GOVERNMENT OF SIERRA LEONE
DECENTRALIZED SERVICES DELIVERY PROJECT
WORLD BANK/IDA CREDIT NO. H7390

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2013
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GENERAL INFORMATION

Official Address
Integrated Public Administration Unit
Decentralized Service Delivery Project
Ground Floor, Treasury Building
George Street
Freetown

Acting Project Co-ordinator
Mr. Adams Kargbo

Bankers
Sierra Leone Commercial Bank

Auditors
Audit Service Sierra Leone
2nd Floor, Lotto Building
Tower Hill
Freetown
Sierra Leone
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES

It is the responsibility of management to prepare Financial Statements for each financial year which should show a true and fair view of the state of affairs of the Project and of its surplus or deficit for that year. In preparing these Financial Statements the Management is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the Financial Statement;
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Project will continue its activities.

Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Project. They have a general responsibility for such steps as are reasonably available to them to safeguard the assets of the Project and to prevent and detect fraud and other irregularities.

On behalf of Management

[Signature]
Chairman, Project Technical/Steering Committee

[Signature]
Acting Project Co-ordinator
REPORT OF THE AUDITORS - AUDIT SERVICE SIERRA LEONE TO THE GOVERNMENT OF SIERRA LEONE.

Introduction

I have audited the accompanying Financial Statements of the Decentralised Service Delivery Project Phase 2 – IDA 117390 which comprise a separate statement of the financial position as at 31st December 2013, a separate statement of comprehensive income for the year to 31st December 2013, a statement of resources for the year 31st December 2013 and a statement of cash flow for the year to 31st December 2013 and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 14.

Responsibility of Management

The responsibility for the prevention of fraud and error and other irregularities rests with the management of the Authority.

Other responsibilities include:

- designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor General

The Financial Statements of the Authority are subject to audit by the Auditor General in accordance with section 119(2) of the Constitution of the Republic of Sierra Leone, 1991. My responsibility is to express an opinion on these financial statements based on my audit.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. Those standards require that I comply with ethical requirements and plan and
perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the project preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the project internal controls.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management;
- overall presentation of the financial statements; and
- adequacy of design and the effective implementation of internal controls.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Unqualified Opinion

In my opinion the financial statements of the Decentralised Services Delivery Project give a true and fair view, in all material respects, of the financial position as at 31st December 2013 and its financial performance for the year then ended.

AUDITOR GENERAL

Date 10/10/13
STATEMENT OF RESOURCES AND EXPENDITURE

<table>
<thead>
<tr>
<th>Notes</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USS</td>
</tr>
<tr>
<td></td>
<td>972,608</td>
</tr>
</tbody>
</table>

Opening Bank Balance: 1st January 2012:

Resources:
- Receipts into IDA Special Account
  - 1
  - 6,986,882
  - 7,959,490

Expenditures:
- Local Council Grants
  - 612,298
- Capital Development and Technical Assistance
  - 1,550,963
- Results and Social Accountability
  - 760,694
- Program Management
  - 473,650
  - 3
  - 3,397,605

Results for the period
- 4,561,885

Represented by:
- IDA Special Account
  - 4,561,885

These Financial Statements were approved on: 2014

Chairman, Project Technical Steering Committee

Acting Project Co-ordinator
STATEMENT OF COMPREHENSIVE INCOME

Note  2013

US $

Income

Funding from Donors  1  3397605

Expenditure

Local Council Grants  (612298)
Capital Development and Technical Assistance  (1520559)
Results and Social Accountability  (789251)
Program Management  (475497)

3397605

Results for the period

Nil

These Financial Statements were approved on 16th June 2014

Chairman, Project Technical Steering Committee

Acting Project Co-ordinator
# Statement of Financial Position

<table>
<thead>
<tr>
<th>Notes</th>
<th>2013</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>2</td>
<td>4,561,885</td>
</tr>
<tr>
<td>Funding and Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred income</td>
<td>1</td>
<td>4,561,885</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,561,885</td>
</tr>
</tbody>
</table>

These Financial Statements were approved on 16th June 2014

Chairman, Project Technical Steering Committee

Acting Project Co-ordinator
## Statements of Cash Flows

<table>
<thead>
<tr>
<th>Operating Activities</th>
<th>Notes</th>
<th>Cash flows from operating activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash receipt from third parties</td>
<td></td>
<td>(3,397,605)</td>
</tr>
<tr>
<td>Cash paid to suppliers and employees</td>
<td>3</td>
<td>(3,397,605)</td>
</tr>
</tbody>
</table>

### Investing Activities

<table>
<thead>
<tr>
<th>Acquisition of property, plant and equipment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
</tr>
</tbody>
</table>

### Financing Activities

<table>
<thead>
<tr>
<th>Funding received</th>
<th>1</th>
<th>6,986,882</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td>6,986,882</td>
</tr>
<tr>
<td>Net increase in cash and cash equivalent</td>
<td>3,589,277</td>
<td></td>
</tr>
<tr>
<td>Cash and Cash equivalent at the start of the year</td>
<td>972,608</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalent at 31st December 2013</td>
<td>4,561,885</td>
<td></td>
</tr>
</tbody>
</table>

These Financial Statements were approved on [Signature] 2014

Chairman, Project Technical Steering Committee

Acting Project Co-ordinator
NOTES TO THE FINANCIAL STATEMENTS

1. BACKGROUND

Since Sierra Leone is in a rapid recovery process from its decade long civil war that rendered its citizens displaced and lives and properties lost. The country has been on a path of reconciliation, reconstruction, and stabilization of its economy and governance system. To assist Government achieve its objective, the programme will provide the GoSL additional funds so as to help fill the gap between available funds and what is needed to achieve the country’s Millennium Development Goals, and improve the level of basic services provided to its citizens.

