The European Union's EDF Programme for Malawi

Public Finance Management Assessment for Malawi based on PEFA

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Final PEFA Report

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Currency and Exchange Rates

Currency Unit – Malawi Kwacha (MK)
US$1 = MK 147

Fiscal Year

July1 to June 30

PEFA Assessment Period

The PEFA Assessment covers the period FY 2004/2005, FY 2005/2006, FY 2006/2007. In accordance with the PEFA Manual, where not explicitly specified the most recent completed budget cycle at the time of the assessment was used in the case of periodic events. In the case of status indicators such as PI-10 the current year (2007/2008) was used.

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GLOSSARY OF ACRONYMS

CAB	Common Approach to Budget Support (CABS)
CCA	Credit Ceiling Authority (CCA)
CFAA	Country Financial Accountability Assessment (CFAA)
COFOG	Classification of Function of Government (COFOG)
CPAR	Country Procurement Assessment (CPAR)
DAD	Debt and Aid Division (DAD)
DFID	Department for International Development , UK
DHRD	Department of Human Resource Development (DHRD)
EAR	European Agency for Reconstruction
EC	European Commission
EU	European Union
GAAP	Government accounting standards (GAAP)
GDP	Gross Domestic Product (GDP)
GFEM	Group on Financial and Economic Management (GFEM)
GoM	Government of Malawi
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
MEPD	Ministry of Economic Planning and Development
MFAAP	Malawi Financial Accountability Action Plan (MFAAP
MGDS	Malawi Growth and Development Strategy
MOF	Ministry of Finance (MOF)
MRA	Malawi Revenue Authority (MRA)
NAO	National Audit Office
ODPP	Office of Director of Public Procurement
ORT	Other Recurrent Transactions
PAC	Public Accounts Committee (PAC
PEFA	Public Expenditure and Financial Accountability (PEFA)
PERMU	Public Enterprise Reform Monitoring Unit
PFEM	Public Financial and Economic Management (PFEM)
PFM	Public Finance Management (PFM)
PFM -PR	Public Financial Management – Performance Report
PRGF	Poverty Reduction and Growth Facility
PSI	Policy Support Initiative
PSIP	Public Sector Investment Programme (PSIP)
RBM	Reserve Bank of Malawi (RBM)
ToR	Terms of Reference
TSA	Treasury Single Account (TSA)
VAT	Value Added Tax
WB- PRSC	World Bank – Poverty Reduction Support Credit

EXECUTIVE SUMMARY OF ASSESSMENT

The EC Delegation in Malawi in collaboration with the Ministry of Finance (MOF) and the Common Approach to Budget Support (CABS) donors[1] commissioned a PEFA assessment of the Public Finance Management (PFM) system of the Government of Malawi[2]. This report presents the findings of the assessment.

The assessment found that the government has maintained a good fiscal discipline at the aggregate level in the last three years, but the credibility of the budget was undermined by deviation from plans. Whilst the formulation of the Malawi Growth and Development Strategy (MDGS) has outlined the government priority areas, weaknesses in the planning system made it difficult to direct resources to those areas. In many significant areas the outcomes from the financial management system could not be determined, resulting in 'no-score' because of the weaknesses in the data for monitoring areas, unreported government operations, procurement, and predictability of direct budget support. Thereby in an overall sense it was not possible to determine the impact of the financial systems on efficient service delivery.

(I)INTEGRATED ASSESSMENT OF PFM PERFORMANCE

1. **Credibility of the Budget:** The aggregate expenditure outturn compared to budget indicated a good aggregate fiscal discipline exercised in budget execution in the last three years. However the excess of the variance of expenditure out-turn for the budget entities up and above aggregate expenditure deviation indicated that there are weaknesses in the PFM system's ability to allocate resources in accordance with budgetary objectives. There were robust revenue performance for all three years assessed, thereby improving the credibility of the budget. Steps were taken to pay off accumulated arrears following a comprehensive audit at the end of 2005 but that appeared to have been offset by weaknesses in the monitoring of potential arrears being accrued. There may be still significant arrears being accrued in the roads sector and with utility payments.

2. **Comprehensiveness and Transparency:** Malawi has a fairly comprehensive budgetary process with respect to the budget documentation presented to parliament. However, in the period reviewed it excludes actual outturn expenditure and financial data. The reports have not been signed and presented to Parliament due to the absence of an Auditor General.[3] The Ministry of Finance has taken steps to improve transparency of the budget by making the classification system consistent with the requirements of Classification of Function of Government (COFOG). Further work is underway to define programmes across government and improve the functional classification. There are effective debt management controls within debt and guarantee guidelines that have been issued by the Government of Malawi. Debt management policy is still being developed. Malawi (RBM) operates a Treasury Single Account (TSA) with regular reconciliation of all transactions. There appear to be insignificant amounts of extra-budgetary operations emanating out of internally generated funds as departmental revenue accounts are directly integrated into the consolidated revenue fund. All expenditures are made through a centralised payments system however the dearth of information on the operation of the Treasury Funds made it difficult to estimate the extent of extra-budgetary expenditures.

[1] Currently comprising DFID, EC, AfDB and Norway, with UNDP, World Bank, IMF, Ireland and Germany as observers).

[2] The evaluation was undertaken under contract between the European Commission and the Consortium POHL CONSULTING & ASSOCIATES, and was carried out by Crown Agents team led by Kojo Oduro with Ron Quist and Göran Steen.

[3] The Budget Documents do not include budget outturns. These would be available if reviewed in conjunction with the appropriations accounts.

The Local Authorities Law, 1998 provides for a rule based horizontal allocation of central government disbursements. Financial reporting procedures that are well integrated into the central government procedures, whereby local authorities are provided with fairly timely information on resource allocation, and their fiscal data are consolidated as part of the national appropriation accounts. The Public Enterprises Reform and Monitoring Unit (PERMU) has responsibility for oversight of Public Enterprises. It consolidates the quarterly and annual financial statements submitted by ten key public enterprises into a fiscal risk report. It also monitors risk through direct membership on the board of directors and the audit committees. Public access with regards to budget and other fiscal documentation remains lacking with respect to such outlets as a Government bookshop, libraries and other physical outlets. There have though been significant improvements with respect to the amount of budgetary and fiscal information that is being placed on Government websites.

3. **Policy-Based Budgeting:** From 2005 Malawi has prepared a multi-year budgetary framework that forecasts fiscal aggregates allocated across functions. The GoM has issued a medium term national development framework, the Malawi Growth and Development Strategy (MGDS), 2006-2011 that clearly states the medium term policy objectives. It was developed within a macro-fiscal framework and has an activity costing schedule which within the identified priority areas of government.. The budget cycle had not been defined within a specific calendar until the last budget year. However the new budget call circular has clear guidelines that provide a sound context for the budget process.

4. **Predictability and Control in Budget Execution:** Budget predictability and control touch on various areas such as: Administration of the Revenue Authorities; Cash Management; Debt Management, Procurement; Payroll management, and Non-salary expenditures. The performance of Malawi Revenue Authority has been excellent with tax administration and it is in the process of address the remaining challenges of modernising the Authority .The availability of tax revenue has made resources more predictable, but the Cash planning system still needs improvements. The Accountant General is in the process of setting up a cash planning unit. the Debt and Aid Division (DAD)'s front, middle and back office operations are excellent with regards to external debt, but there are weaknesses in the area of domestic debt. The ODPP is still developing the systems and institutional framework to support public procurement. A new payroll system has been implemented, that needs further refinement to improve controls. The system has not yet been audited since its implementation in 2006. Internal controls have been improved with the successful introduction of IFMIS which is expected to substantially increase the quality of transaction processing, commitment control and security of payments as well as the quality of financial reporting thereby strengthening overall internal control. The Government has decided to establish Internal Audit Units and Audit Committees in all line ministries. So far 12 Audit Committees have been established. There are good legislative and rule based platforms for the development of management's internal control and internal audit in Government and important decisions have been taken on implementation. However, implementation has still a long way to go.

5. **Accounting, Recording and Reporting:** Government accounting standards, based on Generally Accepted Accounting Principles (GAAP), are applied across all ministries consistently. The appropriations accounts adopt a few of the mandatory standards of IPSAS such as comparison between budget and actuals; and the inclusion of financial assets and liabilities and the details of revenues and expenditure. However not all of the mandatory standards are yet met. The Accountant General consolidates the accounts prepared by the Line Ministries. The consolidated government accounts are prepared annually with revenue and expenditure information as well as a table of financial assets and liabilities. These are typically completed within four months after the close of the fiscal and submitted to the NAO. There have been no public expenditure tracking surveys carried out in the last three years

and while the IFMIS permits the tracking of expenditure at the level of all cost centres, the primary schools and primary health facilities have been devolved to the local authorities whose financial tracking systems do not report at the level of cost centre.

6. **External Scrutiny and Audit:** The Auditor General appeared to have the key constitutional and legal requisites in place for an effective and independent audit. There are concerns regarding his financial independence and his control of own staff resources. NAO is dependent on the approval from the Ministry of Finance for its budget and the staff belongs to civil service and is recruited by Government. The NAO has an insufficient number of professional staff. Of a total recent approved establishment of 397 positions, the NAO is currently functioning with about 200, of which 150 are auditors. This constrains the NAO's coverage in relation to its mandate, and creates a serious weakness in the accountability chain. The actual coverage of central Government in terms of budget value is about 50% annually and about 30% in Local Government where there is a backlog of un-audited accounts. The reporting from the Auditor General had at the time of the evaluation been stalled or two years as the vacant post of Auditor General has not been filled preventing PAC from performing its constitutional oversight role. The oversight and accountability process in Parliament risked coming to a standstill.

The Public Accounts Committee (PAC) followed not only the Auditor General's reports but also examined a wide range of possible control functions within financial management. It used it's authority to "pursue any concerns that the committee believes are justified" (Public Audit Act (Section19 (f)). The PAC´s examination of the 2003/2004 report, which was submitted in March 2007, was completed on February 15, 2008. The PAC has had a considerable backlog of accounts to clear, which they have almost completed. PAC appeared to work meticulously and professionally on the Annual Audit reports they have received, however the long lapsed time between when observations were made to the time of PAC's recommendations appeared to undermine the value and usefulness of its work. In recent years Parliament's scrutiny of the Annual Budget Law has become much more active in the scrutiny of the budget. The budget debate is reported to be lively and vigorous, which has increased the transparency of the budget debate.

7. Donor Practices: Overall predictability of Direct Budget Support (DBS) had been poor as information was limited. Government started getting DBS in 1998, but comprehensive data collection started in November 2005 for 2005/06 and backdated to July 2005. Donors providing DBS have improved their reporting but only from 2006/7 on wards, therefore resulting in No-Score based on three years observations. Currently almost all donors are meeting government information requirements of providing monthly forecasts, with the exception of few donors providing insignificant amounts. A proxy measure of the proportion of aid that is managed by the use of national procedures, compiled and reported by Ministry of Finance, Debt and Aid Division (DAD), indicated that approximately 66% of development support is administered through the budget in 2006/07. With the caveat that this may be on the high side the assessors have estimated that 50%+ of aid funds going to central government are managed through national procedures.

(II) ASSESSMENT OF THE IMPACT OF PFM WEAKNESSES

Many specific individual functions of PFM are carried out very well. However due to linkages within the PFM system, the performance of the system as whole is influenced significantly by the weakest links in the activity chain.

Aggregate Fiscal Discipline: Malawi has made some important strides including the implementation of a multi-year budgetary framework that is directly linked to both the recurrent and development budgets and the implementation of a much improved commitment control system. Revenues remain robust and outturns surpass revenue budget estimates. Improvements in payroll management have also contributed to minimising aggregate losses.

