audit Reports to The Legislature	Sample responses to audit queries by line ministries PFMA Act 2011
30.3. External Audit Follow-Up	Lesotho Constitution The 2016 Audit Act
30.4. SAI Independence	
PI-31 Legislative Scrutiny of Audit	Sample invitation letters by Parliament to third parties Evidence of audit hearings open to the public <sup>28</sup>
31.1. Timing of Audit Report Scrutiny	
31.2. Hearings on Audit Findings	
31.3. Recommendations on Audit by the Legislature	
31.4. Transparency of Legislative Scrutiny of Audit Reports	

<sup>28</sup> [https://www.facebook.com/watch/live/?ref=watch\\_permalink&v=1365746177487032](https://www.facebook.com/watch/live/?ref=watch_permalink&v=1365746177487032)  
<chromeextension://efaidnbmninnibpcjpcglclefindmkaj/https://nationalassembly.parliament.ls/wp-content/uploads/2023/02/budget-report-2022-1.pdf>  
<https://nationalassembly.parliament.ls/wp-content/uploads/2023/11/Weekly-Schedule-6-November-2023-1.pdf>  
<https://nationalassembly.parliament.ls/wp-content/uploads/2023/11/Committee-Schedule-13-November2023.pdf>

## Annex 4 Calculation of budget variances for PI-1, P-2 and P-3

Table A4.1 Analysis for PI-1 Fiscal Year 2020/2021 (Millions of Maloti)

Data for Year = 2020/21						
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
001 - Ministry of Agriculture and Food Security	666.2	623	631	-8	8	1%
002 - Ministry of Health	3,108.8	2,741	2,944	-203	203	7%
003 - Ministry of Education and Training	2,834.2	2,700	2,684	16	16	1%
004 - Ministry of Finance	1,711.8	1,625	1,621	4	4	0%
005 - Ministry of Trade and Industry	292.5	404	277	127	127	46%
006 - Ministry of Development Planning	1,192.9	1,013	1,130	-117	117	10%
007 - Ministry of Justice and Correctional Services	301.7	258	286	-28	28	10%
008 - Ministry of Home Affairs	426.5	467	404	63	63	16%
009 - Prime Minister's Office	129.9	616	123	493	493	401%
010 - Ministry of Communication, Science and Technology	220.0	171	208	-38	38	18%
011 - Ministry of Law and Constitutional Affairs	101.3	94	96	-2	2	2%
012 - Ministry of Foreign Affairs and International Relations	454.0	385	430	-45	45	10%
013 - Ministry of Public Works	936.4	530	887	-357	357	40%
017 - Ministry of Tourism, Environment and Culture	118.8	101	112	-12	12	11%
037 - Ministry of Defence and National Security	633.6	627	600	27	27	5%
042 - Ministry of Local Government and Chieftainship	801.9	728	759	-31	31	4%
045 - Judiciary	136.0	116	129	-13	13	10%
046 - Ministry of Social Development	410.2	653	388	265	265	68%
049 - Ministry of Police and Public Safety	791.0	716	749	-33	33	4%
051 - Ministry of Water	487.3	352	461	-110	110	24%
21 (= sum of rest)			-	-	-	-
Allocated Expenditure	15,755	14,919	14,919	0	1,990	
Interests	504.8	544				
Contingencies	100.0	971				
Total Expenditure	16,360	16,434				
Aggregate Outturn (PI-1)						100%
Composition (PI-2) Variance						13%
Contingencies Share of Budget						6%

Table A4.2 Analysis for PI-1 Fiscal Year 2021/2022 (Millions of Maloti)

Data for Year = 2021/22						
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
001 - Ministry of Agriculture and Food Security	794.6	623	765	-142	142	19%
002 - Ministry of Health	2,979.7	2,741	2,868	-127	127	4%
003 - Ministry of Education and Training	2,625.5	2,700	2,527	172	172	7%
004 - Ministry of Finance	1,763.7	1,625	1,698	-73	73	4%
005 - Ministry of Trade and Industry	299.3	404	288	115	115	40%
006 - Ministry of Development Planning	1,108.1	1,013	1,067	-54	54	5%
007 - Ministry of Justice and Correctional Services	266.3	258	256	2	2	1%
008 - Ministry of Home Affairs	419.0	467	403	64	64	16%
009 - Prime Minister's Office	104.8	616	101	516	516	511%
010 - Ministry of Communication, Science and Technology	209.7	171	202	-31	31	15%
011 - Ministry of Law and Constitutional Affairs	96.1	94	92	2	2	2%
012 - Ministry of Foreign Affairs and International Relations	434.1	385	418	-33	33	8%
013 - Ministry of Public Works	874.2	530	842	-312	312	37%
017 - Ministry of Tourism, Environment and Culture	98.4	101	95	6	6	6%
037 - Ministry of Defence	553.3	627	533	95	95	18%
042 - Ministry of Local Government and Chieftainship	678.4	728	653	75	75	12%
045 - Judiciary	116.4	116	112	4	4	3%
046 - Ministry of Social Development	918.4	795	884	-90	90	10%
049 - Ministry of Police and Public Safety	745.8	716	718	-2	2	0%
051 - Ministry of Water	855.2	637.1	823	-186	186	23%
21 (= sum of rest)			-	-	-	-
Allocated Expenditure	15,941	15,346	15,346	0	2,100	
Interests	810.8	480				
Contingencies	600.0	807				
Total Expenditure	17,352	16,633				
Aggregate Outturn (PI-1)						96%
Composition (PI-2) Variance						14%
Contingencies Share of Budget						5%

Table A4.3 Analysis for PI-1 Fiscal Year 2022/2023 (Millions of Maloti)

Data for Year = 2022/23						
Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
001 - Ministry of Agriculture and Food Security	814.2	750	706	44	44	6%
002 - Ministry of Health	3,245.6	2,071	2,813	-741	741	26%
003 - Ministry of Education and Training	2,795.3	2,763	2,422	340	340	14%
004 - Ministry of Finance	1,755.5	1,562	1,521	40	40	3%
005 - Ministry of Trade and Industry	303.9	201	263	-62	62	24%
006 - Ministry of Development Planning	1,201.6	1,318	1,041	277	277	27%
007 - Ministry of Justice and Correctional Services	264.6	236	229	7	7	3%
008 - Ministry of Home Affairs	432.7	477	375	102	102	27%
009 - Prime Minister's Office	138.9	230	120	110	110	91%
010 - Ministry of Communication, Science and Technology	194.0	267	168	99	99	59%
011 - Ministry of Law and Constitutional Affairs	96.6	85	84	1	1	2%
012 - Ministry of Foreign Affairs and International Relations	435.5	410	377	33	33	9%
013 - Ministry of Public Works	1,179.3	903	1,022	-119	119	12%
017 - Ministry of Tourism, Environment and Culture	86.6	83	75	8	8	11%
037 - Ministry of Defence	742.7	750	644	106	106	17%
042 - Ministry of Local Government and Chieftainship	871.2	611	755	-144	144	19%
045 - Judiciary	118.2	134	102	32	32	31%
046 - Ministry of Social Development	1,262.8	1,158	1,094	63	63	6%
049 - Ministry of Police and Public Safety	793.5	746	688	59	59	9%
051 - Ministry of Water	1,045.9	652.3	906	-254	254	28%
21 (= sum of rest)			-	-	-	-
Allocated Expenditure	17,779	15,407	15,407	-0	2,642	
Interests	766.5	577				
Contingencies	300.0	265				
Total Expenditure	18,845	16,249				
Aggregate Outturn (PI-1)						86%
Composition (PI-2) Variance						17%
Contingencies Share of Budget						1%

**Table A4.4 Analysis for PI-2.2 Composition Variance by Economic Classification (Millions of Maloti)**

Data for year = 2020/21						
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	7,201.1	6,029.7	6,034.8	-5.1	5.1	0.1%
Use of goods and services	3,565.4	2,330.5	2,987.9	-657.4	657.4	22.0%
Consumption of fixed capital	6,264.7	4,513.9	5,250.0	-736.1	736.1	14.0%
Interest	484.8	544.1	406.3	137.8	137.8	33.9%
Subsidies	1,217.8	1,040.7	1,020.6	20.1	20.1	2.0%
Grants	1,212.0	2,000.6	1,015.7	984.9	984.9	97.0%
Social benefits	2,060.9	1,846.9	1,727.1	119.8	119.8	6.9%
Other expenses	952.3	934.0	798.1	135.9	135.9	17.0%
Total Expenditure	22,959.0	19,240.4	19,240.4	0.0	2,797.3	
Composition Variance						14.5%

**Table A4.5 Analysis for PI-2.2 Composition Variance by Economic Classification (Millions of Maloti)**

Data for year = 2021/22						
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	7,114.9	6,130.2	6,104.6	25.6	25.6	0.4%
Use of goods and services	3,122.1	2,152.5	2,678.8	-526.3	526.3	19.6%
Consumption of fixed capital	5,737.6	4,986.4	4,922.9	63.5	63.5	1.3%
Interest	810.8	504.8	695.7	-190.9	190.9	27.4%
Subsidies	850.0	547.8	729.3	-181.5	181.5	24.9%
Grants	894.1	1,649.9	767.1	882.8	882.8	115.1%
Social benefits	2,460.7	1,876.6	2,111.3	-234.7	234.7	11.1%
Other expenses	1,047.8	1,060.4	899.0	161.4	161.4	18.0%
Total Expenditure	22,038.0	18,908.6	18,908.6	0.0	2,266.6	
Composition Variance						12.0%

Table A4.6 Analysis for PI-2.2 Composition Variance by Economic Classification (Millions of Maloti)

Data for year = 2022/23						
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Compensation of employees	7,887.0	6,921.2	6,927.2	-6.0	6.0	0.1%
Use of goods and services	2,733.8	2,552.6	2,401.1	151.5	151.5	6.3%
Consumption of fixed capital	6,763.8	4,614.0	5,940.8	-1,326.7	1,326.7	22.3%
Interest	766.5	709.5	673.2	36.3	36.3	5.4%
Subsidies	504.2	554.6	442.8	111.8	111.8	25.2%
Grants	1,433.0	1,732.4	1,258.6	473.8	473.8	37.6%
Social benefits	1,786.3	1,874.6	1,568.9	305.7	305.7	19.5%
Other expenses	1,139.9	1,254.9	1,001.2	253.7	253.7	25.3%
Total Expenditure	23,014.4	20,213.8	20,213.8	0.0	2,665.4	
Composition Variance						13.2%

Table A4.7 Analysis of Revenue Outturn - PI-3 (Millions of Maloti)