Nevertheless, the challenge to sustain political stability, address the striking human development deficits, and build infrastructure continues. There is the particular need to strengthen the national and sub-national democratic institutions and translate the likely gains of economic growth into improvements in people’s lives, hence the GoSL embarked on a decentralization program in 2004 with a view to defuse the political tensions, improve the governance environment, and establish an equitable and transparent resource transfer system from the central level to local levels to reduce the resource gaps and income inequalities among regions all geared towards improving service delivery.

The overall objective of the Program is to support decentralized delivery of basic services in Sierra Leone. In addition to providing Councils with substantially more funding for basic service delivery, Phase 1 of the program had focused on strengthening, Government institutional and organizational capacity at the central and local levels, to enable Local Councils to fulfil their core developed functions and launching an “umbrella” platform to consolidate all financial flows to local councils. Despite the fact that is divided in phases, the Projective Development Objectives (PDO) remains unchanged, i.e.,

1. To strengthen the recipient’s capacity to manage decentralized services
2. To improve availability and predictability of funding for Local Councils
3. To strengthen the Recipient’s inter-governmental fiscal transfer system.
Phase II of the project will focus more explicitly on translating the institutional and organizational capacity into better service outcomes with continued focus on refining the grants system and mitigating cross-cutting constraints.

It emphasise the importance of the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF) to ensure that they are applied effectively in letter and spirit across the four components. The added focus on results and social accountability will strengthen the capacity of the monitoring unit of the Local Government Finance Department (LFFD) with the support from the decentralized secretariat (DecSec) of the Ministry of Local Government and Rural Development (MLGRD).

It will continue to maximize the use of existing government structures, including the existing Inter-Governmental Fiscal Transfers System (IFTs).

**Project Components**

- **Component 1**: Grants to Local Councils (US $ 24.3 million) – will be implemented by MoFed, with the support from its LGFD and IPAU

- **Component 2**: Capacity development and technical assistance to strengthen Local Councils and MDA’s capacity (US $ 3.0 million) – will be implemented by DecSec in MLGRD

- **Component 3**: Results and social accountability (US $ 4.1 million) – is a new component that will be implemented by IPAU and DecSec in MLGRD, with support from LGFD, with the responsibility of monitoring and evaluation eventually being mainstreamed into DecSec

- **Component 4**: Project management (US $ 1.2 million) – will be implemented by IPAU
NOTES TO THE FINANCIAL STATEMENTS (CONTD.)

2. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Project’s financial statement.

a. Basis of accounting
Statement of resources and expenditure are prepared on the basis of cash accounting whereby income is recognised on the receipt of cash and cash equivalents is recognised on the disbursement of cash and cash equivalents.

The basis of the income recognition is described in note (d) below.

b. Foreign currency transaction

Functional and presentation currency
The functional currency is the local currency in Sierra Leone which is the Leone. The Project has however adopted the United States Dollars (US$) as its presentation currency as most of its transactions are dominated in US$. Transactions in all other currencies are therefore considered foreign currency transactions.

Transactions and balances
Foreign currency transactions are translated into functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions denominated in foreign currencies are recognised in the Project’s Statement of Comprehensive Income.

c. Non-current assets
Plant and equipment are expensed on acquisition by the Co-ordinating Unit. The financial statements therefore have no non-current assets shown.

d. Income
Funding from the World Bank is held in a deferred income account when received and only recognised in the Project’s Statement of Comprehensive Income when utilised.
NOTES TO THE FINANCIAL STATEMENTS

1  Deferred income

Openning balance  972,608

Funding received in 2013  6,986,882

Released to statement of comprehensive income (Total Expenditures)  (3,397,605)

Balance as at 31st December 2013  4,561,885

2  Cash and cash equivalents

IDA Credit - Special Account as at 31st December 2013  4,561,885

3  Cash paid to suppliers and employees

Total Expenditure  3,397,605
REPORT OF THE AUDITORS ON THE SPECIAL ACCOUNT STATEMENT, US DOLLAR ACCOUNT NUMBER 3001013642030180

I have audited the accompanying Special Account numbered 3001013642030180 established under the provision of the IDA Programme for the ten months ending 31st December 2013 as set out on pages 1 to 14.

I conducted my audit in accordance with the International Standards of Supreme Audit Institutions and International Federation of Accountants (IFAC). Those Standards require that I plan and perform the audit to obtain reasonable assurance that the Special Account statements are free of material misstatement.

The accompanying Special Account Statement was prepared on the basis of cash deposited and withdrawals for the purpose of complying with the project agreement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the Special Accounts give a true and fair view of the financial position for the year ending 31st December 2013.
SPECIAL ACCOUNT STATEMENT

Account No: 5001013642030180
Depository Bank: Sierra Leone Commercial Bank Limited
Address: Freetown Sierra Leone
Related Grant Agreement: IDA H7390
Currency: United States Dollars

Part A- Account Activity

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>2013</td>
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<td></td>
<td>US$</td>
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<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>972,608</td>
</tr>
</tbody>
</table>

|                |                   |
| Add: Replenishment | 6,986,882    |
| Less: Amount withdrawn | (3,397,605) |

|                |                   |
| Ending Balance as at 31st December 2013 | 4,561,885 |