Strategic Allocation of Resources: Malawi has implemented a budget classification system that is capable of accommodating policy based budgeting. However, problems persist with respect to cash management and the bottom up dimensions of budget preparation which has led to poor matches of the actual achievements by budget head to budget allocation. Weak links between the investment elements and the forward recurrent costs, the lack of fully costed sector strategies, the poor cash management all undermine its capacity to effectively allocate resources effectively.

Efficient Service Delivery: The continuing difficulties with procurement suggest that Malawi is not yet achieving efficient service delivery. While there has been the pay down on arrears in recent years, with almost certain subsequent impacts on value for money procurement, the absence of monitoring of arrears removes the ability to effectively manage arrears. There has been no public expenditure tracking surveys in the past three years so no conclusions can be made on the delivery of service to the primary education and health care facilities.

The main limiting factor that colours PFM in Malawi is capacity constraints: While there is considerable capacity in many areas of Public Finance Management, the great majority of cost centres spread across the country within the districts and line ministries do not have sufficient or adequately trained personnel. The recent decentralization efforts that have placed more responsibilities directly on Local Authorities that appeared to have further exacerbated the capacity challenges.

(III) PROSPECTS FOR REFORM PLANNING AND IMPLEMENTATION

The prospects of planning and implementing a successful PFM reform programme in Malawi are good. With the coming of the new government in 2004, attempts were made to institute comprehensive measures of reforms that were translated into the Malawi Financial Accountability Action Plan (MFAAP) that was approved by Cabinet. A Public Financial and Economic Management (PFEM) Action Plan was established in November 2006, building on the 2003 MFAAP and the findings of PEFA reports from 2005 and 2006.

PFEM reform activities have centred on planning, budgeting, accounting, procurement, auditing, monitoring and accountability. A technical committee supported by a reform secretariat have been established in the Ministry of Finance to oversee the reforms. The uncertain leadership at the beginning of the reforms has been addressed by assigning the chairmanship to the Secretary of Treasury, assisted by the Permanent Secretary of Administration in his absence. The Action Plan has been prioritised to a list made of 33 activities which drew on lessons learnt from the PEFA 2006 studies. There is a recognition that attempts should be made to go beyond the present PFEM action plan to a more programmatic approach. The reforms are supported by donors through the Common Approach to Budget Support (CABS) Group who have been providing assistance to the Government of Malawi (GoM) since 1994. The reform efforts are coordinated between the Government of Malawi and donors through the Group on Financial and Economic Management (GFEM) meetings.

[4] The CABs represent a number of development partners that have come together to support the PFEM programme through a common framework by aligning behind the government strategy. The group continues to expand and currently comprises DFID, Norway, the European Commission and the African Development Bank.

Table 1

Summary of PFM Performance Scores

PFM Performance Indicator	Score	Method
A. Credibility of the Budget		
1. Aggregate expenditure out-turn compared to original approved budget	**A**	M1
2. Composition of expenditure out-turn compared to original approved budget	**D**	M1
3. Aggregate revenue out-turn compared to original approved budget	**A**	M1
4. Stock and monitoring of expenditure payment arrears	**<NS>**	M1
B. Comprehensiveness and Transparency		
5. Classification of the budget	**B**	M1
6. Comprehensiveness of information included in budget documentation	**B**	M1
7. Extent of unreported government operations	**<NS>**	M1
8. Transparency of Inter-Governmental Fiscal Relations	**B+**	M2
9. Oversight of aggregate fiscal risk from other public sector entities.	**C+**	M1
10. Public Access to key fiscal information	**C**	M1
C (i) Policy-Based Budgeting		
11. Orderliness and participation in the annual budget process	**C+**	M2
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	M2
C (ii) Predictability and Control in Budget Execution		
13. Transparency of taxpayer obligations and liabilities	**B**	M2
14. Effectiveness of measures for taxpayer registration and tax assessment	**C+**	M2
15. Effectiveness in collection of tax payments	**D+**	M1
16. Predictability in the availability of funds for commitment of expenditures	**B**	M1
17. Recording and management of cash balances, debt and guarantees	**A**	M2
18. Effectiveness of payroll controls	**C+**	M1
19. Competition, value for money and controls in procurement	**<NS>**	M2
20. Effectiveness of internal controls for non-salary expenditure	**C+**	M1
21. Effectiveness of internal audit	**C+**	M1
C (iii) Accounting, Recording and Reporting		
22. Timeliness and regularity of accounts reconciliation	**B+**	M2
23. Availability of information on resources received by service delivery units	**D**	M1
24. Quality and timeliness of in-year budget reports	**C+**	M1
25. Quality and timeliness of annual financial statements	**C+**	M1
C (iv) External Scrutiny and Audit		
26. Scope, nature and follow-up of external audit	**D+**	M1
27. Legislative scrutiny of the annual budget law	**B**	M1
28. Legislative scrutiny of external audit reports	**D+**	M1
D. Donor Practices		
D-1 Predictability of Direct Budget Support	**<NS>**	M1
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	**C**	M1
D-3 Proportion of aid that is managed by use of national procedures	**C**	M1

M1 scorings are based upon the lowest scored dimension making up that indicator
M2 scorings represent an aggregate scoring of the dimensions making up that indicator.
<NS> indicator could not be scored due to unavailability of data or the lack of reliable data.

1. INTRODUCTION

1.1 OBJECTIVES OF THE ASSESSMENT

1.1.1.1 The PFM Performance Report 2008 was prepared to serve as a comprehensive and holistic measure of the status of PFM systems operating in Malawi[5]. The objective of the assessment has not been to evaluate and score the performance of specific PFM officials, but rather to assess the performance of the PFM systems themselves.

1.1.1.2 While this report, by design, neither articulates specific recommendations for PFM reform, nor details an action plan, it is anticipated that the analysis and results shall assist the Government to identify better its PFM reform priorities. Further, it should serve as a useful basis for supporting dialogue leading to the adoption of a strengthened approach in providing harmonized and aligned Donor support of the Government's PFM reform efforts.

1.2 PROCESS OF PREPARING THE PFM-PR

1.2.1.1 The evaluation involved field studies of five weeks (in January and February 2008) during which the consultants interviewed government officials, donors, and private sector organisations. In the first week a detailed work plan was developed along with a list of required documents and a requested schedule of meetings spanning a period of four week of interviews. An Inception Report was prepared for the Government and Donors. Meetings were arranged with the kind assistance of the Ministry of Finance (National Authorising Office) and the EC Delegation. The interviews complemented the review of legislation, official reports and other documents. Corroborating evidence was sought from a variety of sources wherever possible. A field mission exit-workshop was organised to discuss the key points of the narrative and the indicative scorings issued in the draft report. It was attended by a full representation of Government officials and Donors. A draft report was circulated to government, donors and the PEFA Secretariat. Comments received were carefully considered and used in the preparation of the final report (All comments received and responses are attached as Appendix 5 at the end of the report).

1.3 METHODOLOGY

1.3.1.1 The assessment was prepared on the basis of The Public Financial Management Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005. The review involved evaluating the performance of the PFM system against a set of 28 high level performance indicators for the government plus 3 additional indicators that measure the performance of donors involved in the government's budgetary processes.

1.4 SCOPE OF THE ASSESSMENT

1.4.1.1 The assessment of Malawi's PFM covers all public expenditures of the Central Government, local authorities and public for the fiscal years 2004/2005, 2005/2006 and 2006/2007[6]. Public expenditure in Malawi is highly centralised, and the central government's budget covers approximately 99.69 % of public sector expenditure. The public sector is made up of the Central Government

[5] Tracking of progress report base on this and previous assessments are attached as Appendix 4.

[6] Note that there are a number of specific indicators that do not refer to all three years of the time frame and may refer to the most recent two or the most recent i.e. 2006. The PEFA manual specifies which year or years are to be applied.

made up of 57 ministries and departments and 40 Local Authorities, and 66 Subvented Agencies, Autonomous Agencies and Public Enterprises.

Table 1.1

Table of Public Expenditure Segregated by Government Classification

Table 1.1: Public Expenditure Segregated by Government Classfication

Institution	No. of Entities	% of Pub Exp 2006/06
Central Government*	57	98.56%
Autonomous Government Agencies	66	1.25%
Sub-national Government	40	0.19%
* Includes ministries, departments and deconcentrated entities		100.00%

Source: Percentages computed from data in Annual Economic Review (AER) 2007 Table 14.4 &14.6

2. COUNTRY BACKGROUND INFORMATION

2.1 DESCRIPTION OF COUNTRY ECONOMIC SITUATION

2.1.1.1 The economy of Malawi is relatively small with a Gross Domestic Product (GDP) of about USD 2 billion and a population of approximately 12.9 billion. The average per capita income is about USD 160 per annum. Poverty is high with a poverty headcount at 54 percent of the population as measured in 2004/05 household survey. Income inequality is also relatively high with a Gini coefficient of 0.38. This is reflected in a range of social indicators of maternal mortality ratio of 984 per 100,00 live births; a high prevalence of HIV/AIDs and use of unsafe water (a third of the population), and low literacy rates especially among women (54 percent for females and 75 for men).

2.1.1.2 The mainstay of the economy remains agriculture which contributes about 35 percent of GDP, even though services contribute 46 percent and 19 percent by industry. Agriculture contributes about 80 percent of all export earnings, and about 85 percent of the population depends on income from this source.

2.1.1.3 Real GDP growth in the last three year has been substantially higher (at 7.9 percent in 2006, 7.4 percent in 2007) than the 2.9 percent average over the past decade, that reflected poor macroeconomic management and a sequence of negative shocks, including a food crisis in 2005. GDP is projected to average 7.2 percent over 2007–12, based on the opening of a new uranium mine in 2009. The Kayelekera uranium mine is expected to last ten years starting in 2009 and will add to overall economic growth. At its peak, the mine could add 10 percent to Malawi's overall GDP and 25 percent to exports.

2.1.1.4 Based on good macroeconomic management in the last three years, year-on year inflation has been reduced from double digits to 9.2 in January 2007, and is expected to remain in single digits, declining moderately from current rates of around 7 percent in 2008 to around 5 percent over the long run. Preserving the sound macro-fiscal management and macroeconomic stability will go a long way to support Malawi's economic development

2.1.1.5 Interest rates have fallen reflecting the reduction of the bank rate from 17.5 to 15 percent by the Reserve Bank of Malawi. The reduction of interest rates has been supported by lower inflation rates, private capital inflows, monetary expansion resulting in the reduction of treasury bill rates from 20 percent in mid-2006 to 12 percent at end of September 2007.

2.1.1.6 The external current account, including aid transfers but excluding interest payments, is assumed to improve gradually as exports benefit from further diversification, output from the uranium mine, and investment in key sectors. The current account balance will also benefit from a significant increase in domestic private savings, reflecting a further strengthening in financial intermediation.

2.1.1.7 Imports are expected to rise at a more moderate pace than in the past—rising 4.9 percent each year compared to 11 percent over the past decade(largely because of substantial maize imports during the food crises in 2001/02 and 2005/06). The moderation in imports growth is underpinned by stronger domestic production, especially for food, and hence stronger food security. However, there may be scope for higher imports in other sectors, including imports related to FDI in the mining sector.

2.1.1.8 Exports growth is expected to accelerate, averaging around 14 percent during 2007–12 compared to 1.8 percent over the past decade. This strong performance reflects: (i) the new uranium exports; (ii) increased market access due to the improved business environment and more business-friendly legislative framework, (iii) enhanced competitiveness because of export diversification and structural reforms under different donor programs (including the WB PRSC); (iv) continued investment in the competitive sectors of economy, and (v) more favourable prices for Malawi's commodity exports. The strong export performance is assumed to be partially reversed once production from the uranium mine peaks, declines and then ceases in 2020, at which time exports growth averages about 5.5 percent for the rest of the projection period.

2.1.1.9 The real effective exchange rate has remained stable since 2004 and it is projected to remain stable in the medium term as there is no fundamental misalignment.