Data for year = 2020/21						
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
Tax Revenues						
Taxes on income, profit and capital gains	909.8	742.4	860.6	-118.2	118.2	13.7%
Taxes on payroll and workforce	2,358.4	2,548.3	2,230.8	317.5	317.5	14.2%
Taxes on property	1,091.5	934.4	1,032.4	-98.1	98.1	9.5%
Taxes on goods and services	3,583.6	3,056.4	3,389.7	-333.3	333.3	9.8%
Taxes on international trade and transactions	8,980.5	8,980.5	8,494.5	486.0	486.0	5.7%
Other taxes	0.8	0.04	0.8	-0.7	0.7	94.1%
Grants						
Grants from foreign governments	1,108.4	1,073.7	1,048.4	25.3	25.3	2.4%
Other Revenue						
Property income	831.3	501.9	786.3	-284.4	284.4	36.2%
Sales of goods and services	1,313.1	1,247.4	1,242.0	5.4	5.4	0.4%
Fines, penalties and forfeits	3.7	0.7	3.5	-2.8	2.8	79.5%
Transfers not elsewhere classified	0.8	0.0	0.8	-0.8	0.8	100.0%



<b>Total Revenue</b>	20,181.9	19,089.7	19,089.7	0.0	1,676.4	
<b>Overall Variance</b>						94.6%
<b>Composition Variance</b>						8.8%

Table A4.8 Analysis of Revenue Outturn - PI-3 (Millions of Maloti)

<b>Data for year =</b>	<b>2021/22</b>					
<b>Economic Head</b>	<b>Budget</b>	<b>Actual</b>	<b>Adjusted Budget</b>	<b>Deviation</b>	<b>Absolute Deviation</b>	<b>Percent</b>
<b>Tax Revenues</b>						
<b>Taxes on income, profit and capital gains</b>	657.3	842.2	646.6	195.6	195.6	30.2%
<b>Taxes on payroll and workforce</b>	2,199.3	2,377.8	2,163.6	214.2	214.2	9.9%
<b>Taxes on property</b>	736.7	867.9	724.8	143.1	143.1	19.8%
<b>Taxes on goods and services</b>	3,739.0	3,668.5	3,678.4	-9.9	9.9	0.3%
<b>Taxes on international trade and transactions</b>	6,007.8	6,008.0	5,910.4	97.6	97.6	1.7%
<b>Other taxes</b>	2.7	0.0	2.7	-2.7	2.7	99.9%
<b>Grants</b>						
<b>Grants from foreign governments</b>	1,590.1	1,155.3	1,564.3	-409.0	409.0	26.1%
<b>Other Revenue</b>						
<b>Property income</b>	912.8	659.1	898.0	-238.9	238.9	26.6%
<b>Sales of goods and services</b>	1,398.8	1,388.9	1,376.1	12.8	12.8	0.9%
<b>Fines, penalties and forfeits</b>	3.3	0.4	3.2	-2.8	2.8	87.7%
<b>Total Revenue</b>	17,247.8	16,968.1	16,968.1	0.0	1,326.6	
<b>Overall Variance</b>						98.4%
<b>Composition Variance</b>						7.8%

Table A4.9 Analysis of Revenue Outturn - PI-3 (Millions of Maloti)

Data for year = 2022/23						
Economic Head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
<b>Tax Revenues</b>						
Taxes on income, profit and capital gains	948.8	887.1	807.9	79.2	79.2	9.8%
Taxes on payroll and workforce	2,702.0	2,504.6	2,300.7	203.9	203.9	8.9%
Taxes on property	1,664.9	914.2	1,417.6	-503.4	503.4	35.5%
Taxes on goods and services	4,655.0	4,127.7	3,963.7	164.0	164.0	4.1%
Taxes on international trade and transactions	5,399.5	5,399.5	4,597.6	801.9	801.9	17.4%
Other taxes	1.1	0.0	0.9	-0.9	0.9	99.6%
<b>Grants</b>						
Grants from foreign governments	2,260.9	1,155.1	1,925.1	-770.0	770.0	40.0%
<b>Other Revenue</b>						
Property income	922.5	711.8	785.5	-73.7	73.7	9.4%
Sales of goods and services	1,633.7	1,493.2	1,391.1	102.1	102.1	7.3%
Fines, penalties and forfeits	3.3	0.0	2.8	-2.8	2.8	100.0%
Transfers not elsewhere classified	0.2	0.0	0.2	-0.2	0.2	99.9%
Total Revenue	20,191.9	17,193.2	17,193.2	0.0	2,702.2	
Overall Variance						85.1%
Composition Variance						15.7%

## Annex 5: List of officials interviewed and counterparts mobilized

### Annex 5A: List of Counterparts

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## **Annex 6.1: PEFA Self-assessment 2024: Process, Outcomes & Way Forward**



# Public Expenditure and Financial Accountability PEFA Self-Assessment 2024

Final Report  
Issued January 2025





The Public Expenditure and Financial Accountability (PEFA) Self-Assessment (SA) 2024 was led by the Budget Department, of the Ministry of Finance and Development Planning, Government of Lesotho

In collaboration with



National University of Lesotho  
Department of Economics



Lesotho Institute of Public  
Administration and Management

With Technical Assistance support from



Funded by the  
European Union



The Capacity-building TA Assignment is implemented by  
Consortium led by DAI Global Belgium and Austria



as part of the



Lesotho and European Union Partnership



In 2024, the Ministry of Finance and Development Planning (MoFDP) of the Government of Lesotho (GoL) conducted a Public Expenditure and Financial Accountability (PEFA) Self-Assessment (SA), with support from the EU Multi-Annual Indicative Programme (MIP) Cooperation Facility, Technical Assistance (TA) Project.

The PEFA Methodology is a structured approach to produce reliable and actionable Public Finance (PF) datasets for seven PEFA Pillar Indicators. The PEFA Self-Assessment Approach aims to build enhanced PFM understanding, ownership and capacity with a critical mass of selected Government Officials.

The objectives of the Government of Lesotho PEFA Self-Assessment (2024) are:

- use PEFA (SA) Methodology as entry-point to:
    1. provide updated evidence and analysis of PEFA Pillars Assessment Scores
    2. trigger more effectively the PFM reforms. This objective shapes the way forward, with the PEFA SA analysis and findings being a catalyst for improved GoL PFM Reform implementation actions, to be captured in an updated GoL PFM Reforms Action Plan.
  - Institutionalize capacity and capability by involving and mobilizing a critical mass of Government of Lesotho (GoL) Officials and develop a group of Local Economists as PEFA Experts who can take this methodology and the momentum in PFM Reform further. The institutionalization of capacity is also worked out in the way forward.
- The Government PEFA Self-Assessment 2024 Report was finalized with the relevant Stakeholders in December 2024 and will be handed over by the PEFA-SA lead, the Budget Controller/MoFDP, to the Principal Secretary (PS) Ministry of Finance and Development Planning in 2025, marking the start of the way forward.

The Lesotho PEFA Self-Assessment Approach

Following two PEFA Assessments in 2012 and 2017, and a participatory needs-assessment carried out in March 2024 by the MoFDP and the EU TA Project, it was concluded that an updated PEFA Assessment can streamline the GoL PFM Reforms Agenda and strengthen the Government PFM implementation capacity.

A major lesson-learned from the two previous PEFA exercises was that Government ownership of the PEFA findings is crucial to stimulate effective implementation of a Government-driven PFM Reforms Agenda. It was therefore decided that the PEFA 2024 would be conducted as a PEFA Self-Assessment (SA), to systematically develop datasets in a participatory manner, mobilizing a critical mass of Government officials and counterparts to fully own “their” data sets, and allowing them to drive more effectively the Government PFM Reforms, to advance financial governance practices, and better serve the Lesotho citizens.

The PEFA SA exercise was led by the Budget Controller of the MoFDP, supported by an EU TA Project local Non-Key Expert and seven Local Facilitators, who were mobilized for this SA Exercise and a regional PEFA Expert who quality-controlled the PEFA SA process and results and ensured that the PEFA Secretariat (<https://www.pefa.org/>) Guidelines and Standards were followed in principle.



## ● A critical mass of Government officials and stakeholders were mobilized:

- A targeted group of over 80 Government Officials, from the MoFDP, Line Ministries and Agencies.
- The Government of Lesotho Committee of Principal Secretaries.
- Selected National University of Lesotho (NUL), Department of Economics members, who were mobilized and engaged as PEFA Facilitators.
- The Lesotho Institute of Public Administration (LIPAM) is mobilized to institutionalize PEFA SA capacity through development and delivery of tailored PEFA Training courses as part of the way forward actions.

### The PEFA Self-Assessment Process

The Lesotho PEFA Self-Assessment process followed in principle the 4- phases, 10-steps process as outlined in the PEFA Secretariat chart (Source: PEFA Secretariat Guideline I).

- **Phase 1:** Planning, started in Quarter 1 of 2024.
- **Phase 2:** Field Work was conducted in Quarter 2 and 3 of 2024.
- **Phase 3:** Report Finalizing, covered Quarter 3 of 2024.
- **Phase 4:** PFM Reforms, is scheduled to start from Quarter 4 of 2024.



The timeline of the GoL MoFDP PEFA Self-Assessment had the following milestone moments, demonstrating the participatory process and mobilization of a critical mass of PEFA Officials and Counterparts.

- **March/April 2024:** The MoFDP with support from the EU TA Project decides to carry out a PEFA Self-Assessment, identify the Government Officials and other Government Counterparts, and mobilize the EU TA Project Experts and the PEFA Facilitators. The EU Delegation approved a Technical Assistance support programme, with a local Non-Key Expert (NKE), a regional PEFA Expert to support and quality control the Lesotho PEFA-Self assessment, and local PEFA Facilitators to work with Government Counterparts.
- **April 2024:** Preparation of the PEFA Documentation and Guidelines (Hard/Soft) drawing on the PEFA Secretariat Guidelines documents, issued to the selected Facilitators.
- **May 2024:** PEFA Self-assessment exercise starts with an action-plan. The Budget Controller of the MoFDP leads the PEFA SA 2024 and is supported by CF TA Project Experts and Facilitators. The Principal Secretary of the MoFDP guides the process, starting with the identification of the configuration of Government Officials and Counterparts to be engaged, by Name, Designation, Organization, and their mobilization and invitation to participate in collecting, analysing and updating their PEFA Indicators data. The PEFA SA is based on Financial Years data of 2020/21, 2021/22 and 2022/23.
- **June 2024:** Launch Meeting (10/6/24) of seven Facilitators drawn from the NUL Department of Economics. The facilitators are to interact with the PEFA Pillar/Indicators clusters of Government Officials.
- **June 2024:** Mobilization of the Lesotho Institute of Public Administration (LIPAM) and LIPAM faculty is to participate in the PEFA SA exercise in preparation of the institutionalisation of PEFA SA capacity through development of LIPAM PEFA Training Courses.
- **June 2024:** GoL Counterparts Launch Meeting held at LIPAM Training Centre (21/6/24) for a targeted group of over-80 Government Counterpart Officials, from Line Ministries and Agencies, who are to define, produce and analyse their Public Finance (PF) data sets, that will support their PFM policy or operational decisions, as part of their official work assignment.







- **July 2024:** In the 1st two-day Mission (26+27/7/24) to Maseru, the regional PEFA Expert
  1. quality controlled the PEFA SA Process and
  2. continued to provide on the job-training to the PEFA Facilitators and selected GoL Officials.



- **June/July 2024:** The seven PEFA Facilitators started assessments with clusters of Government Officials/ Counterparts for each PEFA Pillar, and collected additional data, to finalize a PEFA Pillar/Indicator assessments and score.

- **August/September 2024:** The PEFA NKE and the PEFA Facilitators concluded with the PEFA-Pillar clusters of selected Government Officials, and initiated the first discussion on possible PFM Reforms to be triggered by the PEFA Pillar assessment.



- **September 2024:** The PEFA Pillar assessments were concluded and the PEFA Pillars were scored. The Assessments and scores were presented (10/9/2024) by the Budget Controller and PEFA Lead, in a PEFA Findings Dissemination Workshop that was attended by about 60 Government PEFA Counterpart Officials.



- **September 2024:** A presentation of the PEFA SA Findings was made separately (19/09/24) to the Government of Lesotho Committee of Principal Secretaries.

In addition to presenting the PEFA SA 2024 findings, a first tentative discussion was initiated on possible PFM Reforms that could be triggered by the PEFA Findings, that would require the guidance and leadership form the Principal Secretaries.

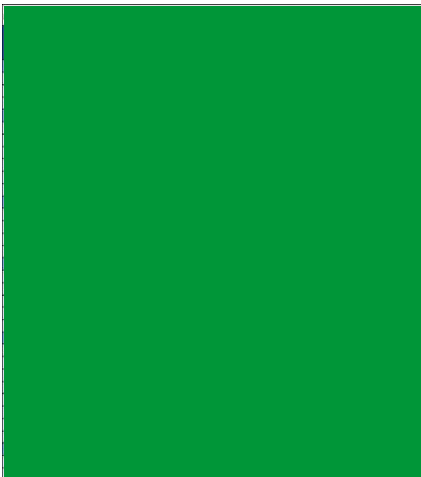


- **October/November 2024:** Finalization of the PEFA Report, following a 5-day (11-15/11/24) quality control visit by the regional PEFA Expert.
  - **December 2024:** Dissemination of the PEFA SA 2024 Report to Government and relevant Counterparts
  - **Jan/Feb 2025:** Formal hand-over by the PEFA SA lead, Budget Controller MoFDP, of the PEFA SA Report to the PS MoFDP and PFM Development Partners, mobilizing the Government officials to take the lead and actively participate, ensuring that the handing -over event has the intended Government ownership impact.
- Conduct ex-post PEFA SA Report Peer Review validations, that will validate how the PEFA SA findings can be used to trigger priority Government PFM Reforms and coordinate multilateral discussions with Development Partners on their PFM Interventions.



The PEFA 2024 Ratings and Assessments

The PEFA Pillar Assessments were conducted from April to November 2024, based on the Financial Year -data of 2020/21, 2021/22 and 2022/23. The PEFA SA 2024 Pillars ratings are presented in the table below. For comparison the PEFA 2017 ratings are also presented.



For 10 Pillar Indicators the ratings have improved, while for the other Pillars Indicators the ratings remained the same, except for one Pillar Indicator (P.11) the rating has deteriorated.

In the PEFA SA 2024 more time and a deliberate effort was made, to collect the required data-sets from the Government Counterparts Officials. This may have resulted for 10 Pillar Indicators in improved ratings. The 2017 lower ratings for these Pillars Indicators may have been the result of data sets not being (made) available. Based on the available PEFA 2024 data sets better informed judgements can be made on the ratings of the 31 PEFA Pillar Indicators.

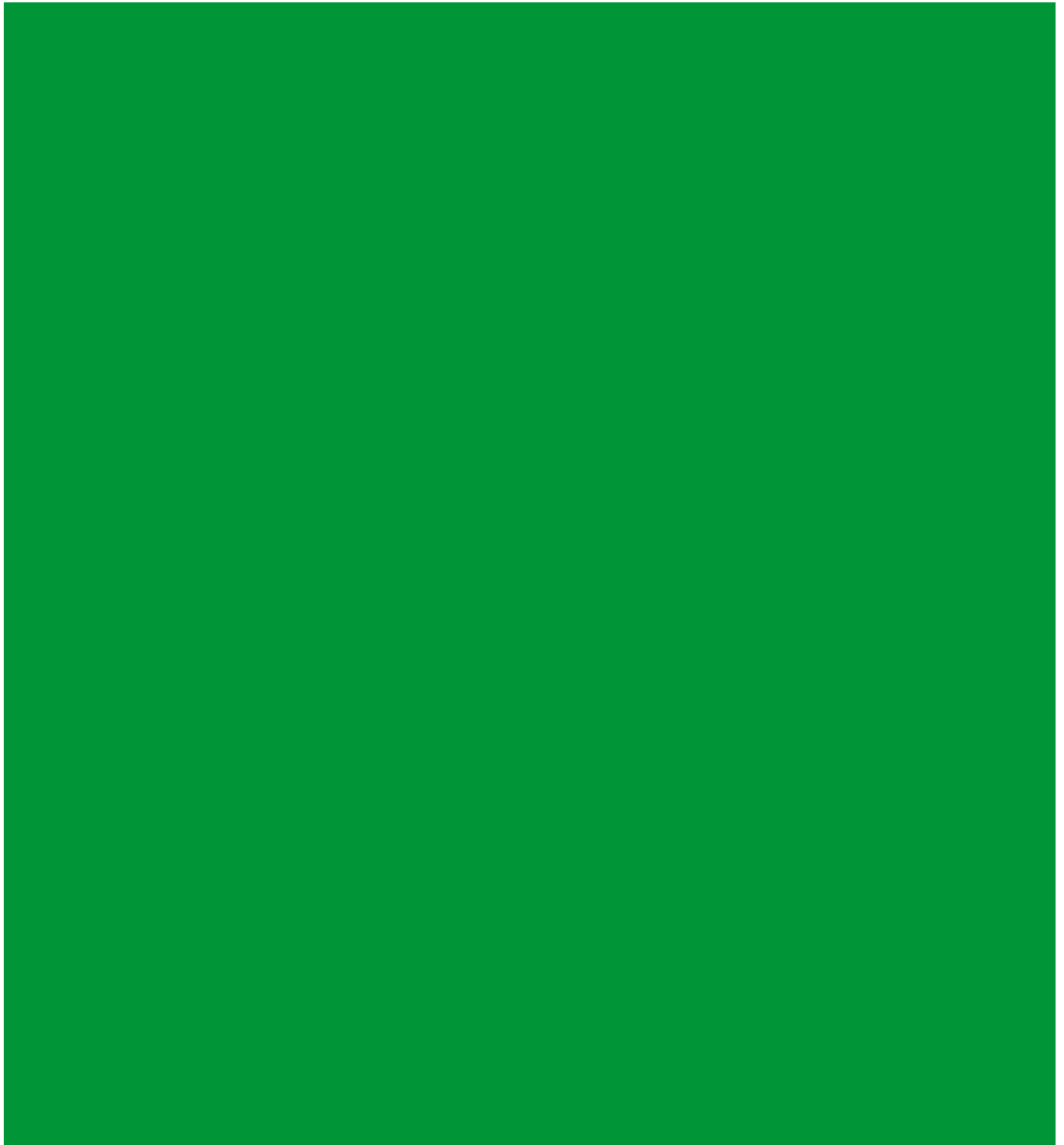
PEFA Pillar Indicator 11 rating gives a worrying signal. A major fiscal, economic Government policy is to shift from an unsustainable Government-led economic growth model to a private-sector-led economic growth model. The underlying data sets of Pillar Indicator 11 point to weak and absent data sets that are the basic foundation on which a shift to private sector-led growth would build.

The summary Assessments for each Pillar are as follows:

**PILLAR I BUDGET RELIABILITY** assessment showed that the government budget at aggregate level is reliable, with spending consistently between 95% and 105% of the approved amount. Successful PFM reforms, like the Medium-Term Expenditure Framework (MTEF) and Central Budget Management System, are expected to enhance data accuracy and decrease mistakes.

The contingency reserves limit was well respected. However, weaknesses are that there is too much reliance on SACU revenue and tis makes the budget vulnerable, this was experienced especially after COVID and changing spending patterns due to emergencies and shifting priorities needs better oversight. These budget reallocations render the budget to be less reliable at the economic and functional levels. Frequent budget reallocations raise the question about budget credibility as well as the delivery of government services based on the original policy intent. Finally: Ministries have limited capacity that must be improved for better budget planning and control.

### *Scores of the PEFA indicators*



**PILLAR II TRANSPARENCY OF PUBLIC FINANCE** assessment showed that the Budget formulation, execution and reporting are based on administrative and economic classification using GFS 2014 standards and Classification of the Functions of Government (COFOG).

There has been an upgrade of the Integrated Financial Management Information System [IFMIS] from Epicor 7.3.5 to Epicor 10.2 in April 2019 along with adoption of new Lesotho Chart of Accounts [COAs] and full implementation of International Public Sector Accounting Standards [IPSAS] cash basis. Budget documentation is basic as it meets all four basic elements and two additional elements There a a range of weaknesses; from lLack of access to published information by the public, to l lack of monitoring of State-Owned Enterprises [SOEs] and Extra-Budgetary Units [EBUs], to lack of awareness on the country's Public Financial Management [PFM] System by MDAs.



**PILLAR III MANAGEMENT OF ASSETS AND LIABILITIES** assessment showed that Lesotho has well-established institutional arrangements to manage public investment projects.

The government has set up the Public Sector Investment Committee (PSIC) as the highest administrative authority for the economic appraisal of projects that will be implemented by any Ministry, Department and Agency (MDA) of the Government of Lesotho. The Department of Project Cycle Management (PCM) in the Ministry of Finance and Development Planning (MoFDP), is the secretariat of the committee.

The economic analysis of all capital investment projects begins with ministerial-level appraisal, forwarded to the PSIC for further scrutiny to ensure projects align with the National Strategic Development Plan (NSDP). Once proposed projects pass the appraisal criteria set out in the guidelines, they are included in the Public Sector Investment Programme (PSIP) report (feasibility study report) and submitted to Cabinet for final approval.

While the physical progress of the projects is monitored, there are no standard procedures and rules for project implementation that have been put in place by either the Department of PCM or the PSIC. This lack of procedures might be one of the reasons for the lower capital budget outturn by projects financed by GoL.