2.1.1.10 Revenues (excluding grants) are projected to increase relative to GDP due to the expansion of the tax base and reforms aimed at improving tax administration. Domestic revenues could reach 16.6 percent of GDP in the medium term and 17.7 percent in the long term, exceeding the 15 percent average over the past decade.

2.1.1.11 Aid is projected to average 17.2 percent of GDP over 2007-12, and remain around 17 percent over the remainder of the projection period. Aid flow projections are based on the data provided by donors for the 2006 DSA, updated for actual disbursements in 2006/07 and adjustments to donor commitments in the medium-term. New external borrowing after 2010 is projected to increase 6.5 percent each year.

2.1.1.12 The economy however is prone to both external and internal shocks. External shocks include the changing weather pattern, terms if trade, and aid flows. Internally, recent political uncertainties continue to present risks to the sustainability of a sound macroeconomic management..

2.1.2 Overall Government Reform Program

2.1.2.1 The financial management reform programme is based on the government's broader policy priority of the MGDS that has strong ownership and support at the political level due to its participatory and consultative preparation. A Public Financial and Economic Management (PFEM) Action Plan was established in November 2006, building on the 2003 Malawi Financial Accountability Action Plan (MFAAP) and the PEFA reports from 2005 and 2006. The reforms are supported by donors through the Common Approach to Budget Support (CABS) Group who have been providing assistance to the Government of Malawi (GoM) since 1999[7]. The reform efforts are coordinated between the Government of Malawi and donors through the Group on Financial and Economic Management (GFEM) meetings that are jointly chaired by the Secretary of the Treasury and a representative from the donors.

2.1.3 Rationale for PFM Reforms

2.1.3.1 The overall government reform program serves as the rationale for PFM reforms. The Government has a development plan MGDS. In order to deliver

[7] The CABs represent a number of development partners that have come together to support the PFEM programme through a common framework by aligning behind the government strategy. The group continues to expand and currently comprises DFID, Norway, the European Commission and the African Development Bank.

on that plan it requires a budget formulation process for translating the plan into budgetary outcomes. It needs to have a budget that has an appropriate policy based classification structure to deliver on its poverty reduction programmes and the capacity for the efficient delivery of services to ensure effectiveness of its financial resources allocated for poverty reduction programmes. Sound PFM systems, achieved through PFM reform, will provide it with a budget instrument with the capacity to deliver on its policy objectives; to deliver on its plan.

2.2 DESCRIPTION OF BUDGETARY OUTCOMES

2.2.1 Fiscal Performance

2.2.1.1 Malawi's fiscal performances in the last three years have improved dramatically relative to period from 1999/00 to 2003/04 due to better aggregate fiscal discipline. The overall deficit was reduced from about 7 percent of GDP to 3.9 in 2004/05 to current levels of 1 percent. During the period of 1999/00 to 2003 substantial reduction in external budgetary assistance, resulted in deficits that were financed largely through domestics borrowing, thereby pushing up interest rates. The combination of the increased amount of debt and high interested rates put the country on a verge of financial crisis. These difficulties have been addressed mostly from improved ability to mobilize domestic resources, improved donor flows and aggregate fiscal discipline.

Table 2.1
Summary of Central Government Budget (expressed as a percentage of GDP)

	2004/2005	2005/2006	2006/2007*
Total Revenue	27.2	30.5	30.7
- Own Revenue	18.2	17.5	17.6
- Grants	9.0	12.9	13.0
Total Expenditure	**31.2**	**31.2**	**31.7**
- Non-interest expenditure	24.9	26.5	28.4
-Interest expenditure	6.3	4.7	3.3
Aggragate Deficit (incl.grants)	-3.9	-0.8	-1

Sources: Malawian Government and IMF staff estimates
Note *: projected

2.2.2 Allocation of Resources

2.2.2.1 The overarching strategy behind the Government's recently adopted MGDS is to boast productive activities in the economic sectors by creating an enabling environment through improved infrastructure for private sector development. The policies outlined in the MDGS identified six main areas of where government aims to re-direct resources, namely:

- Agriculture and Food security
- Infrastructure Development
- Irrigation and Water Development
- Energy Generation and Supply
- Integrated Rural Development
- Prevention and Management of HIV and AIDS

2.2.2.2 The pattern exhibited in Table 2.2 shows that the administration sector continues to draw almost a third of resources ranging from 30 percent in 2004/05, to 34 percent in 2006/07. The improvements in fiscal performance and the reduction in interest rates bill has generated the fiscal space to increase resources allocated to the priority sectors. Resources to the Health Sector by almost doubled from 7 percent to 14 percent from 2004/05 to 2008/07. Agriculture also almost doubles its relative share of government resources from 8 percent to 15 percent in the period, while Education maintains its relative share. The pattern of allocation of resources are therefore broadly in line with the policy intentions

Table 2.2

Actual Budgetary Allocation by sectors (as a percentage of total expenditures)

	2004/05	2005/06	2006/07*
General Public Services (incl. Gen. Admin; Defence and public Order & safety)	**30%**	**38%**	**34%**
Education	**11%**	**11%**	**11%**
Health Affairs and Services	**7%**	**11%**	**14%**
Agriculture and Natural Resources	**8%**	**6%**	**15%**
Transport and Communication services	**14%**	**14%**	**8%**
Others	**9%**	**5%**	**7%**
Debt Amortisation	**20%**	**15%**	**10%**
Total	**100%**	**100%**	**100%**

Source: Annual Economic Report 2007 MEDP

The pattern of resource allocation based on economic classification of government spending revealed that more resources went into Current Expenditure than to Capital Expenditure with the former increasing from 60 percent in 2004/05 to 68 percent in 2006/07; while the latter suffered a corresponding reduction from 40 to 32 percent.

Further examination of the details revealed three interesting observations:

- A confirmation of the debt amortisation costs of about 20 to 10 percent of GDP, thereby creating a fiscal space for additional expenditure in priority areas
- Government consumption has gone up from about 37 percent to 54 percent, but that increase has gone into procuring goods and services rather than into wages and salaries (which maintained its relative share of 19 percent during the period)
- More resources have been targeted at loans and capital transfers – from about 1 percent of to 15 percent of GDP (indicating perhaps increasing resources going into local assemblies and public enterprises, that appeared to have been misclassified in the government data collection processes)

Table 2.3
Actual Budgetary Allocation by economic classification (as a percentage of total expenditure)

	2004/05	2005/06	2006/07*
Gross Consumption			
- Wages and Salaries (incl. compensation)	**19%**	**17%**	**19%**
-Good and Services	**18%**	**30%**	**35%**
Interest on Debt	**20%**	**16%**	**10%**
Pensions and Gratuities	**2%**	**2%**	**3%**
Grants, Subventions and Transfers	**1%**	**0%**	**1%**
Current Expenditure	**60%**	**65%**	**68%**
-Grants	**3%**	**3%**	**0%**
-Gross fixed capital formation	**19%**	**20%**	**7%**
-Loans and Capital Transfers	**1%**	**2%**	**15%**
-Debt Amortization	**20%**	**13%**	**10%**
-Loans to Public Enterprises	**0%**	**0%**	**0%**
Capital Expenditure	**40%**	**35%**	**32%**
Total	**100%**	**100%**	**100%**

Source: Annual Economic Review ((AER) 2006 Table 14.4 & 14.6 for 2004/05 data; AER 2007 Table 14.4 &14.6 for 2005/06 and 2006/07 data

2.3 LEGAL AND INSTITUTIONAL FRAMEWORK FOR PFM

2.3.1 Legal Framework

2.3.1.1 *The Constitution:* The Constitution of the Republic of Malawi provides the basis of PFM. It sets out the broad parameters for PFM. The Constitution establishes Parliament as the supreme authority in matters of public funds' management and also provides for a supreme audit function. It lays down the basis for the functioning of the Auditor General and protects against any restrictions on access to information on public finance or in the exercise of his audit functions. It states that funds can only be spent in line with the Constitution or as authorised by an appropriation law. The Constitution stipulates that the Minister shall prepare and lay before the parliament the estimates of the revenues and expenditure of Malawi for that financial year.

2.3.1.2 *Public Finance Management Act (2003):* This act details the management of the main elements of PFM in Malawi including payments and withdrawals from the consolidated fund, the management of contingencies and also the administration of Government accounts and loans. It stipulates that all revenues must be deposited into the Central Bank. It lays down financial management procedures covering the budget process, cash and debt management, accounting, reporting, internal controls and the audit and legislative oversight to be exercised over these functions. The Minister of Finance is responsible for supervising the government's finances and ensuring a full accounting to Parliament. The Public Finance Management Act specifies the office of Secretary to the Treasury who is responsible for setting policies, practices and procedures for all financial management. The law stipulates that the Secretary to the Treasury shall within four months of the close of each financial year (October 31st) submit accounts showing fully the financial position of the State to Parliament.

2.3.1.3 *The Public Procurement Act (2003):* is a modern procurement law that focuses on transparency and accountability and properly addresses public procurement oversight as well as administrative review and appeal.

2.3.1.4 *The Audit Act (2003)*: outlines the role and responsibilities of the National Audit Office (NAO) and facilitates a degree of independence of the office, though not financial as its budget is subject to review by the Ministry of Finance.

2.3.1.5 *The Local Government Act (1998):* The law stipulates the composition of local assemblies to be made up of elected members, traditional authorities (non voting), members of parliament form the constituencies (non voting) and five non-voting members appointed by the elected members. The role of local authorities includes mobilizing resources within the local government area for governance and development. The chairman of the assembly serves as the mayor of the local authority. The Chief Executive Officer, appointed by the Assembly, is responsible for the day to day administrative functions of the Assembly.

2.3.1.6 *The VAT Act (2005):* The Act governs the entities to be registered for the tax and what is a taxable supply. Any person who makes a taxable supply of goods or services whose business turnover is or exceeds MK 2 million. It states that VAT are to be paid by partnerships, unincorporated organisations, companies and governments agencies. VAT is chargeable on: (i) every supply of goods and services made in Malawi, every importation of goods; and (iii) the supply of any imported service, other than exempt goods and services. The law makes provision for the type of records to be maintained, returns, assessment, payment and penalties applicable.

2.3.1.7 *The Customs and Excise Act (Cap 42. 01);* This law appears to have been promulgated in 1970 and subsequently amended (such as 1972, 1973, 1976, 1977, 1980, 1989, and 1991). The Act governs the appointment of the Controller of Customs and Excise and defines his powers and responsibilities. The law empowers the Minister of Finance to determine operational matters such as the ports at or through which good shall be imported or exported, appointment of customs offices and roads and routes. There are provisions for general powers of customs officers, importation and exportation of goods, state and bonded warehouses, and goods in transit. The law also covers assessment, disputes, use of agents, offences and penalties. Some provisions in the act are now obsolete for example, excise duties have been truncated from customs, and surtax has been replaced by VAT therefore calling for the law to be revised

2.3.1.8 *The Taxation Act (2003):* constituted the office of the Commissioner of Taxes who is required to furnish to the Minister of Finance on annual basis a report on the working of the Act to be presented to Parliament. The Act sets out the determination of assessable income, personal allowances, and allowable deductions and fringe benefits. It defines income tax for individuals, companies, special trade and cases, trustees and representative taxpayers. The provisions of the act cover tax returns, provisional tax assessment collection and recovery, appeals and penalties The appeal system depends on procedures defined in Schedule 8 which is subject to amendment by the President.

2.3.2 Institutional Framework for PFM

2.3.2.1 Since 1994 Malawi has operated under a multiparty parliamentary system. The executive branch comprises the President and the Cabinet. The President is elected by direct popular vote and the Presidential term of office is five years. The parliament is unicameral. The members of the House of Representatives are elected by direct popular vote every five years.