According to the FY 2022/2023 consolidated financial statements, the overall project expenditure was M3.281 billion against the budget of M6.764 billion representing an execution rate of 49%.

The implementation rate varied considerably across the three funding categories, ranging from 68% of domestic resources to 43% and 41% for grant and loan funded expenditures, respectively.

There are a range of weaknesses ranging from:

- Cases of non-compliance with the PFMA Act of 2011, such as lending to SOEs
- Poor monitoring of financial statements of both state-owned entities (SOEs) and subnational governments (SNGs)
- No criteria for prioritisation and ranking of the capital investment projects before they are sent to the Budget Office for inclusion into the budget
- Results of the PSIC are not published and are not reviewed by an entity other than the sponsoring entity
- Some projects have been implemented without passing through the PISC assessment
- No standard procedures or rules for project implementation as well as monitoring guidelines have been put in place by either the Department of PCM or the PSIC
- No legal framework to guide the PPPs.

The major shift from a Government-led to a Private-sector-led Economic-growth-model, requires that the PFM procedures of this Pillar are robust. Key priority PFM reforms are therefore required to address Pillar III.

**PILLAR IV POLICY BASED FISCAL STRATEGY AND BUDGETING** assessment showed that Forecast data for all four forecast indicators (GDP, Inflation, exchange rate, and interest rate) are available and just need to be included in the budget documents, the budget speech has annexes that compare the budget estimates for different years and some Macro-Fiscal Sensitivity Analysis is being done. There exist quarterly economic and monthly fiscal bulletins containing performance on macroeconomic as well as the Mid-Term Budget Review that contain detailed explanations of the reasons for the deviations from the objectives and targets of the budget. Medium-term strategic plans are prepared and costed for most of the ministries.

The Legislature's procedure to review budget proposals has been clearly outlined in the National Assembly Standing Orders of Lesotho as revised in 2022. Clear rules exist for some of the aspects of budget adjustments which are adhered to in some instances.

However, there are a range of weaknesses ranging from:

- Insufficient collaboration between the macro department of the MoFDP and the Central bank
- the macro-fiscal sensitivity analysis includes only a limited qualitative assessment of the impact of some alternative macroeconomic assumptions
- fiscal forecast scenarios that exist are not published
- Program budgeting is not part of the annual budgets for the fiscal years 2020/21, 2021/22 and 2022/23
- only some (not all) budgetary units comply with the budget calendar and meet the deadlines for completing estimates

- the Executive has been unable to submit the annual budget proposal to the Legislature at least two months before the start of the fiscal year as expected
- rules for Budget Adjustments by the Executive regarding the criteria and timing of submitting supplementary budgets in both the constitution and the PFMA Act are not so clear.

**PILLAR V PREDICTABILITY AND CONTROL IN BUDGET EXECUTION** assessment showed that taxpayers have easy access to up-to-date information. Credibility and trust have been enhanced through the development of the Compliance Model by RSL in managing risks and RSL records and monitors its stock of revenue arrears. IFMIS helps to minimize risks associated with financial mismanagement, fraud, and corruption. A strong system for cash forecasting and monitoring exists. A strong payroll system exists where all payroll management is done through HRMIS and the procurement Tribunal exists and is fully functional.

However, there are a range of weaknesses ranging from:

- absence of a risk management framework around revenue, expenditure, procurement, etc
- the Procurement Policy and Advisory Division (PPAD) has no database or records for contracts including data on what has been procured, value of procurement, and who has been awarded contracts
- Poor implementation of Internal Audit structures for line ministries
- Inadequate levels of daily sweeping of revenue into the Treasury Main Revenue Account.

There are still revenue-collecting entities sweeping on a weekly and monthly basis; and limited consolidation of government bank accounts into a Treasury Single Account (TSA). Only 8 out of 368 government bank accounts are consolidated into the TSA.

**PILLAR VI ACCOUNTING AND REPORTING** assessment showed that reconciliation of bank accounts and cash balances takes place. There are multiple internal controls in the IFMIS processes. IPSAS cash basis has been adopted by the government and is being applied consistently.

However there are a range of weaknesses ranging from:

- Lack of regular monitoring of the monthly bank reconciliation reports' submissions to the office of the Accountant General
- Clearance of advance and suspense accounts, and reconciliations is not performed timely as per the treasury regulations
- IFMIS allows for backdating of entries and adjustments after the period ends and this results in inaccurate and inconsistent reports
- In-year budget reports do not incorporate actual expenditure of other spending units such as autonomous bodies, state-owned enterprises, and extra budgetary units
- Lack of monitoring of the monthly and quarterly in-year budget report preparations, and submissions to the Accountant General by the spending units
- Financial statements of state-owned enterprises, autonomous bodies, and extra-budgetary units, are not consolidated into the annual financial statements and Delays in submitting the annual financial statements for audit.

**PILLAR VII EXTERNAL SCRUTINY AND AUDIT** assessment showed that, the Office of the Auditor General (OAG) is functional and there is evidence that formal responses were made by the executive on audits for which follow-up was expected, during the last three completed fiscal years. By law, the OAG has unrestricted access to the majority of the requested records, documentation, and Information and In-depth hearings on key findings of audit reports take place occasionally.

The range of weaknesses range from:

- OAG has no formal depository of the entities that have been audited, relative to the total number of entities that should be audited
- Audited reports are submitted over nine months (not within 3 months as expected) after receipt of the financial reports by the OAG to the legislature
- The formal responses made by the executive on audits for which follow-up was expected, were not comprehensive and timely
- Access to information by the OAG such as the accountant general reports is seldom within the specified time

- None of the audit reports for the years under review have been completely scrutinised by the legislature  
: In-depth hearings on key findings of audit reports cover only a few audited entities
- There was no completed audit scrutiny by the legislature during the 3 years under consideration so no  
: recommendations could emanate from the reports
- The PAC reports on Audit hearings have not been published for the years under review. The last PAC  
: report published on the official website on Audit hearings is the 2013-2016 PAC Report.



### PEFA Self-Assessment 2024 Outcomes: Capacitated Stakeholders

The PEFA Self-Assessment 2024 approach enhanced the understanding, ownership and capacity, of a selected group of over 80 Government Officials, who were involved, and were facilitated, to define, produce, and analyse their PEFA Pillars data sets, relevant to the policy or technical areas of their official work assignments.

The major outcome of the PEFA Self-Assessment 2024 is the capacitation of this critical mass of Government Officials and other Stakeholders, who can take forward more effectively the Government PFM Reforms Agenda, by building on the systematically developed datasets and PEFA Pillars assessments, that are fully owned by the Government officials and counterparts who engaged in this participatory PEFA SA exercise, to advance more prudent financial governance practices, that better serve the Lesotho citizens.

The critical mass of Government PEFA Counterparts who have been engaged are selected Officials of the Line Ministries', Planning Units and Budget Sections and Officials from the relevant Agencies, like the Central Bank, the Office of Auditor General and the Department on Corruption and Economic Offences.

The PEFA SA 2024 will be shared with the PFM Development Partners, in particular, WB, USAID, IMF, EU, AfDB, UNICEF and GIZ, to facilitate the coordination of the respective PFM DPs support interventions in the Government PFM Reform Agenda.

The PEFA SA 2024 assessment and findings are directly relevant to the targeted Government Officials who were engaged and better capacitated to address the Government PFM Reforms in their respective PEFA Pillar task areas.

The PEFA SA 2024 assessments and analytical framework yielded in a systematic and effective manner, a comprehensive list of PFM Reforms, that can be developed into the GoL PFM Reforms Agenda, and from which then priority PFM Reforms 2024 can be selected, aiming at a timebound GoL PFM action plan that will gradually cover all PFM Reforms.

The Key Government entities and counterparts, who have been engaged and capacitated by the PEFA SA 2024 exercise, are to be mobilized to implement their (priority) PFM Reforms.

- The MoFDP leadership and the leadership of relevant MDAs; are to identify priority PFM Reforms  
: to be pursued.
- The MoFDP Departments tasked with the revenue, budget or expenditure PFM tasks are to be mobilized,  
: i.e. the Macro Department, the Budget Department, and the Accountant General, and the other MoFDP  
: Departments tasked with management of a specific fiscal or PFM task; e.g. Public Debt Management,  
: Public Procurement, Private Sector Development, and Capital Budget management.
- The Planning, Budget and Audit units of the MDAs are to be mobilized to address their specific PFM  
: Reforms as identified in the PEFA SA 2024.



### Priority PFM Reforms Triggered by the PEFA Self-Assessment 2024

A key objective of the Government of Lesotho PEFA Self-Assessment is to use PEFA (SA) 2024 updated evidence and analysis of the PEFA Pillars Assessment Scores, as a catalyst for to identify and trigger Priority PFM Reforms, and more effectively implement a GoL PFM Reforms Action Plan, through the mobilized critical mass of Government counterpart Officials.

To develop a list of Priority PFM Reforms (“low hanging fruit”) that can be triggered by the PEFA SA Findings. the Ministry of Finance and Development Planning, together with the Committee of Principal Secretaries is to identify and prioritize GoL PFM Reforms, drawing on the PEFA SA 2024 findings.

The PS MoFDP will lead the identification and prioritization of PFM Reform driven by the PEFA SA 2024, starting in Q1 2025.

Currently there is no comprehensive “stand-alone” consolidated GoL PFM Reform Agenda. The list of indicative GoL PFM Reforms is to be drawn from the following GoL sources:

- 1. Budget Strategy Paper 2025/26
- 2. Budget Speech (2024/25)
- 3. Budget Mid-Term Review (2024/25)
- 4. MoFDP Budget Matrix Speech/Recurrent/Capital (2024/25)
- 5. The NSDP-II Key Priority Area (KPA) IV (2023/24 – 2027/28)
- 6. NSDP-II KPA IV Reporting Template
- 7. MoFDP Operational Plan (2024/25)
- 8. MoFDP Performance Contract (2024/25)
- 9. MoFDP Service Charter (2024)
- 10. the PFMA Act (2023) and
- 11. RSL Strategic Plan - Lesokoana (2024-2027)
- 12. Relevant other Bills/Policies/Strategies: Public Debt (Ceiling) Management Bill, Public Procurement Bill/Manual/Agency/Procedures, PPP Bill;, Competition Bill, Investment Policy, Disaster Risk Strategy, Arrears Inventory Strategy, National Payments System Bill, Inheritance Laws, GoL Macro Fiscal Rules, GoL Fiscal Risk Statement/(Mitigation) Strategy, Public Service Act (Legislative-Regulatory Review), National Payments System Bill, GoL IFMIS Digitization Strategy.

In addition, selected GoL PFM Reforms are triggered and supported by major PFM DPs Projects and Programmes:

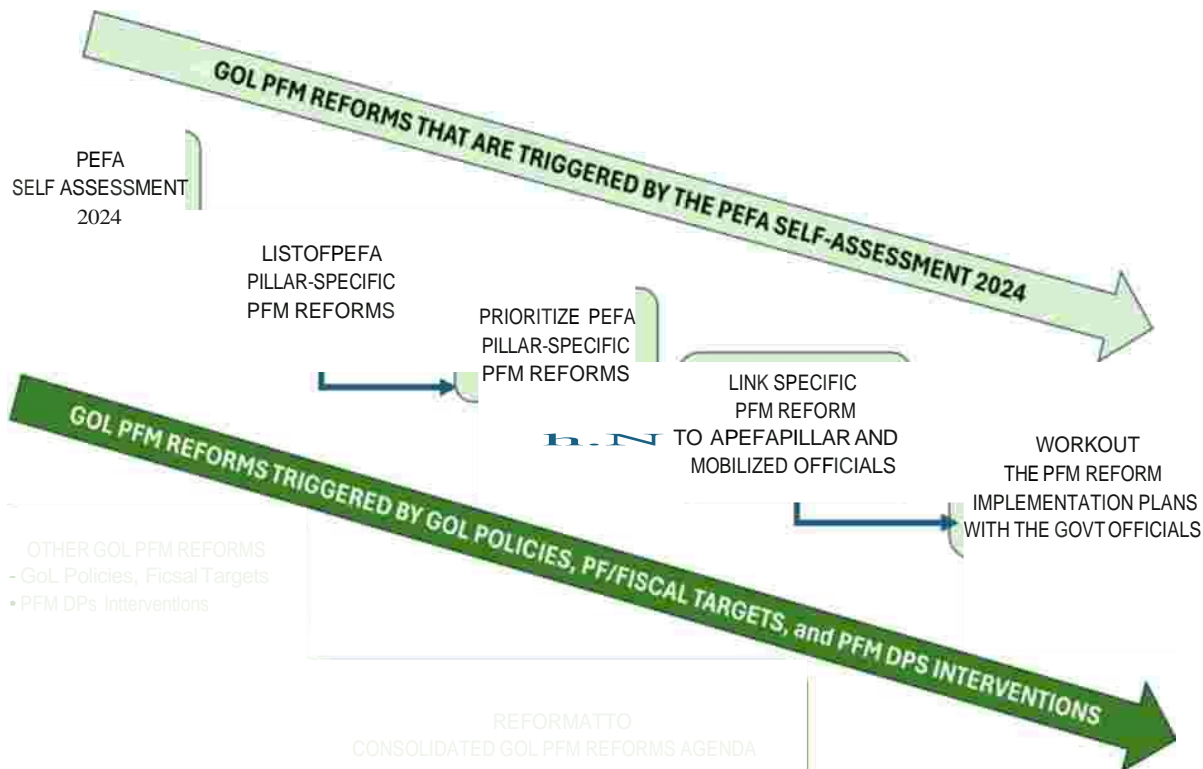
- 1. World Bank; Competitiveness and Financial Inclusion (CAFI) Project (2022 – 2028), Public Sector Foundations for Service Delivery (PSFfSD) Project (2024 – 2027), Development Policy Operation (DPO) Prior Actions & Triggers (2024)
- 2. IMF: Article IV Policy Recommendations (2024), Tax Administration Diagnostic Assessment Tool (TADAT 2023) Risk Management, Fiscal Risk Statement (2024/25) Mitigation Measure, Global public Finance Partnership (GFPF) Trust Fund Capacity Development Project (2024 - 2027)
- 3. US Millenium Challenge Account - II Passing Indicators (2022 - 2028)
- 4. UNDP/EU Integrated National Financing Framework (INFF) Facility Lesotho
- 5. AfDB Institutional Support Project for Debt and Expenditure Management (ISPDEM 2022 – 2025)
- 6. and EU Central Bank Lesotho TA/Capacity-building, CF TA supported GoL PEFA SA 2024 Way-forward actions.

The summary list of possible priority (“low hanging fruit”) PFM Reforms, links the PFM Reform to the relevant PEFA SA 2024 Pillar, and proposes follow through

- 1. by addressing that PFM Reform and a specific working group of GoL Officials who will draw on the insights obtained in the PEFA SA Exercise 2024, and
- 2. in the process, upgrade specific PFM routines and thereby realize improved PEFA Pillar scores.



## STEPS TO DEVELOP THE GOL CONSOLIDATED PFM REFORMS ACTION PLAN



# GOL PFM Reforms are (to be) drawn from the following Gol sources:

- 1) Budget Strategy Paper 2025/26
- 2) Budget Speech (2024/25)
- 3) Budget Mid-Term Review (2024/25)
- 4) MoFDP Budget Matrix Acts: Speech/Recurrent/Capital (2024/25)
- 5) NSDP-II Key Priority Area (KPA) IV (2023/24- 2027/28)
- 6) NSDP-II KPA IV Reporting Template
- 7) MoFDP Operational Plan (2024/25)
- 8) MoFDP Performance Contract (2024/25)
- 9) MoFDP Service Charter (2024)
- 10) PFMA Act (2023)
- 11) RSL Strategic Plan (and actions) - Lesokoana (2024-2027)
- 12) Relevant other Bills/Policies/Strategies: Public Debt (Ceiling) Management Bill, Public Procurement Bill/Manual/Agency/Procedures, PP Bill, Competition Bill, Investment Policy, Disaster Risk Strategy, Arrears Inventory Strategy, National Payments System Bill, Inheritance laws, GoL Macro Fiscal Rules, GoL Fiscal Risk Statement/(Mitigation) Strategy, Public Service Act (Legislative-Regulatory Review), National Payments System Bill, GoL IFMIS Digitization Strategy

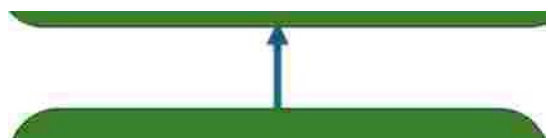
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## GOL PFM Reforms triggered and supported by PFM DPs Projects

- 1) **World Bank**; Competitiveness and Financial Inclusion (CAFI) Project (2022 -2028), Public Sector Foundations for Service Delivery (PSFSD) Project (2024-2027), Development Policy Operation (DPO) Prior Actions & Triggers (2024), Fiscal rules (December 2024)
- 2) **IMF**: Article IV Policy Recommendations (2024), Tax Administration Diagnostic Assessment Tool (TADAT 2023) Risk Management, Fiscal Risk Statement (2024/25) Mitigation Measure, Global public Finance Partnership (GFPF) Trust Fund Capacity Development Project (2024 - 2027)
- 3) **US Milenium Challenge Account - II**: Passing Indicators (2022 - 2028)
- 4) **UNDP/EU** Integrated National Financing Framework (INFF) Facility Lesotho
- 5) **AfDB** Institutional Support Project for Debt and Expenditure Management (ISPDEM 2022-2025)
- 6) **EU** Central Bank Lesotho TA/Capacity-building, CF TA Project supported GoL PEFA SA 2024 Way-forward actions

REFORMAT TO  
GOL CONSOLIDATED PFM REFORMS ACTION PLAN

- > WHAT - Specific PFM Reform Action
- > WHO - GoL Officials at Operational/Department level
- > WHEN - Time bound actions and milestones



NOTE;

- PRIOR TO ADOPTING AND ACTIVATING A PFM REFORM ACTION A QUICK ASSESSMENT WILL BE MADE OF
- Logistics impediments
  - Resources Impediments
  - Capacity/understanding Impediment
  - Political Economy Impediments

These impediments will be addressed to ensure that



#	GOL PFM REFORMS - TO BE PRIORITIZED	PEFA PILLAR
1	Expand Coverage Statement of Government Operations	P1
2	Decrease reliance on SACU revenue by increasing TAX and VAT collection	P1
3	Mitigate against and control spending on Emergencies	P1
4	Enhance Budget Planning, Execution and Mentoring capacity of Line Ministries	P1
5	Strengthen Internal Audit Units MoFDP and Agencies	P2
6	Integrate DP PIU/PMUs in GoL Planning Units	P2
7	Increase access to published budget information by the public	P2
8	Comprehensive survey of State-Owned Enterprises (SOE) and Extra Budgetary Units (EBU) by parent MDA, <MoFDP and Legislature	P2
9	Additional legislation on allocation of resources to Sub-National Governments [SNGs]	P2
10	Adherence to timeframes & improve consistency in reporting as required by Public Financial Management and Accountability [PFMA] Act, 2011; Section 34 (1)(b), Section 43 & 44 (1) & Section 45 (1) and Audit Act, and 2016 Section 28	P2
11	Operational Internal Audit units within MoFDP & MDAs	P2
12	Macroeconomic forecasts on interest rates & exchange rates generated by CBL to be captured in the budget documentation	P2
13	Per Public Private Partnership [PPP] Policy (2017) establish legal & institutional framework and capacity building for regulating and managing PPPs contracts & contingent liabilities	P2
14	Following the Public Debt Management framework, publish fiscal risks statements as part of the budget process	P2
15	Conduct awareness training for MDAs on the country's Public Financial Management [PFM] System	P2
16	Government Revenue: Residential Property Price Index	P3
17	Water Sector LHWP Treaty Re-Negotiations and Use of Increased Funds	P3
18	Capital Budget: Commercialization Measure for the Agriculture Sector	P3
19	Capital Budget: Governance, Efficiency and VfM Criteria compliance of Project Proposals & Project Implementation Performance	P3
20	Public Investment Management (PIM) Regulatory Framework Validate: Compliance and work out Procedures	P3
21	Public Debt: Strategy for Principal and Interest Payments Targets	P3
22	Fiscal Risk Management: SOE Inventory and Contingent Liabilities	P3
23	Public Sector Budget Management: Streamline DEBT of Tertiary Education Students Fund & National Manpower Development Secretariat	P3
24	Validate the compliance with PFMA Act: lending to SOEs, submission financial statements to OAG, submission audited financial statements by SOEs	P3
25	Apply improved standards for monitoring of financial statements of both state-owned entities (SOEs) and subnational governments (SNGs)	P3
26	Validate compliance with clear criteria for prioritization and ranking capital investment projects, prior to submission to Budget Office for inclusion in the Budget	P3
27	Review of PIC Result by relevant authorities (other than sponsoring agency) and Timely publishing of results of the PSIC	P3