2.3.2.2 *The Executive:* Executive authority is established in the office of the President. The Minister of Finance is responsible for the management of public finances. The President appoints Controlling Officers to each ministry and department with the responsibility for safeguarding public funds; ensuring the application of funds as intended by Parliament and in accordance with approved policy, responding to all information requests required by the Minister of Finance, Director of Public Procurement and the Auditor General; maintaining financial records in accordance with the Public Finance Management Act; maintaining an efficient system of internal controls and maintaining financial, accounting and stores records.

2.3.2.3 *The Legislature*: The Parliament is unicameral. The Parliament votes on the budget but has no authority to directly amend budget lines. The Public Accounts Committee is responsible for oversight of the management of all public funds.

2.3.2.4 *Judiciary:* The judiciary is constitutionally independent from the other two branches of government. It includes a supreme court and appeals courts.

2.3.2.5 *The President and Cabinet:* serve as the highest policy and authorization body of government. It serves as the highest executive body in the management of public finance in Malawi.

2.3.2.6 *Minister of Finance:* The Minister of Finance is responsible to the Cabinet and Parliament for ensuring compliance by the Ministry of Finance with its responsibilities under the Public Finance Management Act. These include the formulation of national economic policies and managing and co-ordinating the collection of national revenues and the distribution of the Government's financial resources. The Minister of Finance has the sole responsibility for the signing of loans and guarantees.

2.3.2.7 *The Secretary to the Treasury:* The Secretary to the Treasury serves as the principal financial adviser to Government and the administrative head of the treasury which is responsible for the administration of the Public Finance Management Act.

2.3.2.8 *The Ministry of Economic Planning and Developmen(MEPD)t:* is responsible for the preparation of the Public Sector Investment Programme (PSIP) which provides the source of projects for the development budget. In addition, MEPD has an overall responsibility for implementation and monitoring of MGDS, and for macroeconomic reporting and forecasting through the Annual Economic Report.

2.3.2.9 *The Auditor General:.* The Auditor General's mandate comes from the constitution (which requires that he report to parliament through the Minister of Finance) and the Audit Act (which requires he report directly to parliament) In addition to its audit duties, it also conducts special investigations for the Cabinet, the Minister of Finance, and the PAC. The Constitution and the Audit Act provide a degree of independence for its operations but does not include budgetary independence.

2.3.2.10 *The Office of the Public Procurement Director:* The Public Procurement Director is responsible for a "no objection" endorsement of tenders over given thresholds that are evaluated as winning. The OPPD is serves as the secretariat to the Public Procurement Review Board and is responsible for making public all contracts awarded above given thresholds. Each Line Ministry constitutes an Internal Procurement Committee to address bid selections.

2.3.2.11 *The National Local Government Finance Committee:* is responsible for the financial oversight of Local Authorities. These responsibilities include budget preparation and the consolidation of annual financial statements.

2.3.2.12 *The Public Enterprises Reform and Monitoring Unit:* is responsible for the financial oversight of public corporations and other self financing public bodies. The operational oversight is the responsibility of individual Line Ministries to which they are assigned.

2.3.2.13 *Controlling Officers within Line Ministries:* The Controlling Officer is the custodian for the vote of public funds. Within the Line Ministries, finance officers, accounts officers, cashiers, and procurement officers report functionally to the Ministry of Finance. They however report administratively to the Controlling Officer of the line ministry in which they serve.

2.3.2.14 *Internal Auditors:* Assigned to each Line Ministry are internal auditors who serve the Controlling Officer and report to the Director of Central Internal Audit within the Ministry of Finance.

2.3.2.15 *Audit Committee:* Audit Committees have been set up in Line Ministries to follow up on implementing corrective measures in response to both internal and external audit findings.

2.3.2.16 *Sub National Levels of Government:* There are 40 local authorities in Malawi.

2.3.2.17 *The Anti Corruption Commission:* An independent body voted by parliament is responsible for oversight of all public bodies and for the prosecution before the courts of all identified instances of corruption.

2.3.2.18 *Summary of Institutional Responsibilities*: Table 2.5 presents a matrix of institutional responsibilities for the different PFM functions including the institutional arrangements for carrying out PFM reform. It provides an "at a glance" view of the institutional arrangements under which public finance management is governed in Malawi. The table also includes the oversight role of parliament and depicts the integral role that the Donors play in PFM in Malawi.

Table 2.4 Matrix of Institutional Responsibilities for PFM Functions

		Ministry of Finance						Other PFM Agencies								Line Ministry			External Scrutiny		
PFM Function	**Cabinet**	**FM**	**ST**	**Budget Div.**	**D&A**	**DEA**	**PERMU**	**MRA**	**AG**	**OPPD**	**IA**	**MEPD**	**RBM**	**NLGFC**	**DHRMD**	**LM**	**PS**	**IPC**	**NAO**	**Parliament**	**Donors**
Policy Elaboration and Planning																					
Policy/Budget Approvals	✓	✓														✓				✓	
Loan Approvals	Endorse	✓																		✓	
Supplemental Budgets	✓	✓														✓	✓			✓	
National Development Plan (MGDS)	✓	✓										✓				✓	✓				Consult
Sector Strategies																✓	✓				Consult
Public Sector Investment Programme												✓				✓	✓				Consult
Budget Formulation/Preparation																					
Budget Statement		✓																			
Macro-Fiscal Framework	✓	✓	✓			✓						✓	✓								IMF
Annual Budget Estimates		✓	✓	✓								✓				✓	✓				Consult
Revenue Administration/Collections																					
Tax Revenue								✓													
Tax Audit								✓													
Grants/Loans					✓																✓
Budget Execution																					
Debt Monitoring & Management				✓	✓																IMF
Budget Allocation/Cash Management			✓	✓					✓												
Virement - Programme/Item level		✓	✓																		
Establishment Control				✓											✓						
Personnel Rolls									✓						✓						
Payroll									✓						✓		✓				
Procurement/Supply Chain										✓							✓	✓			
Non-Salary Recurrent Expenditure			✓														✓	✓			
Capital Expenditure			✓	✓													✓	✓			✓
Payments									✓								✓				
Oversight of Public Enterprises			✓				✓														
Disbursements to Local Authorities				✓					✓					✓							
Financial Reporting									✓								✓				✓
Accounting									✓										✓		
Internal Audit			✓								✓								✓		
External Scrutiny/ Budget Oversight																					
External Audit		✓																	✓		
Budget Oversight																				✓	
Expenditure/Audit Oversight																				✓	
External Scrutiny																					✓
PFM Reform																					
Reform Policy/Approval	✓																				Consult
Reform Coordination/Monitoring		✓																			
Reform Implementation			✓													✓	✓				

FM: Finance Minister; **ST**: Secretary to the Treasury, **D&A**: Debt and Aid Div.; **DEA**: Division of Economic Affairs, **PERMU**: Public Enterprises Reform Management Unit; **MRA**: Malawi Revenue Authority, **AG**: Accountant General; **OPPD**: Office of Public Procurement Directorate; **IA**: Internal Audit; MEPD: Min. of Economic Planning & Dev.; **RBM**: Reserve Bank of Malawi; **NLGF**: National Local Gov. Finance Cmttee.; **DHRMD**: Dept. Human Resources and Dev.; **LM:** Line Minister:; **PS**: Principal Secretary; **IPC**: Internal Procurement Committee, **NAO**: National Audit Office.

2.3.3 The Key Features of the PFM system

2.3.3.1 The financial year for central government and local authorities in Malawi is from July 1 to June 30th. The budget process begins in February. Usually the draft budget is submitted to parliament in early June with the Budget Statement to parliament late June. The annual appropriations law is typically passed by parliament by August and enacted into law by the signature of the President.

2.3.3.2 While Malawi has adopted a national development plan – Malawi Growth and Development Strategy (MGDS), and has developed sector strategies for some of the major sectors it does not yet have in place all of the pre-requisites for the successful implementation of a Medium Term Expenditure Framework.

2.3.3.3 Malawi has a centralised payments and accounting system operated out of a single consolidated fund account set up in the RBM. Over the past few years the Malawi Government has been gradually rolling out a standardised (across the whole of government) financial management information system (IFMIS). It is based upon the EPICOR software application. The payroll systems are managed and operated independently by each of the Line Ministries but using standard integrated software across all ministries.

2.3.3.4 The Government of Malawi adopts a modified cash accounting basis for the preparation of its accounts. The final accounts are prepared and consolidated by the Accountant General.

2.3.3.5 The NAO has jurisdiction over all government entities including public and statutory bodies. The Audit Act provides the Auditor General the requisite independence and jurisdiction to receive all documentation necessary to carry out his work and places no restrictions on the publication of his findings. The Head of the Public Entity is the Controlling Officer and is responsible and held accountable for implementing any recommendations emanating out of an audit.

2.3.3.6 The PFM systems in Malawi include a public procurement oversight body (ODPP) responsible for policy and regulatory oversight. It also has a procurement appeals body.

3. ASSESSMENT OF PFM SYSTEMS, PROCESSES AND INSTITUTIONS

3.1 PFM OUTTURNS: CREDIBILITY OF THE BUDGET

3.1.1 Aggregate expenditure out-turn compared to original approved budget

3.1.1.1 The PEFA assessment covers the 2004/2005, 2005/2006 and 2006/2007; the 2006/2007 fiscal years being the most recent completed budget year at the time of the assessment. The reporting formats of the budget documentation permit an identification of debt service elements and donor contributions and so make it possible to identify and measure primary expenditure estimates[8] at the aggregate level. The primary expenditure achievements have to be extracted from a combination of consolidated annual appropriation accounts as well as detailed supporting financial statements[9]. The recurrent expenditure estimates and actuals presented in Table 3.1 were derived from the draft consolidated appropriations accounts as the audited financial statements were unavailable; and the approved budget estimates submitted to Parliament.

3.1.1.2 The Government of Malawi adopts a modified cash accounting basis for its Public Accounts with the fiscal year defined as July 1 to June 30th. End of year procedures include a period of two weeks after the close of fiscal year in which to pay all outstanding commitments. Cheques issued after the close of the fiscal year are however back dated to June 30th. Any unspent funds at the close of this period is lost by the Line Ministry and returned to the treasury.

3.1.1.3 The estimates and actuals presented in Table 3.1 exclude interest payments and capital projects funded by grants and loans. For all three fiscal years reviewed, the aggregate actual primary expenditures were within 10% of the aggregate primary budget estimates. In all three years revenues greatly exceeded budget estimates (see indicator PI-3). While the PI-1 indicator focuses upon a primary budget estimate and expenditure analysis, it is significant to note that there are however substantial mismatches between budget estimate and out-turn for that portion of which is financed by international loans and grants which is not captured in Table 3.1 (see indicator D-2).

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[8] Primary Expenditure Estimates refer to total expenditure less any debt service payments, and grant and loan funded projects.

[9] Development expenditure is categorised as Part I (funded through grants and loans) and Part II funded directly by the Government of Malawi. Statement 8 provides a basis for developing the total Part I expenditure by budget head.

Table 3.1
Comparison of Original Budget Estimates against Actuals (Primary Expenditure)

	2004/2005		2005/2006		2006/2007	
	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns
Recurrent Expenditure						
Primary Recurrent Expenditure	46,438,224,979	45,238,764,640	66,895,500,890	60,486,782,915	77,251,188,964	78,584,464,452
Development Expenditure						
Part II	3,517,000,000	2,042,449,462	3,819,000,000		7,129,503,269	4,469,767,759
Part II	20,346,000,000	8,549,131,527	31,286,000,000		40,683,000,000	5,100,633,062
Primary Development Expenditure	3,517,000,000	2,042,449,462	3,819,000,000	3,193,056,298	7,130,000,000	4,469,767,759
Primary Expenditure	**49,955,224,979**	**47,281,214,102**	**70,714,500,890**	**63,679,839,213**	**84,381,188,964**	**83,054,232,211**
Deviation		**-5%**		**-10%**		**-2%**

Amounts are in Malawi Kwacha. The data has was extracted from the Budget Books for 2004/2005, 2005/2006 and 2006/2007 and for the Consolidated Appropriation Accounts along with Statement 8 for the same years.