#	GOL PFM REFORMS - TO BE PRIORITIZED	PEFA PILLAR
28	Validate that projects can only be implemented after passing through the PISC assessment	P3
29	Validate compliance with all legal requirement for all major capital investment projects undergoing PSIC assessment	P3
30	Validate comprehensiveness of the records of financial assets with Department of Private Sector Development and Financial Affairs (PSD&FA)	P3
31	Validate inventory of all SOEs financial performance reports with Department of Private Sector Development and Financial Affairs (PSD&FA)	P3
32	Validate registers or records of non-financial assets by the MDAs	P3
33	Extend medium-term debt management strategy (MTDMS) beyond 2024/25	P3
34	Establish standard procedures or rules for project implementation and monitoring guidelines with either the Department of PCM or the PSIC	P3
35	Establish and adopt legal framework to guide the PPPs	P3
36	Fiscal Stabilization Fund: Establish, 1st Endowment, Operations Procedure	P4
37	Develop Government Counter-Cyclical Fiscal Policy: Use of windfalls	P4
38	List of adopted specified Fiscal Rules	P4
39	Public Sector Budget/Fiscal Rules: Line Ministry Budget Ceilings	P4
40	Public Sector Budget Management: Develop MTBF Program, Performance Budgets	P4
41	Specify an adequate collaboration process between the Macro Department MoFDP and the Central bank	P4
42	Fiscal Gap Reduction: Debt /GDP, Govt. Spending/GDP Ratios Targets	P4
43	Specify a procedure to explain the main differences between current forecasts and those made in the previous year's budget, and include in budget submitted to the legislature	P4
44	Expand macro-fiscal sensitivity analysis to include comprehensive qualitative assessments of the impact of alternative macroeconomic assumptions.	P4
45	Fiscal forecast scenarios are to be published on time	P4
46	Government estimates of fiscal impact are to be based on comprehensive number if proposed changes in revenue and expenditure policy for the budget year and the following two fiscal years	P4
47	Timely publication of the alignment of the budget with information on targets, objectives, indicators, mission and vision of the ministries as shown in the CBMS	P4
48	Start capacity-building schedule for all MDAs of Program budgeting in annual budgets from fiscal year 2025/26	P4
49	Budget documents to provide a comprehensive explanation of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level and at the ministry level.	P4
50	Register confirming that all budgetary units comply with the budget calendar and meet the deadlines for completing estimates	P4
51	Executive to submit the annual budget proposal to the Legislature at least two months before the start of the fiscal year as required	P4
52	Legislature's review covers the medium-term fiscal forecasts of the budgets.	P4

#	GOL PFM REFORMS - TO BE PRIORITIZED	PEFA PILLAR
53	Register shows that Legislature approved the annual budget before the start of the fiscal year, every year, for the years under review	P4
54	Clarify Rules for Budget Adjustments by the Executive regarding the criteria and timing of submitting supplementary budgets in both the constitution and the PFMA Act	P4
55	Procedures to improve synergy and information sharing between the Central Bank and the budget office MoFDP.	P4
56	Timely publication of information (not only for internal use) on explanation of the main differences between prevailing forecasts and those made in the previous year's budget	P4
57	Fully functional cash management unit in the Treasury with budget executed based on the cash plans from the ministries, with implementation plans (cash plans and procurement plans) fully functional, built into the Central Budget Management System (CBMS) to inform issuance of quarterly warrants to line ministries	P4
58	Public Debt Management: Arears Reduction	P5
59	Tax Revenue: RSL/VAT Digitization and Collection Targets	P5
60	Implement RSL/Revenue Authority Strategic Plan (Lesokoana 2024-2027)	P5
61	Tax Revenue: Diversify Tax-base & Measures to Increased Tax-collection	P5
62	Establish Tax Policy Unit (TPU): Enhanced Revenue Forecasting	P5
63	National Reforms Authority (NRA)/National Reforms Transition Office (NRTTO): Institutional Reforms for Government Structures	P5
64	Cash Management: Improved Forecasting	P5
65	Develop coverage of the Treasury Single Account (TSA)	P5
66	Procurement Controls Digitization Core Processes (through IFMIS)	P5
67	Procurement Controls: Inventory Arears/Remove Undocumented Arears	P5
68	Public Sector Budget Management: Recapitalization, Streamline Old Age Pension Fund	P5
69	Public Sector Budget Management: Wage Bill Reduction	P5
70	Formulate and adopt Risk management framework around revenue, expenditure, procurement, etc.	P5
71	Procurement Policy and Advisory Division (PPAD) has up to date database or records for contracts including data on what has been procured, value of procurement, and who has been awarded contracts.	P5
72	Clearly structured and adopted Internal Audit structures for the line ministries	P5
73	Adequate levels of daily sweeping of revenue into the Treasury Main Revenue Account	P5
74	Full consolidation of all government bank accounts into a Treasury Single Account (TSA). Status only 8 out of 368 government bank accounts are consolidated into the TSA.	P5
75	Rebasing Annual & Improving Quarterly National Accounts	P6
76	Procedure adopted and followed for regular monitoring of the monthly bank reconciliation reports' submissions to the office of the Accountant General	P6
77	Clearance of advance and suspense accounts, and reconciliations timely performed timely as per the treasury regulations	P6
78	IFMIS does not allow anymore for backdating of entries and adjustments after the period ends, resulting in accurate and consistent reports.	P6



#	GOL PFM REFORMS - TO BE PRIORITIZED	PEFA PILLAR
79	In-year budget reports incorporate actual expenditure of other spending units such as autonomous bodies, state-owned enterprises, and extra budgetary units	P6
80	Procedure adopted and implemented for monitoring of monthly and quarterly in-year budget report preparations, and submissions to the Accountant General by the spending units	P6
81	Financial statements of all state-owned enterprises, autonomous bodies, and extra-budgetary units, are consolidated into the annual financial statements	P6
82	Timely submission of the annual financial statements for audit.	P6
83	Coverage and Timeliness of Audit Statements of SOEs	P7
84	OAG has a formal depository of the entities that have been audited, relative to the total number of entities that should be audited	P7
85	Audited reports are submitted within 3 months as required, after receipt of the financial reports by the OAG to the legislature.	P7
86	Formal responses by the executive on audits have timely and comprehensive follow up	P7
87	Access to information by the OAG, such as the accountant general reports is within the specified time	P7
88	All audit reports for the years under review have been completely scrutinized by the legislature.	P7
89	In-depth hearings on key findings of audit reports cover comprehensively all audited entities	P7
90	Record and validation of completed audits scrutiny by the legislature with recommendations that emanate from the reports.	P7
91	PAC reports on Audit hearings are published on the official website on Audit hearings	P7

### The Way-Forward: Implement Prioritized PFM Reforms

The Government PEFA Self-Assessment 2024 Report is the end result of a collaborative process and marks the start of the way forward actions that aim to institutionalize the PEFA capacity and capability that has been

### The Way-Forward: Implement Prioritized PFM Reforms

The Government PEFA Self-Assessment 2024 Report is the end result of a collaborative process and marks the start of the way forward actions that aim to institutionalize the PEFA capacity and capability that has been established through the PEFA Self-Assessment exercise in 2024. The way forward institutionalization measures address the WHO and the WHAT & WHEN, for improved Government PFM Reform implementation.

- WHO:** Accredite the Lesotho local Experts as PEFA Experts. The Lesotho local Experts who facilitated the Government Officials, internalized the PEFA Secretariat Manuals and Guidelines and were provided on-the-job training by the regional PEFA Expert. A deliberate follow-up accreditation track is to be activated to create a cadre of Lesotho PEFA Experts. The CF TA Project will develop an accreditation programme to “groom and graduate” the Lesotho Facilitators as PEFA Experts, seeking guidance from the PEFA Secretariat, the Collaborative Africa Budget Reform Initiative (CABRI), and the Lesotho Institute of Public Administration and Management (LIPAM). The Budget Controller MoFDP, who was leading the PEFA 2024 Self-Assessment exercise, will coordinate the accreditation process from the Government side, scheduled for Q1-2025.



2. **WHO:** Institutionalize the configuration of Government Officials, by establishing Working Groups that will address specific (priority) PFM Reforms that are triggered by the PEFA-SA 2024. The configuration of Government Officials who have been engaged and mobilized in the PEFA 2024 exercise will be guided and interact and continue to enhance their analytical and operational understanding and ownership of their PEFA assessments and data sets, allowing them to maintain and update their (task area) PEFA indicators, and activate updated policy-reform and actions. Fiscal Policy Actions and PFM Reforms are (effectively) implemented at Department level and in the relevant line-Ministries and /Agencies.

To enhance effectiveness of implementation of specific PFM Reforms and Government Fiscal Policy Actions, the Government Officials will be clustered in Working Groups by PEFA Pillar, and/or a specific PFM Reform area/action. The PEFA SA Report Annex presents the critical mass of Government Officials who were mobilized in PFM Working Groups. The Office of the PS and DPS Finance of the MoFDP and the Committee of Principal Secretaries are to lead the institutionalisation and mobilization of these PFM Working Groups.

The EU CF TA Project will provide targeted logistics support. This will be a continuous capacity-building effort starting in Q1 2025.

3. **WHAT & WHEN:** The Lesotho PEFA SA 2024 was quality controlled by a PEFA Expert and followed the PEFA Secretariat Manuals and Guidelines steps. To strengthen the validity of the PEFA SA 2024 Analysis and Findings, a series of Ex-post PEFA SA 2024 Report Peer Review Validations are scheduled to:

- Further improve the understanding of the Ministry of Finance and Development Planning on the PEFA process steps and methodology, and draw on this understanding for future total PEFA updates or specific PEFA Pillar assessment updates, and strengthen the quality and usefulness of future PEFA reporting in providing accurate, reliable and actionable assessment of PFM performance.
- validate that the evidence, accuracy and relevance of the 2024 PEFA Pillars assessments and Indicators' scores and findings, and confirm these provide accurate reflections of the status of public financial management systems and institutions of the government, as captured in the indicator scores and narrative assessment, thereby supporting priority PFM Reforms that are triggered by the PEFA SA 2024 findings.

The PEFA SA Report Assessments and Findings will be Peer-reviewed and validated with the relevant authoritative entities, further strengthening their ownership of the PEFA datasets and Pillar Scores:

- 1. Auditor General
- 2. Accountant General
- 3. Macro-Economic and Technical Working Groups
- 4. Budget Department
- 5. Bureau of Statistics
- 6. Public Debt Management Department
- 7. Central Bank
- 8. Planning/Budget Units Line-Ministries/Agencies
- 9. Department on Corruption and Economic Offences (DCEO)
- 10. Revenue Services Lesotho (RSL)
- 11. Lesotho National Development Cooperation (LNDC)
- 12. Open Budget Survey Representative
- 13. Selected PFM Development Partners
- 14. PEFA Expert/Consultant (to be identified)
- 15. The PEFA Secretariat
- 16. Parliament (Budget Committee) and
- 17. Any other relevant Organization (to be identified). The Peer Review meetings will validate the PEFA SA Report assessments and findings by addressing (at least) the following issues:
  - Obtain comments in the extent to which PEFA SA 2024 Exercise complied with the PEFA Secretariat methodology and seek guidance for future PEFA Assessments to qualify for a PEFA Secretariat Check
  - Submit/Register the PEFA SA 2024 to the PEFA Secretariat database. A PEFA Check is not mandatory
  - Assess if compliance indices for dimensions and indicators and the report coverage index are both higher than 85 percent, and if below 85 percent (PEFA secretariat) seek how to improve compliance

- or coverage to meet or exceed 85 percent.
- Validate if quality assurance arrangements surrounding assessments provided for adequate participation by governments and PFM institutions,
- Validate if the coverage rating of the actual content of the sections presented in the report compares to the content as prescribed by the PEFA Framework,
- Validate the compliance index, being the number of dimensions that are scored in accordance with the PEFA methodology, as supported by the evidence presented or described in the report, compared to the total number of dimensions that are scored
- Validate if good practices were followed in the process of planning and implementing the SA Exercise and seek further advice, regarding how to conduct and report on quality assurance processes.
- Capture the comments of the respective authoritative entities in a matrix and identify the priority PFM Reform Actions that are triggered by the PEFA SA 2024 findings.

The Budget Controller.MoFDP, who was leading the PEFA SA 2024, will coordinate the Ex-post Peer Review Validations

4. **WHAT & WHEN:** The Ministry of Finance and Development Planning (MoFDP), in collaboration with the Committee of Principal Secretaries, will identify and prioritize the Government of Lesotho's (GoL) PFM reforms based on the findings from the PEFA SA 2024. The focus will be on developing a comprehensive GoL PFM Reform Agenda that incorporates these priority reforms. The Office of the PS will lead this process, beginning in Q1 2025, to ensure that PFM reforms are effectively prioritized and aligned with the PEFA SA 2024 findings. This initiative will lay the foundation for enhancing PFM systems and improving governance.

5. **WHAT & WHEN:** The PEFA SA 2024 datasets, covering FY 2020/21, FY 2021/22, and FY 2022/23, will be included in GoL Data Portals to enhance these platforms with authoritative quantitative and qualitative data. This data will be extracted for use in GoL public finance, budget, and accounting routine reports, contributing to informed and reliable analysis.

The relevant custodians, including:

- the Ministry of Finance and Development Planning (MoFDP),
- Budget Controller, Director of Macro, Accountant General,
- Office of the Auditor General,
- Central Bank Lesotho,
- and other relevant GoL Departments/Agencies,

will jointly update and maintain the GoL Data Portals. The update process will begin in Q1-2025.

6. **WHAT & WHEN:** The PEFA capacity established under the PEFA SA 2024 exercise will be institutionalized through the development of PEFA Training Modules and Courses. These will draw from PEFA Guidelines and Training Materials, converting them into a comprehensive PEFA Training Course at LIPAM. Lecturers for these courses will be sourced from PEFA Facilitators, the National University of Lesotho (NUL) Department of Economics, and LIPAM.

The short and focused PEFA Courses will train a broader group of Government Officials, consisting of:

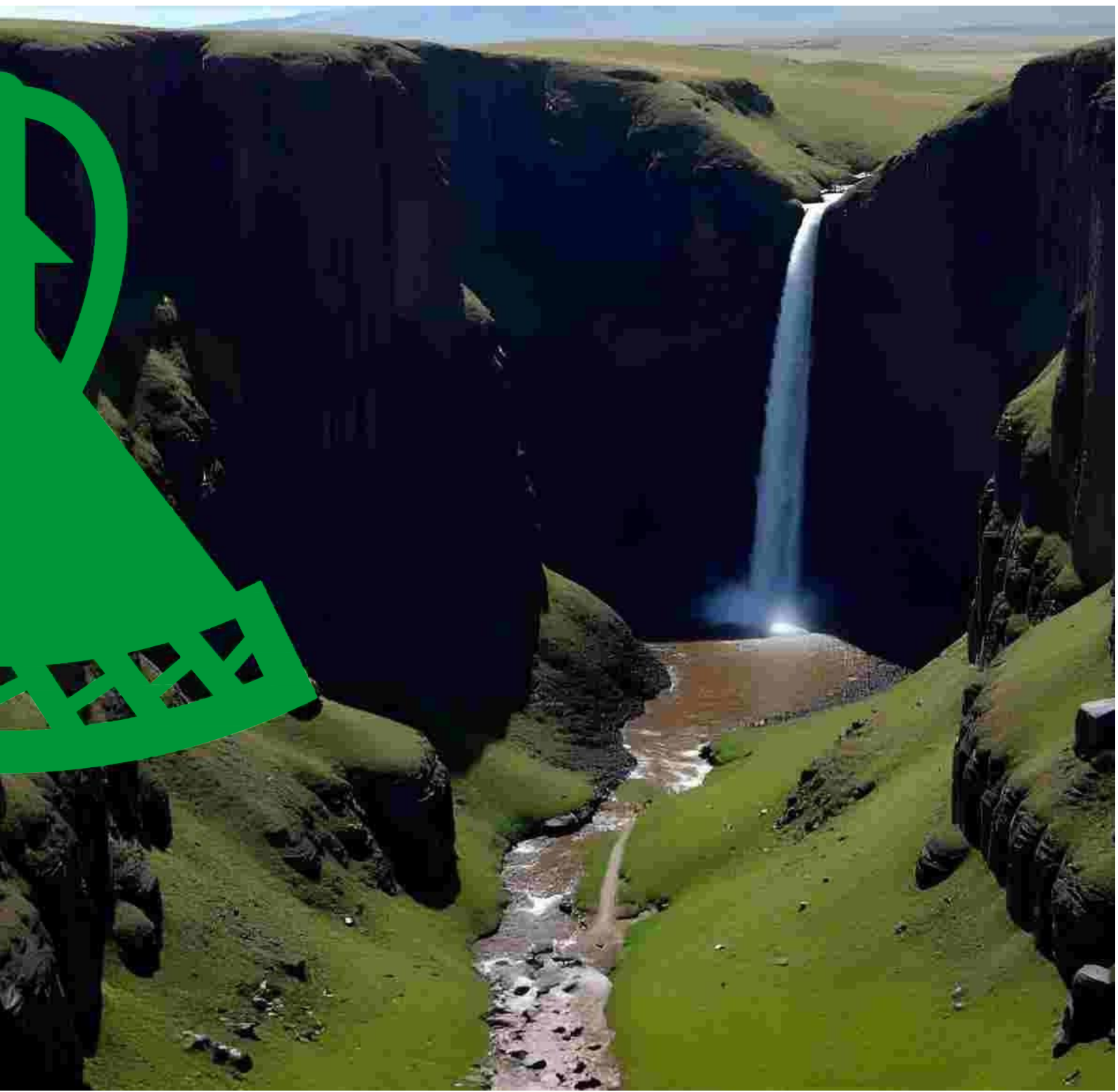
1. a general session on the PEFA Methodology (1 day)
2. and an applied session addressing specific PFM Reforms (2 days).

The applied part will target specific working groups or clusters of relevant GoL Officials, focusing on PFM Reforms from the GoL PFM Reform Agenda.

The Ministry of Finance and Development Planning (MoFDP) will prioritize the cases to be included in the courses.

The Director-General of LIPAM will coordinate the development of the LIPAM PEFA Course, with logistics and technical assistance from the CF TA. The first pilot course is scheduled for Q1 2025.





## **Annex 6.2: Summary of the Process, Outcomes and Way Forward**



**LESOTHO -EUROPEAN UNION COOPERATION**



# **PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY**

## **PEFA SELF-ASSESSMENT - 2024**

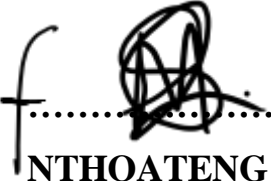
### **PEFA COUNTERPARTS LAUNCH MEETING**

21/06/2024 at LIPAM

0900 – 09.30	Registration Participants	TA/OM ++
09.30 – 09.40	Welcome and Opening Remarks	Budget Controller/MoFDP
09.40 – 09.50	Opening Remarks by EUD	EUD/Team leader PFM/Anna Renieri
09.50 – 09.55	Opening Remarks CF TA	CF TA Team Leader/Peter Portier
09.55 – 11.00	<b>Introduction PEFA Self-Assessment (SA)</b> <ul style="list-style-type: none"> <li>➤ Purpose and Objective PEFA-SA</li> <li>➤ PEFA Overview</li> <li>➤ PEFA Scope and Coverage</li> <li>➤ PEFA: Pillars and Budget Cycle</li> <li>➤ PEFA Pillars, Indicators, Dimensions</li> <li>➤ Performance Indicators Methodology</li> <li>➤ Timeline/GANTT PEFA Assignment</li> <li>➤ Presentation Pillar Facilitators</li> <li>➤ Instruction to find your Pillar Table</li> </ul>	<b>Budget Controller/MoFDP</b> <b>and</b> <b>CF TA Non-Key-Expert/Ms Koatsa</b>
11.00– 11.15	Tea-break	After tea-break you are to find your seat at the correct Pillar table
11.15- 11.30	<b>Introduction PEFA Pillar Facilitator</b> <b>introduction Pillar Counterparts Group</b> Fill out PILLAR Group members Sheet	<b>PEFA Facilitator</b> <b>PEFA NKE will moderate all Tables</b>
11.30-12.15	Round-up of each Pillar's Dimensions	PEFA NKE
12.15-12/25	Procedure for Facilitator to call for Pillar Group Meetings	PEFA NKE and PEFA Facilitators
12.25.13.00	Q&A: Question and Answers Closure	Moderated by Budget Controller and PEFA NKE Expert.
13.00	Lunch	

**BUDGET  
DEPARTMENT**

**MEMORANDUM**

**FROM : PS – FINANCE AND DEVELOPMENT PLANNING**  
**TO : ALL HEADS OF DEPARTMENT**  
**REF. NO. : FIN/EXPDT/S.1**  
**SIGNED :** .....  
**NAME : NTHOATENG LEBONA (MS.)**  
**DATE : 14 JUNE 2024**

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**INVITATION TO BRIEFING SCHEDULE WITH PEFA COUNTERPARTS FOR  
FISCAL GOVERNANCE ENHANCEMENT**

Following the communication from the PS-Finance and Development Planning dated 3 April 2024, regarding the initiative, we invite your collaboration in participating in the PEFA Assessment aimed at enhancing fiscal governance.

I am pleased to extend an invitation to you for the initial briefing meeting with all the Counterparts involved in the Public Expenditure and Financial Accountability (PEFA) 2024 Programme on the 21<sup>st</sup> June 2024: 9:00 am at LIPAM. The following is the agenda for the day:

1. Preparation Requirements
2. Administrative Procedures
3. Content and Structure of PEFA

Attached you will find a table detailing the PEFA Assessment Data Requirements and Sources. This document is crucial for you to begin preparing the necessary data and identifying suitable personnel for each PEFA Indicator.