3.1.2 Composition of expenditure out-turn compared to original approved budget

3.1.2.1 The composition of expenditure out-turn to original approved budget becomes a very important measure. Large deviations would suggest significant distortions to the original policy objectives captured in the original budget estimates. To obtain a measure of how much the reallocations between budget lines have contributed to variance up and above the deviations in the overall levels of expenditure, an analysis of budget deviations between budget estimates and actual out-turns by budget head was performed for the years 2004/2005, 2005/2006 and 2006/2007.

3.1.2.2 Table 3.2 shows the results of the analysis applied to the data presented in Table 3.3. The assessors noted that some of the votes have been assigned to non-administrative budget classifications leading to such budget heads as “Unforeseen Expenditures” and “Miscellaneous Statutory Expenditure”. This mis-assignment of budget classifications also extends to some programme classifications being assigned to administrative units. These issues are discussed further under PI-5. The analysis of the total expenditure deviation less the total expenditure variance shows deviations in excess expenditure deviation over total expenditure variance between 6% and 15%.

Table 3.2
Analysis of Budgeted to Actual Expenditure Variance of Budget Head to Total Budget Deviation

Year	2004/2005	2005/2006	2006/2007
Total Expenditure Deviation	19%	14%	17%
Total Expenditure Variance	5%	8%	2%
Deviation in Excess over Total Variance	14%	6%	15%

Data derived from Table 3.3

3.1.2.3 The budget to expenditure deviations for each Budget Head is presented in Table 3.3. These deviations are substantial and are consistent with weak bottom up elements to the budget formulation and implementation processes (see PI-11). The cash flow forecasting system is still rudimentary and affects budget implementation. Variations shown in Table 3.3 are evidence of a less than strong coupling between the original budget and the budget execution process brought about through repeated variations made to the budget releases allocations in spite of fairly strong commitment control processes. It raises questions about Malawi's PFM systems being able to deliver fully on the strategic intent of its budget and ensuring that budget implementation is ultimately in line with the policy objectives set out in its national development framework, the MGDS.

Table 3.3
Comparison of Original Budget Estimates and Actual Expenditure by Head

2004/2005			2005/2006			2006/2007		
Primary Expenditure			Primary Expenditure			Primary Expenditure		
Budget Head	**Approved**	**Actual**	**Budget Head**	**Approved**	**Actual**	**Budget Head**	**Approved**	**Actual**
Education	7,994,330,308	8,016,347,885	Agriculture	13,071,503,992	12,318,789,211	People with Disabilities	12,379,914,468	15,828,600,919
Agriculture	5,651,860,716	3,107,298,551	Education	9,579,203,352	8,627,868,696	Foreign Affairs	11,184,069,079	11,059,972,274
Health & Population	5,118,500,000	5,766,465,384	Health & Population	7,227,952,857	6,780,924,114	Health & Population	7,980,692,752	7,214,874,663
Subvented Organization	3,410,000,000	3,573,846,439	Subvented Organization	4,688,945,650	4,496,473,299	Unforseen Expenditures	6,256,185,680	5,908,153,411
Pensions & Gratuities	3,208,000,000	3,408,668,713	Pensions & Gratuities	3,208,000,000	3,408,668,713	Pensions & Gratuities	4,763,000,000	3,813,509,462
Accountant General	2,732,000,000	3,735,421,460	Defence Force	2,779,544,000	2,524,359,173	Economic Planning & Development	3,455,310,000	3,320,941,214
National Roads Authority	2,709,910,000	840,241,377	Accountant General	2,723,787,606	2,723,783,890	Malawi Revenue Authority	2,944,580,189	2,959,443,523
Malawi Revenue Authority	2,610,000,000	2,328,034,788	Malawi Revenue Authority	2,610,000,000	2,030,737,806	Police	2,628,988,096	2,801,117,720
Defence Force	2,375,000,000	2,337,317,282	National Roads Authority	2,561,400,000	3,105,285,040	Finance	2,255,811,200	2,208,291,017
Foreign Affairs	2,122,000,000	1,612,535,699	Foreign Affairs	2,254,300,000	1,986,286,479	Road Fund Admins	2,036,791,900	-
Police	1,778,000,000	2,071,332,706	Police	2,174,248,074	2,467,433,675	National Assembly	1,803,293,648	1,680,453,106
Lands, Housing & Surveys	1,591,500,000	1,254,628,822	Lands, Housing & Surveys	1,125,324,400	1,064,980,793	Subvented Organization	1,721,300,000	1,805,000,000
National Assembly	782,500,000	855,140,919	Human Resource	1,065,822,093	78,726,901	Miscellaneous Statutory Expenditure	1,600,000,000	2,654,507,685
OPC	763,823,574	707,423,882	Natural Resources-Forestry	944,206,152	632,632,317	Transport & Public Works	1,240,837,047	799,819,331
Forestry	724,500,000	638,214,978	National Assembly	943,047,138	1,057,085,578	Electoral Commission	1,228,798,392	192,964,430
State Residences	720,000,000	624,316,480	Judiciary	705,437,415	391,926,930	Agriculture	1,149,402,157	1,089,484,381
Transport & Public Works	540,950,000	606,178,494	Transport & Public Works	674,651,453	555,945,837	Natural Resources	1,111,444,496	1,049,432,925
Local Government Authority	526,500,000	615,222,746	OPC	672,151,757	708,649,207	Youth and Sports	978,725,920	1,432,871,896
Judiciary	476,761,965	372,343,254	State Residences	634,549,258	699,511,104	OPC	872,830,356	845,031,721
Finance	403,063,000	314,229,196	Information	552,118,539	539,962,702	State Residences	838,865,092	1,038,888,811
Aggregate	4,723,389,905	4,262,268,900	Aggergate	10,431,577,192	7,479,807,749	Aggregate	15,279,776,761	14,898,438,671
Total	**50,962,589,468**	**47,047,477,955**		**70,627,770,928**	**63,679,839,215**		**83,710,617,233**	**82,601,797,160**

Amounts are in Malawi Kwachas. The data has was extracted from the Budget Books for 2004/2005, 2005/2006 and 2006/2007 and for the Draft Consolidated Appropriation Accounts for the same years.

3.1.3 Aggregate revenue out-turn compared to original approved budget

3.1.3.1 The principal sources of domestic revenue are from VAT, taxes on international trade and transactions, and income tax. In estimating the revenue budget Malawi, as part of its fiscal policy stance, adopts a conservative position. The revenue estimates and actual receipts are classified as Taxes, Customs and Excise and Non-Tax Revenue. There is no clear and unambiguous financial reporting on Capital Revenue (i.e. sales of assets and of stocks). It is therefore not clear if such transactions do not occur, or whether these are not reported and accounted for. A comparison of budgeted versus actual domestic revenues as derived from draft consolidated appropriation accounts issued by the Accountant General demonstrates actual revenues exceeding revenue estimates in 2004/2005, 2005/2006 and 2006/2007 by between 71% and 85% (see Table 3.4A).

3.1.3.2 When data (see Table 3.4B) for this analysis is derived from published information from the Division of Economic Affairs in Ministry of Finance the amounts are completely different and do not reconcile with the data provided in the draft appropriations accounts. The two very different sets of data raise questions about the effectiveness of reconciliation on tax revenues between the Accountants General Department and the Revenue Division in the Ministry of Finance (see PI-15)

3.1.3.3 While robust revenue results can contribute to the credibility of the budget, such excess may however limit strategic allocation considerations if such are based upon estimates that so substantially underestimated the availability of resources. Further, the excess of actual revenues over approved estimates may create pressures to adjust funding allocations beyond budget allocations and undermine the budgetary controls. While Malawi has recently made historical strides in economic growth achievements with the subsequent impacts on revenue, and that much of its export revenue is based upon commodities with substantial price volatility; it is still difficult to justify the large disparities observed between approved estimates and actual revenue achievements. The greatest deviations come from the non-tax revenues which are made up of departmental receipts, the road levy, safety nets, the sale of maize and dividends[10].

3.1.3.4 In considering the consequences of substantial excess revenues over approved estimates through a conservative posture on revenue budgeting, it is important to also address the consequences on budget execution that arises as a consequence of likely excess revenues. Where revenue excesses over revenue budget estimates are very large as is the case in Malawi it can undermine aggregate fiscal discipline.

3.1.3.5 In the three fiscal years reviewed there was a humanitarian crisis in 2005/06 as a result of low rainfall. However this external shock did not adversely affect revenue performances.

[10] Officials in the office of the Accountant General suggest that non tax revenue estimates to be merely an error, however if so then such error must be systemic since it persists in all three years. We note that the approved budget estimates for 2005/2006 and 2006/2007 for Non Tax Revenues are exactly the same which raises some question as to what considerations are made in projecting these estimates. One possibility that was investigated was that the actual outturns might include direct budget support transfers to the Consolidated Revenue Fund since this source account for revenue accounting where as the budget estimates explicitly exclude direct budget support flows. When this was done the deviation for 2006/2007 was reduced to a more plausible 26%.

Table 3.4A
Comparison of Budgeted and Actual Revenue Receipts (Domestic)

	2004/2005		2005/2006		2006/2007	
	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns
Domestic Revenue						
Customs	25,892,000,000	28,745,225,467	34,812,400,000	55,978,545,638	34,812,400,000	60,838,566,032
Taxes	18,764,000,000	21965194877	22,445,600,000	32,477,603,923	22,445,600,000	35,297,288,065
Non Tax Revenues	3,496,465,000	34,942,385,324	8,225,495,000	23,265,716,730	8,225,495,000	25,285,630,904
Total Revenue	**48,152,465,000**	**85,652,805,668**	**65,483,495,000**	**111,721,866,291**	**65,483,495,000**	**121,421,485,001**
Deviation		**78%**		**71%**		**85%**

Amounts are in Malawi Kwacha. The data was extracted from the Consolidated Annual Appropriations Accounts for the Financial Years ended 30th June 2005, 2006 and 2007

Table 3.4B
Comparison of Budgeted and Actual Revenue Receipts (Domestic)

	2004/2005		2005/2006		2006/2007	
	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns	Budget Estimates	Actual Outturns*
Domestic Revenue						
Customs	6,050	7,063	7,374	7,868	9,392	8,866
Taxes	39,607	43,677	49,884	61,057	59,460	70,803
Non Tax Revenues	7,134	7,011	8,127	8,757	9,203	6,998
Total Revenue	**52,791**	**57,751**	**65,385**	**77,682**	**78,055**	**86,667**
Deviation		**9%**		**19%**		**11%**

Amounts are in millions of Malawi Kwacha. The data was compiled from the Annual Economic Reports and Fiscal Tables .

3.1.4 Arrears

3.1.4.1 According to the NAO, arrears are defined as payments that remain unpaid thirty days after the date of invoice verification or that remain outstanding on July 14th the date used for closing all transactions of the previous fiscal period. The introduction of IFMIS has significantly curbed the generation of arrears as a consequence of the ex-ante control on commitment creation it introduces. No purchase orders can be created in the system unless there are available funds to cover the full amount of the commitment. However not all transactions are subjected to such ex-ante control. These include:

- Those transactions that occur through cost centres that are not directly linked to IFMIS and submit payment vouchers on completion of the expenditure cycle and on submission of a request for payment. The Ministry of Health estimates that approximately 28% of ORT expenditure occurs through cost centres that are not directly linked to IFMIS. This while not a good proxy for a national ratio remains an indicative ratio.
- Utility payments; especially for electricity and water since telephone charges are now mostly managed through a pre-payment system. While schemes have been implemented for managing utility payments by direct payments being made by the Accountant General and offsetting departmental budgetary transfers, arrears continue to be accrued in the ministries of health and education, and in police and prisons departments.
- Roads and other major construction projects that are often subject to contract variations which introduce a mechanism that can make costs soar not only

well beyond the original contract estimates, but beyond budget ceilings. When payment requests exceed budget allocations the excess then accrues as arrears. To exercise control and ensure accountability of cost overruns a degree of separation has been created for the use of the road levy. In 2006/07 the National Roads Authority was given the responsibility of contracting and supervising the construction of roads while the Roads Administration Fund (based in the Ministry of Finance) supervises the use of funds. This mechanism is supposed to check accumulation of arrears, but it was not possible to ascertain how effective it has been. At the present time there could be significant arrears in the road sector.

3.1.4.2 At the present time, while the EPICOR software upon which IFMIS operates includes an Accounts Payable module, it has not yet been implemented. The upshot of this is that there is no facility currently available within IFMIS to monitor the accrual of arrears. The Monthly Budget Execution Returns, submitted by Line Ministries to the Treasury, does not accommodate any entries for accrued arrears. There is a Monitoring Unit in the Accountant General's department that goes out to the whole country to check expenditure trends, revenue trends, maintenance of cash books and cash office procedures at least on quarterly basis. Part of their brief is to examine any pattern of spending that could lead to arrears. The Unit made up of 38 members of staff undertook their last inspections in October 2007, but their resources appear not to be adequate for the task. The conclusion is that there are mechanisms in place for monitoring the possibility of accruing arrears but they appear weak. There are indications that there are still significant arrears accruing in new teacher recruits, the roads sector, and possibly with utility payments in specific sectors within government.

3.1.4.3 All retroactive adjustments for new hires, postings and promotions are handled directly by the office of the Accountant General. Officials state that retroactive adjustments to payroll are handled within the next pay period and almost never accrue beyond three months. Consequently, the accrual of payroll arrears is managed centrally and is reported to be negligible. However Education reported that approximately 10,000 teachers are added to the payroll annually without adequate budgetary provision, resulting in five to six months of payroll arrears.

3.1.4.4 At the end of the 2004/2005 fiscal year a comprehensive audit of arrears was carried out that indicated the total arrears to be 10.037 Billion Kwacha. Government settled an outstanding balance of 5.444 Billion Kwacha in 2006/2007 through a payment of 2.0 Billion Kwacha cash payment and the issuance of special Treasury Bills and Special Local Registered Stock. Given the mechanisms outlined above for accruing arrears it may well be that the amount accrued since the last comprehensive audit has not been unduly high; but without a mechanism in place to monitor, the accrual of arrears remains a fiscal risk and a threat to budget credibility.

Indicator /Dimension	Score	Brief Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	**A**	Actual primary expenditure deviated from primary budget estimates by more than 5% in only one of the years considered. Results: 2004/2005 -5%; 2005/2006 -10%, 2006/2007 -2%
PI-2 Composition of expenditure out-turn compared to original approved budget.	**D**	Variance in expenditure composition exceeded overall deviation by more than 10% in two of the three years considered. Results: 2004/2005 14%; 2005/2006 6%, 2006/2007 15%
PI-3 Aggregate revenue out-turn compared to original approved budget	**A**	Domestic revenue collection exceeded 97% in all three of the last three budget years. Results: 2004/2005 178%; 2005/2006 131%, 2006/2007 185%. It would appear that the non-tax expenditure data includes expenditure emanating out of direct budget support while the revenue estimates are exclusive of direct budget support. If such an interpretation is given to the data, the results still exceed 97% for all three years considered.
PI-4 Stock and monitoring of expenditure Payment arrears	**<NS>**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	At the present time even though there are identified areas where arrears continue to accrue, there are no mechanisms in place to monitor arrears. The Government has paid off (with the assistance of the securitization of some of the arrears) the 10.3 Billion MK established through a comprehensive audit in 2005, however since that time the continuing accrual of arrears has not been monitored.
(ii) Availability of data for monitoring the stock payment arrears	D	

3.2 COMPREHENSIVENESS AND TRANSPARENCY

3.2.1 Classification of the Budget

3.2.1.1 Over the period 2004/2005 to 2006/2007 the fiscal framework was presented on a modified cash accounting basis employing functional, sub-functional, programme, sub-programme, economic and administrative classifications. The budget classification (as identified in the budget documents and macro-fiscal tables) identifies only 4 main functions; however the sub-functional structure permits a translation of these using a mapping table to a standard consistent with the COFOG functional classification. The macro-fiscal tables and the chart of accounts are consistent with the budget structure and hence the exercise of expenditure controls within that budget classification. However, at the present time the budget formulation process includes top-down and bottom-up reconciliation at the administrative budget head level, but not within the functional and sub-functional classification.

3.2.1.2 In the use of the programme classification, administrative heads have been designated as programmes and sub-programmes in a number of cases. This could prevent the use of programme and sub-programme to produce details corresponding to the sub-functional level (as defined by the COFOG standard) on consistent basis..

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-5 Classification of the Budget	**B**	The budget formulation and execution is based upon a functional, sub-functional, programme, sub-programme, economic and administrative classifications that are used both for budget formulation and execution. However, comparison with the COFOG standard indicates that the current use of programmes and sub-programmes (which would be an equivalent of sub-functional classification in COFOG) will not allow mapping to produce consistent documentation with COFOG functions. (i.e. The mis-assignment of administrative heads to programmes and sub-programmes in a number of instances makes it unlikely that the programmes and sub-programmes can be mapped to COFOF sub-functions in a consistent way).

3.2.2 Comprehensiveness of the Budget Documentation

3.2.2.1 The budget submissions to parliament include 5 separate volumes and attachments. The budget format includes the approved as well as revised estimates for the previous year, the proposed estimates for the years and projected expenditure data for the next two years. The appropriations accounts include the actuals in the same format as the budget documents however for the three fiscal years under consideration the GoM has been unable to present the audited appropriations accounts for previous year at approximately the same time as the Budget documents. Thus prior year outturns have not been available to parliament as part of the budget documentation submitted.

3.2.2.2 Budget documentation is comprehensive, and consists of the following main components and elements:

- The Budget Statement by the Minister of Finance that contains Government policy and some of the estimated impacts of new policy on the budget. The Economic and Fiscal Policy Statement outlines the fiscal policies that underpin the budget over the short and medium terms;
- The Annual Economic Report (Budget Document No.2) prepared by the Ministry of Economic Planning and Development which includes the economic outlook and key economic assumptions for the budget including GDP, inflation, balance of payments position and exchange rate.
- The Draft Estimates of Expenditure (Budget Document No. 5) as proposed along approved and revised estimates for the previous budget year;
- While the draft Consolidated Appropriations Accounts includes financial assets, these have not been included in the budget submissions. The absence of an Auditor General appears to have hindered the ability of the Ministry of Finance to include audited financial statements in budget submissions. The Financial Statement (Budget Document No. 3) which does not include actual expenditures but only estimates and revised estimates for the previous year and draft estimates for the current budget year;
- Summary revenue estimates for the budget year and the current year (budget year-1);
- Debt Service Estimates (in attachment)
- The Debt Stock listing individual creditors (in attachment);

3.2.2.3 The budget statement underscores the policy priorities for the respective budget year. It also includes some analysis of budget impacts of new government policies but not in all cases. The Estimates of Expenditure provides a breakdown by functional (sector), programme, economic and administrative classification. The table below summarises the availability of budget information.

Table 3.5
Summary of Budget Documentation

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	Macroeconomic assumptions are included in the Annual Economic Report including specifically GDP growth rates, inflation and average exchange rate.
Fiscal deficit, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit is presented in the Annual Economic Report
Deficit financing, describing anticipated composition	Yes	A table is included in the Annual Economic Report that provides information on how the deficit is to be financed.
Debt stock, incl. details at least for the beginning of the current year	Could not verify details	The debt stock (both external and domestic) is included in the Annual Economic Report
Financial assets, incl. details at least for the beginning of the current year	No	There is no information on financial assets included in the data submitted to parliament even though these are available in the draft consolidated appropriations accounts. Without the Auditor General these have not been submitted to parliament, therefore cannot be considered as part of budget documentation.
Prior year's budget out-turn, presented in the same format as the budget proposal	No	These are not included in the Financial Statement and the audited Appropriation Accounts have not been available for submission by the MoF to parliament.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	Yes	The revised budget for budget year-2 is included in the budget estimates
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	Yes	The budget includes summarised data according to the main heads of classification for both revenue and expenditure. The Annual Economic Report also includes the data summarised on a functional classification basis.
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	No	The Budget Statement does include budget impacts of new government policies but this is not the case for all new policy initiatives.

Indicator	Score	Brief Explanation
B. Comprehensiveness and Transparency		
PI-6 Comprehensiveness of information included in budget documentation	**B**	Budget documentation fulfils 6 benchmarks. The timely submission of audited appropriations accounts would fulfil an additional benchmark and a score of an A, this however cannot be achieved without the appointment and endorsement of an Auditor General.

3.2.3 Extent of Unreported Government Operations

3.2.3.1 One element of government operations which affects the efficient allocation of resources is the existence of unreported government operations. In general, given their nature, it is difficult to quantify accurately the extent of unreported government operations. In Malawi all Departments have Revenue Deposit Accounts that form part of the Consolidated Revenue Account mechanism operated by the Reserve Bank of Malawi (RBM). All internally generated funds, whatever their source are deposited in the departmental Revenue Deposit Accounts[11]. There is no evidence of any special funds being operated outside the budget. The Reserve Bank of Malawi posted a loss of 1,012 Million MK in December 2006 (corresponding to the 2006/2007 Government Fiscal Year). The funding of such loss is facilitated through the Government's issuance of a debt instrument (a promissory note) which is then redeemed as per Section 54(5) of the Reserve Bank of Malawi Act 1989 by the payment of 10% of the RBM's profits. While such loss was included in the Budget Framework, made public information and addressed in a number of the Minister of Finance speeches the funding and redemption mechanisms have not been reflected directly in the budget or considered within the budget process. This loss, however, represents less than 1% of budget expenditure for the fiscal year 2006/2007.

3.2.3.2 Budget documentation includes details of projects showing Donor contributions. A number of Donors do not provide complete financial expenditure data to the Government especially with respect to those expenditures they execute directly on behalf of the project as well as due to either the non submission or the late submission of financial statements for consolidation into the government's consolidated appropriations accounts. The Government of Malawi, adopting as a basis the best practices for AID delivery through Government systems as resolved through the Paris Declaration, seeks to categorise donor funding that do not use government systems to be excluded from budget documentation. The June 2007 Summary of Project Support Managed Outside Government Systems argues "*The approved budget spending is audited, and therefore should incorporate only those funding streams that the Auditor General has jurisdiction over, and which Government can provide detailed financial information on*". Many of the major donors provide basic income and expenditure reports to the Ministry of Finance, Ministry of Economic Planning and Development (through the PSIP) and the Line Ministry under which the project is carried out. For most Donor projects the funding is deposited in the RBM. This provides the Government with an opportunity to track project implementation by monitoring actual disbursements. This, while a reasonable proxy, is not a substitute for actual expenditure reporting. The Summary of Project Support Managed Outside Government Systems is prepared by the Debt and Aid Unit of the Ministry of Finance in cooperation with the Development Partners. This fiscal report is submitted to parliament along with the budget documentation. This seems to suggest a mechanism (along with the Budget Documentation) for informing parliament of all income/expenditure information on donor funded projects. We note that for the fiscal year 2006/2007 23% of Donor Expenditure was reported outside the budget; however these expenditures were captured within other fiscal reports.