Additionally, there are two lists included:

1. List 1: Individuals who are requested to attend the meeting.
2. List 2: Heads of Sections who may not necessarily attend but should be informed.

Please ensure that the relevant individuals from your team are aware of this invitation and prepared to participate in this important briefing session.

Looking forward to your active participation and contributions to the PEFA 2024 Programme.

Cc: Deputy Budget Controllers

# **CIRCULAR SAVINGRAM**

Received Date Stamp

**FROM : PS-FINANCE AND DEVELOPMENT PLANNING**

**TO : ALL PRINCIPAL SECRETARIES**

**CLERK TO THE SENATE**

**CLERK TO THE NATIONAL ASSEMBLY**

**SENIOR PRIVATE SECRETARY TO HIS MAJESTY**

**DISASTER MANAGEMENT AUTHORITY- CEO**

**DEPUTY OMBUDSMAN**

**IEC - DIRECTOR OF ELECTIONS**

**SECRETARY TO THE PUBLIC SERVICE COMMISSION**

**DCEO DIRECTOR GENERAL**

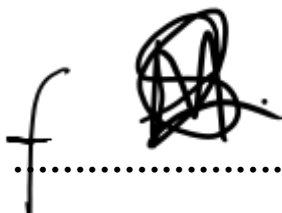
**REGISTRAR - JUDICIARY SERVICES**

**COPY : GOVERNMENT SECRETARY**

**REF. : FIN/EXPDT/S.1**

**SIGNED : .....**

( Full Signature)



**NAME : NTHOATENG LEBONA (MS)**

(Typed)

**FILE NO: .....**

(Receiving Min/Dept.)

**DATE : 14 JUNE 2024**

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## **INVITATION TO BRIEFING SCHEDULE WITH PEFA COUNTERPARTS FOR FISCAL GOVERNANCE ENHANCEMENT**

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5. Administrative Procedures
6. Content and Structure of PEFA

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Additionally, there are two lists included:

1. List 1: Individuals who are requested to attend the meeting.
2. List 2: Heads of Sections who may not necessarily attend but should be informed.

Please ensure that the relevant individuals from your team are aware of this invitation and prepared to participate in this important briefing session.

Looking forward to your active participation and contributions to the PEFA 2024 Programme.

# **PEFA ASSESSMENT-FINDINGS DISSEMINATION MEETING**


**9<sup>TH</sup> SEPTEMBER 2024**

## **Programme**

<b>08.30 – 09.00</b>	<b>Arrival and Registration</b>
<b>09.00 -09.15</b>	<b>Opening by PS MoFDP</b>
<b>09.15 -09.25</b> <b>NKE/Koatsa</b>	<b>Introduction to the PEFAepl assessment Exercise by PEWFA</b>
<b>-</b> <b>Koatsa</b>	<b>Presentation PEFA Findings By Pillar/ Q&amp;A by Pillar: Moderated by NKE</b>
<b>09.25 - 11.00</b> <b>Facilitators</b>	<b>PEFA Pillars: Pillar 1, Pillar 2, Pillar 3, Pillar 4, Pillar 5, by PEFA</b>
<b>11.00 . 11.15</b>	<b>Break</b>
<b>11.15 – 11.45</b>	<b>PEFA Pillars: Pillar 6, Pillar 7, by PEFA Facilitators</b>
<b>11.45 – 12.15</b> <b>NKE/Koatsa</b>	<b>Conclusions and summary of Possible PM reforms, Moderated by</b>
<b>12.15 – 12.45</b> <b>MoFDP</b>	<b>The Way Forward: Next Steps Action Planning; Moderated by PS</b>
<b>12.45 – 13.00</b>	<b>Vote of thanks Closure by PS MoFDP</b>

**MINISTRY OF FINANCE  
AND DEVELOPMENT**

**MEMORANDUM**

**FROM : PS – FINANCE AND DEVELOPMENT PLANNING**  
**TO : ALL HEADS OF DEPARTMENT**  
**REF. NO. : FIN/EXPDT/S.1**  
**SIGNED :**  .....  
**NAME : NTHOATENG LEBONA (MS.)**  
**DATE : 05 SEPTEMBER 2024**

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**INVITATION TO PEFA ASSESSMENT-FINDINGS DISSEMINATION MEETING**  
**ATAVANI MASERU HOTEL ON 10<sup>TH</sup> SEPTEMBER 2024**

The above-captioned subject refers.

As you may be aware, the Ministry of Finance and Development Planning has organized a Public Expenditure and Financial Accountability (PEFA) Self-Assessment exercise (2024).

The **PEFA Methodology** is a systematic and structured approach to produce reliable, actionable Public Finance (PF) data-sets for seven PEFA Pillar Indicators. The **PEFA Self-Assessment Approach** was used to build understanding, ownership and capacity, of selected group of over 80 Government Officials, who have been involved, and were facilitated, to define, produce, and analyse these data sets, relevant to the policy or technical areas of their official work assignments. We have reached the stage where we can share the first findings and results of the PEFA SA Exercise. The main objective of the PEFA Exercise is to use these findings to form the basis for more informed Public Financial Management Reforms, that aim at strengthening our PFM systems.

The PEFA SA exercise was led by the Office of the Budget Controller of the Ministry of Finance and Development Planning, with support from Lesotho/EU Cooperation Facility (CF) Technical Assistance (TA) Project and NUL Economics Faculty members.

The meeting will create an initial platform to discuss how best we can use the PEFA findings. You are kindly requested to participate in this important meeting. Together, we can advance our financial governance practices and better serve our citizens.

# SAVINGRAM

Received Date Stamp

**FROM : P.S. FINANCE AND DEVELOPMENT PLANNING**

**TO :** LINE MINISTRIES  
**PS Public Service**  
**PS Agric**  
**PS Energy**  
**PS Local Government**  
**PS Education**  
**PS Natural Resources**  
**PS Gender**  
**PS Works**  
**PS Cabinet**  
**PS Home Affairs**  
**PS Health**  
**PS Trade**  
**OPM**  
**AGENCIES: CBL, LNDC, DCEO, Auditor General, RS**

**REF. NO :**

**SIGNED:** .....  
(Full Signature)

**NAME :**  
(Typed)

**File No:.....**  
(Receiving Min/Dept.)

**DATE : 5<sup>th</sup> September 2024**

## **INVITATION TO PEFA ASSESSMENT-FINDINGS DISSEMINATION MEETING**

**AT AVANI-MASERU HOTEL; 9<sup>TH</sup> SEPTEMBER 2024, FROM 8.30 - 14.00**

The above-captioned subject refers.

As you may be aware, the Ministry of Finance and Development Planning has organized a Public Expenditure and Financial Accountability (PEFA) Self-Assessment exercise (2024).

The PEFA Methodology is a systematic and structured approach to produce reliable, actionable Public Finance (PF) datasets for seven PEFA Pillar Indicators. The PEFA Self-Assessment Approach was used to build understanding, ownership and capacity, and a selected group of over 80 Government Officials, have been involved, and were facilitated, to define, produce, and analyse these data sets, relevant to the policy or technical areas of their official work assignments.

We have reached the stage where we can share the first findings and results of the PEFA SA Exercise. The main objective of the PEFA Exercise is to use these findings to form the basis for more informed Public Financial Management Reforms, that aim at strengthening our PFM systems.

The PEFA SA exercise was led by the Office of the Budget Controller of the Ministry of Finance and Development Planning, with support from Lesotho/EU Cooperation Facility (CF) Technical Assistance (TA) Project and NUL Economics Faculty members.

The meeting will be the start to create a platform to discuss, how best we can use the PEFA findings. You are kindly requested to participate in this important meeting. Together, we can advance our financial governance practices and better serve our citizens.



**Welcome by Acting Accountant General/MoFDP, Ms. Mabakubung Pitso**



**Opening Remarks by Budget Controller/MoFDP, Ms. Maleshoane Lekomola-Danziger**



**Introduction to PEFA Methodology by NKE Consultant Ms. Nthabiseng Koatsa**



**Dissemination Workshop Participation**



**Dissemination Workshop Participation**



**Dissemination Workshop Participation**





**Presentation Pillar 1 by Facilitator Ms. Maleshoane Lekomola-Danziger**



**Presentation Pillar 2 by Facilitator Mrs. 'Mapalesa Rapapa**



**Presentation Pillar 3 by Facilitator Dr. Ratjomose Machema**



**Presentation Pillar 4 by Facilitator Dr. Denis Yuni**



**Presentation Pillar 5 by Facilitator Mr. Sylvester Lelimo**



**Presentation Pillar 6 by Facilitator Ms. Nteboheleng Tilo**



**Presentation Pillar 7 by Facilitator Dr. Denis Yuni**



**Group discussions on Possible PFM Reforms**



**Group discussions on Possible PFM Reforms**



**Group discussions on Possible PFM Reforms**



**Conclusion and Summary of Possible PFM Reforms moderated by NKE Consultant Ms. Nthanbiseng Koatsa**



**The Way Forward, Next Steps and Action Planning, moderated by Ms. Maleshoanee Lekomola-Danziger**

# SAVINGRAM

RECEIVING DATE STAMP

FROM : FINANCE AND DEVELOPMENT PLANNING

TO : GOVERNMENT SECRETARY

REF NO : FIN/EXP/DT/5.1

SIGNED



NAME : THOBETENG LEBONA (MS)

FILE NO.....  
ecl.i AepL

DATE : 13 SEPTEMBER 2024

## REQUEST TO PRESENT THE PRELIMINARY PEFA SELF-ASSESSMENT REPORT AND LESOTHO 2023 OBS RESULTS DURING THE CPS

The Ministry of Finance and Development Planning has recently completed the preliminary Public Expenditure and Financial Accountability (PEFA) Self-Assessment. A key milestone in our ongoing public financial management reform efforts.

We are also pleased to share that the 2023 Open Budget Survey (OBS) results for Lesotho have been finalized and published globally by the International Budget Partnership. These results reflect notable progress in enhancing budget transparency, participation and accountability which we believe will further strengthen our broader governance reforms.

We kindly request the opportunity to present the PEFA preliminary findings and the OBS report to your office during the CPS session on 19 September 2024. We also ask that you invite other Chief Accounting Officers who are not members of the CPS. This presentation will provide an opportunity to gather feedback and ensure alignment before the broader dissemination of the findings. The plan is to hold this meeting at Lancers Inn, pending final confirmation.

Your assistance in scheduling a suitable time for these presentations at your earliest convenience would be greatly appreciated.

Thank you for your attention and support.