[11] In a bid to introduce incentives for Departments to increase internally generated revenue collection it has been proposed that 20% of such funds be retained directly by the Department. While such incentives should be helpful, the choice of incentive mechanism would introduce extra-budgetary funds.

Indicator	Score	Brief Explanation
PI-7 Extent of Unreported government Operations	**<NS>**	
(i) level of unreported extra-budgetary expenditure	<NS>	All revenues generated directly by the MDAs are transferred to the Consolidated Revenue Fund held with the RBM. In 2006/2007 the RBM posted a loss of 1 Billion MK which was automatically funded by the Government through a promissory note mechanism that sits outside the budgetary process. As a ratio of total expenditure though this amount was less than 1%. However additional documentation provided by IMF (March 2007 Report) indicated that there is scarcity of information on the operation of the Treasury Funds, therefore there appear to be insufficient information to score
(ii) Income/Expenditure information on donor-funded projects	A	Income/expenditure data of donor funded projects (loan funded) are submitted to the Ministry of Finance, the Ministry of Economic Planning and Development (PSIP) as well as the corresponding Line Ministry to be included in fiscal reports. The GoM seek to exclude all projects that are managed outside Government systems from the budget, however other projects are included in other fiscal reports that are submitted to parliament.

3.2.4 Transparency of Inter-governmental Fiscal Relations

3.2.4.1 There are a total of 40 Local Authorities in Malawi made up of 1 Municipal Councils, 3 City Councils, 8 Town Councils and 28 District Councils. Since the enactment of the Local Authority Law, 1998 there has been a substantial and growing transfer of responsibility from the Line Ministries to the Local Authorities at the district level. Under the current arrangements the Ministries of Education (Basic Education), Health, Agriculture, Transport, Water, Trade and Gender have transferred their district level operations, along with their corresponding budgets, to the Local Authorities. Under the new arrangement, in addition to town planning, community amenities, maintenance of minor roads and water supply systems the local authorities undertake responsibility for basic education, trade, gender, agriculture as well as health.

3.2.4.2 There are five main sources of funds available to Local Authorities. These are:

- *Own Revenues* which include business licence fees, property rates, ground rent, levies and local taxes;
- *General Resource Grants* which are allocated to Local Authorities on a rule of 80% on a per capita basis, and 20% on the basis of poverty indicators, namely literacy levels, infant mortality rates and access to clean water;
- *Sector Specific Grants* which correspond to the district level components of central government sector budgets for basic education, health, trade, water, agriculture, gender and transport are allocated on a rule based system, but the implementation of these rules is still constrained by historical factors since a strict application of the formulated rules would lead to massive shifts from established allocation patterns;

- *Ceded Revenues* would include revenues from such sources as gambling fees, fuel levies, vehicle registration, industrial registration fees and tolls. The implementation of the transfers of funds under this mechanism still awaits the completion of the legal and regulatory framework governing ceded revenues; and
- *Constituency Development Fund* initiated in 2006/2007 is a political fund received by the District Assemblies on an equal basis.

The basis for the horizontal allocation of central government transfers is rooted in the Constitution which states under 149(2)(c) that such transfers shall be made under the sole consideration of "economic, geographic and demographic variables". The National Local Government Finance Committee, a constitutional body, is responsible for administering the distribution of central government funds to local authorities and for coordination, consolidation and oversight of local authority budgetary submissions and financial reporting. The appointment of external auditors for local authorities is subject to the approval of the National Local Government Finance Committee.

3.2.4.3 While the National Local Government Finance Committee is responsible for the horizontal allocation of Sector Specific Grants, the corresponding sector ministries also play a principal role in the allocation process. In practice the district budgets (prepared by the sectors) are transferred to the Local Authorities. As stated above while a rule basis .is considered, historical factors remain a constraint. The personnel emoluments component of transfers may be considered transparent and rule based and corresponds to approximately 90% of the transfers as determined from budget estimates for local authorities (Vote 121). As Table 3.6 demonstrates, by the comparison of Actuals to Budget Estimates indicating positive variances coupled with an over 90% transparent and rule based horizontal allocations, the budget estimates for Local Authorities transfers serve as reliable indicators of amounts to be transferred.

Table 3.6
Segregation of Central Government Transfers by Revenue Source for Fiscal Years 2005/2006 and 2006/2007

	Transparent &	2005/2006			2006/2007		
	Rule Based	Budget Estimate	Actuals	%	Budget Estimate	Actuals	%
Sector Specific Grants	90%	2,321,490,967	2,588,725,296	87.4%	6,258,943,563	6,258,943,589	88.6%
General Resource Grant	100%	425,000,000	372,399,567	12.6%	415,956,378	417,623,062	5.9%
Ceded Reevnues		-	-	0.0%			0.0%
Constituency Development Fund	100%	-	-	0.0%	386,000,000	386,000,000	5.5%
Total		**2,746,490,967**	**2,961,124,863**	**100%**	**7,060,899,941**	**7,062,566,651**	**100%**
Variance			**7.81%**			**0.02%**	
Transparent & Rule Based			**91%**			**91%**	

Amounts are MK. Data obtained from the National Local Finance Committee and the Detailed Estimates of Expenditure on Recurrent and Capital Budget

3.2.4.4 The Local Authorities share the same financial year as the central government and participate directly in the budget process with respect to their recurrent budgets which are funded by the Central Government. Under the current budget calendar, as is the case for the sector ministries, the local authorities are provided reliable information on the allocation to be transferred to them about a month ahead of completing their budgets but not prior to starting the detailed budget process. Both the budget document and the appropriations accounts directly integrate all the fiscal data for the local authorities. Further the National

Local Government Finance Committee publishes the Local Authorities Budget Estimates which includes actual expenditures (2005/206. and 2006/2007). This financial report is available within 11 to 12 months of the end of the fiscal year and submitted to Parliament for information purposes. It should be noted that the figures reported are not audited and given the current backlog of audits in the local authorities may raise some question about the accuracy and reliability of these reports.

3.2.4.5 As part of the main budgetary process, the Local Authorities along with the Line Ministries receive their budgetary allocation ceilings February/March. While the law requires that they complete their budget process 3 months prior to the submittal of the proposed national budget to parliament, in practice it is completed along with the sector ministries in May. The Local Authorities also participate in the Budget negotiation procedures through the National Local Government Finance Committee. The Local Authorities submit financial reports to the Ministry of Local Authorities on a monthly basis typically within 15 days of the end of the quarter. Final accounts are submitted to the Ministry of Finance to be consolidated into a set of national appropriations accounts. The consolidated local authority financial statements are prepared in a structure consistent with the Central Governments financial reports and included with the final appropriations accounts. These have not been prepared and submitted in a timely fashion to parliament even though in the most recent fiscal year there have been substantial improvements in the timing of the submission of final accounts to the National Audit Office (see PI-25, PI-26).

Indicator	Score	Brief Explanation
PI-8 Transparency of Inter-governmental fiscal relations	**B+**	
(i) Transparent and objectivity in the horizontal allocation among SN government	A	The central government transfers for recurrent expenditure of the Local Authorities are based upon the same budget procedures as for the Line Ministries and are transparent and subject to set procedures and rules. While the Sector Specific Grants, under the current transition arrangements, have their rule basis restricted by historical factors, the very high component (approximately 90%) of personnel emolument expenditure results in an overall effect of making over 90 % of the horizontal allocations transparent and rules based.
(ii)Timeliness of reliable information to SN government on their allocations	B	Local Authorities are provided the budget ceilings along with the Line Ministries about three weeks before the completion of the budget process but not at the start of their detailed budget process.
(iii) Extent of consolidation of fiscal data for government according to sectoral categories	B	All Local Authorities provide monthly financial statements to the Ministry of Local Authorities. On an annual basis the Local Authorities submit final accounts that are included in the national appropriations accounts when they are presented to NAO. Further the National Local Government Finance Committee prepares and submits Local Authorities Budget Estimates to parliament within 11 to 12 months of the close of the fiscal year. The actual expenditure figures are not audited and given the current backlog of local authority audits this raises some question as to the accuracy of these reports.

3.2.5 Oversight of Aggregate Fiscal Risk from Other Public Sector Entities

3.2.5.1 There remains some uncertainty as to whether all statutory bodies are provided effective oversight in Malawi. Oversight responsibility is divided between The Public Enterprises Reform Monitoring Unit (PERMU) within the Ministry of Finance and the Statutory Corporations Board under the Office of the President and Cabinet (OPC). PERMU was established in 2000, is responsible for the oversight of 10 Commercial Public Enterprises[12]. The exact numbers of statutory bodies is unclear with PERMU indicating a total of 66, while the Statutory Corporations Board indicating 56. They are generally classified as commercial public enterprises (parastatal organizations), semi-commercial statutory bodies, treasury funds and subvented statutory bodies. Under the Budget Vote No. 275 are listed all of the subvented statutory bodies.[13] The different categories of statutory bodies as extracted from budgetary and financial documents are presented in the table below. These reconcile with figures reported by PERMU.

Statutory Body		Oversight
Key Commercial Satutory Bodies	10	PERMU
Other Commercial Statutory Bodies (Statement 14)	8	Original investment, no oversight
Treasury Funds (Statement 12)	6	Current status of portfolio, no oversight
Subvented Statutory Bodies (Vote 275)	42	National Budget
Total	**66**	
Officials Stated Total	66	

Source: Annual Report Outlook, PERMU, Approved Estimates of Expenditure on Recurrent and Capital Budget, Statements 12 and 14 of the Consolidated Annual Appropriations Account.

3.2.5.2 According to the Annual Report Outlook, 2006 issued by PERMU the consolidated turnover for the Key Commercial Statutory Bodies was 14.8 Billion MK. However, it was not possible to establish the turnover of the Other Commercial Statutory Bodies as derived from Statement 14. Thus it was not possible to demonstrate whether all the major AGAs or Public Enterprises are covered by PERMU's oversight function.

3.2.5.3 For the 10 Key Commercial Statutory Bodies, these submit on a quarterly basis to PERMU financial reports which are summarised and analysed for fiscal risk on the basis of such factors as liquidity, profitability, returns on asset and debt to equity ratios. These are disseminated to the IMF and the Secretary to the Treasury. The 10 Key Commercial Statutory Bodies also submit annual audited reports that are summarised and analysed for fiscal risk. These are also disseminated to the IMF and the Secretary to the Treasury. Officials state that for some of the Public Enterprises audited financial reports are up to two years in arrears. The annual reports are integrated into Budget Document No. 2 (the Annual Economic Report) which is submitted to Cabinet and the Parliament. Further to their oversight activities PERMU sits on the corporate boards as well as the Audit Committees set up in each of the Key Commercial Statutory Bodies. There are capacity constraints with regards to carrying out corporate

[12] These are: Agricultural Development and Marketing Corporation (ADMARC), Air Malawi (QM), Electricity Supply Corporation of Malawi (ESCOM), Malawi Housing Corporation (MHC), Malawi Postal Corporation (MPC), Blantyre Water Board (BWB), Central Region Water Board (CRWB), Lilongwe Water Board (LWB), Northern Region Water Board (NRWB) and Southern Region Water Board (SRWB).

[13] There are 42 of these listed in the budget documentation. Statement 14 of the Consolidated Annual Appropriations Accounts details a number of commercial statutory bodies not included within the oversight purview of PERMU. These include Airport Development Limited, Press Corporation Ltd., Shire Bus Lines, INDEBANK Ltd., Malawi Railways Holding Company Ltd., Malawi Development Corporation, Vipya Pulp Paper Corporation Ltd. and PTA Trade Development Bank.

board and audit committee responsibilities given that there are at this time only two officers in the unit.

3.2.5.4 Disbursements to Local Authorities are coordinated and supervised by the National Local Government Finance Committee. They provide annual budget estimates for the funds received from the Government of Malawi and their self-raised funds and corresponding actual expenditures which are consolidated and submitted to parliament. They submit monthly statements of revenue and expenditure for all revenue and expenditure. The Local Government Act, 1998 (under article 49) gives the local assemblies borrowing authority subject to the approval of the Minister for Local Government in consultation with the Minister of Finance[14]. Under the Public Finance Management Act, 2003 may only borrow or issue a guarantee under the explicit written approval of the Minister of Finance. It further states under 72(3) that no liability shall be attached to the Central Government as a consequence of the approval of the Minister of Finance. At the present time there is no comprehensive consolidated reporting on the debt stock. The major term obligation for most Local Authorities arises from the Development Fund for Local Authorities. Fiscal risk associated with the accrual of expenditure arrears, remains an area of concern. The Local Authorities do not submit regular information on expenditure arrears to the Ministry of Finance.

Indicator	Score	Brief Explanation
PI-9 Oversight of Aggregate Fiscal Risk	**C+**	
(i)Extent of central government monitoring of AGAs/PEs	C	The 10 Key Commercial Statutory Bodies overseen by PERMU submit fiscal reports to central government on a quarterly basis, as well as audited financial accounts annually which the PERMU consolidates the fiscal risk issues into a report and integrates into the Annual Economic Report for submission to parliament. However, it has not been established that these 10 public enterprises are the '<u>all major AGAs/PEs'</u> which would warrant a higher score.
(ii) Extent of central government monitoring of SN governments' fiscal position	A	Under the terms of the Local Government Act 1998 and the Public Finance Management Act 2003 Local Authorities cannot generate fiscal liabilities for the central government. It should be noted though that at this time no regular monitoring of the consolidated position of Local Authorities is carried.

3.2.6 Public Access to Fiscal Information

3.2.6.1 Transparency will depend on whether timely information on the budget and its execution by the government is made available and is readily accessible to the general public and other stakeholders in the budget process. Such transparency requires that the Government make relevant information widely available in a timely fashion, and selects outlets that are readily accessible by a wide section of the population. There is much information pertaining to public finance management laws now available in summary formats on official websites. The Ministry of Finance employs newspapers to present budget release data for different budget heads and programmes. Some sector ministries placed contract award and payment information on notice boards but this practice has been discontinued. Budget documentation including the Budget Statement is available from the Ministry of Finance when first issued. The Government Bookshops also sell budget documentation to the public. Budget documents are circulated to Members of Parliament, Universities, Libraries and Line Ministries.

[14] This act has been superseded by the Public Finance Management Act 2003 and the Audit Act 2003.

3.2.6.2 The Office of the Department of Public Procurement (ODPP) maintains a list of contracts awarded above 3 Million Kwacha for goods and services and above 4.5 Million Kwacha for works. However, of these lists are published or made available to the public.

3.2.6.3 Table 3.7 provides a summary of the elements to which public access is essential. It shows that two of the benchmarks are fulfilled.

Table 3.7
Public Access to Information

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	Yes - is made available to the public on the same day through the MoF. They may be obtained from Government Book shops.
In-year budget execution reports within one month of their completion	Yes – these are made available to the public through newspapers
Year-end financial statements within 6 months of completed audit	No – in the three years included in the PEFA review no audited financial statements were issued. This is partially as a result of the absence of an Auditor General.
External audit reports within 6 months of completed audit	No – in the three years included in the PEFA review no audit reports were issued. This is partially as a result of the absence of an Auditor General.
Contract awards (app. USD 100,000 equiv.) published at least quarterly	No – contract awards are not published
Resources available to primary service unit at least annually	No – while financial reports detail to the level of cost centres, the devolution of basic education and health care centres to Local Authorities, has meant these are not indicated in national financial reports. No financial reports have been audited and made available to the public in the period of the PEFA review.

Indicator	Score	Brief Explanation
PI-10 Public Access to Fiscal Information	**C**	At the present time only annual budget documentation are made available at the time of submission to parliament.

3.2.7 Orderliness and Participation

3.2.7.1 The budget preparation process is clearly articulated in a Budget Calendar that has been drafted for the 2008/2009 fiscal year. It outlines budget activities related to both the ongoing financial year and the next financial year. The budget ceilings are determined by the MoF in accordance with policy and cognizant of resource envelope constraints. Under the current budget preparation procedures the Department of Economic Affairs, which works in close cooperation with the IMF is responsible for setting the total budget envelope and the allocation across the main functional and economic classifications. These IMF agreed ceilings are used to set the budget ceilings and the Public Sector Investment Programme ceilings. The budget ceilings are approved by cabinet. Due to timing constraints the budget ceilings are usually communicated to line ministries as “indicative” ceilings at the time that they are submitted to Cabinet; to be confirmed approximately 10 days later as approved ceilings.

3.2.7.2 The Budget Call Circular, with ceilings by budget head attached, is distributed to Line Ministries between March and April. It is the responsibility of the Line Ministries to prepare their budgets within their overall ceiling and submit their budget proposals by early May. Line Ministries report that in practice the actual implementation of the budget calendar have left them only 2 to 3 weeks to prepare their budgets. This has forced them to prepare budgets on a historical basis using the previous year's ceilings adjusted and then modifying them retroactively upon receipt of the formal ceilings. The line ministry budgets are then presented to and negotiated with the Ministry of Finance in budget hearings to reconcile any excess budget estimates which exceed ceilings. The Local Authorities also present their recurrent budgets through the National Local Government Finance Committee for onward submission to the Ministry of Finance. These are funded through direct Central Government transfers. Any modifications agreed as a result of the negotiations are allowed a week to complete the amendments.

3.2.7.3 The completed budgets are presented to the Minister of Finance by the middle of May, who upon approval submits it to Cabinet no later than the end of May. The proposed budget is then submitted to Parliament by the middle of June which usually completes the budgetary debates and passing of the annual appropriations within the first month of the new fiscal year. So typically it has about 2 weeks before the new fiscal year in which to review and pass the appropriations bill and about 6 weeks in total. The President signs the appropriations bill into within a week of the parliament approving the appropriations bill.

3.2.7.4 Line Ministries describe the budget call circulars as having clear instructions and guidelines. They include electronic attachments that serve as templates for filling out the budget submissions. The Budget preparation process is both a top-down process as well as a bottom-up process. However, timing delays in the issuance budget ceilings results in a poor reconciliation process that has to be addressed retroactively by the line ministries. Both the budget circulars and the PSIP process are guided by the Malawi Growth and Development Strategy which provides the broad strategic framework within which the budget is prepared.

3.2.7.5 In the past three years, the budget has always received its final approval from parliament after the start of the new budget year. All expenditure must be preceded by an authority to incur expenditure through the issuance of a General Warrant upon approval of the appropriations bill.

Indicator	Score	Brief Explanation
C(i) Policy-Based Budgeting		
PI-11 Orderliness and participation in the annual budget process (M2)	**C+**	
(i)Existence of, and adherence to, a fixed budget calendar	C	The budget process is clearly set out in a draft budget calendar introduced in the 2007/2008 budget year. In the years covered by the PEFA Assessment such a calendar was not pre-announced even though by tradition the key steps occurred around the same time of the year. On the basis of the ceilings provided by MoF and approved by a Cabinet, the Line Ministries have about 2 to 3 weeks to prepare their submissions.
(ii) Guidance on the Preparation of budget submissions.	B	The MoF issues comprehensive and clear budget circulars. The Budget ceilings have been approved by cabinet and issued to the line ministries after the budget circulars but prior to the completion of the line ministries budgets.
(iii) timely budget approval by the legislature	C	While the government has submitted the budget just prior to the close of the fiscal year, the legislature has in the past three years always approved the budget within two months of the start of the new fiscal year

3.2.8 Multi-Year Perspective

3.2.8.1 Malawi undertakes a multi-year top-down perspective to its budget formulation and includes forward estimates in its budget documentation. The Government, in collaboration with the IMF under the PRGF program, adopts a conventional macroeconomic framework as the basis for its forecasts on revenue, expenditure and deficit projections, and its budget preparation does incorporate some elements of its broad policy objectives. The budget preparation process integrates these macro-fiscal forecasts both in setting the recurrent expenditure estimates as well as the PSIP ceilings which are used for the development budget. The revenue forecasts adopt a conservative posture for grants and only include inputs where there are already signed financial agreements. This is a particularly conservative posture for a multi-year perspective.

3.2.8.2 The Government introduced a five year medium-term national development framework, Malawi Growth and Development Strategy (MGDS) in 2006 which highlights measures to improve economic growth and reduce poverty and incorporates the Millennium Development Goals along with other targets**.** The MGDS was developed within forecast macro-fiscal aggregates and its investment requirements are costed but exclude any recurrent expenditure impacts. At present, fiscal forecasts of revenue and expenditure aggregates are prepared for three year horizons following the budget year based on GFS standards, thereby linking the aggregate forecast and the functional classification. The MoF publishes the fiscal forecasts and includes them in the budget documentation submitted to parliament.

3.2.8.3 A number of sectors, including Finance, Health and Education, have prepared sector plans which are costed in the MGDS. The first rudimentary steps towards the implementation of a Medium Term Expenditure Framework (MTEF) have been taken, however the budget documents still exclude some elements of an MTEF such as forward estimates.

3.2.8.4 Part of a credible macro-fiscal framework would be a clear debt management policy. Malawi has not yet established a clear debt management policy however, it has issued debt and guarantees guidelines that embodies debt ceilings..

3.2.8.5 The Debt and Aid Division of the Ministry of Finance employs the CS-DRMS system to register and track its external debt. The Reserve Bank of Malawi has direct data access to the MoF server and maintains a backup server on its premises. Debt sustainability analysis is performed on an annual basis and published as the "Report on Public Debt Sustainability and New Financing Analysis in Malawi". It is timed so that it feeds into the annual budget process. Under the PRGF the IMF also performs a debt sustainability analysis annually. The reports are submitted to Cabinet. The external debt stock is reconciled on a monthly basis. The domestic debt and external debt are reconciled and reported on an annual basis in the "Annual Debt and Aid Report" by the Ministry of Finance. The debt stock (external and domestic) is published quarterly by the Reserve Bank of Malawi.

3.2.8.6 The process for obtaining approval for inclusion of a project in the Government investment program needs to derive from a robust strategic planning process based upon fully costed sector plans well aligned with the national development framework, MGDS. In practice, however actual selection is based principally through an annual update of a five year Public Sector Investment Program based upon inputs from Line Ministries, a costing analysis by the Ministry of Economic Planning and Development, and also on donor and political willingness to fund them - rather than a prioritisation of investment plans according to strategic priority, resource availability and recurrent cost implications. The PSIP is guided by the MGDS and is subjected to resource availability discipline in the process of developing the macro-fiscal framework. However within the PSIP framework there are no linkages between the development budget and forward recurrent expenditure estimates.

Indicator	Score	Brief Explanation
C(i) Policy-Based Budgeting		
PI-12 Multi-year perspective in fiscal planning, expenditure Policy and budgeting	**B**	
(i) multi-year fiscal forecast and functional allocations	A	Three years functional forecasts are prepared which serve as sector ceilings for the integration of the PSIP into the budget. Forecasts of fiscal aggregates are prepared for three years and agreed with the IMF and published and submitted as part of the documentation to Parliament. The forecasts are directly linked to subsequent budget ceilings.
(ii) scope and frequency of debt sustainability analysis	A	DSA for external and domestic debt is carried out annually by the Debt and Aid Division of the Ministry of Finance. They began in 2005/2006 and the team received DSA reports for both years. Under the PRGF, the IMF also carries out a debt sustainability analysis.
(iii) existence of costed sector strategies	C	Statements of sector strategies exist for several major sectors including the health, finance and education sectors. There are 5 thematic areas representing several sectors exceeding 25% of primary expenditure.
(iv) linkages between investment budgets and forward expenditure estimates	D	Most of the important investment decisions are selected after analysis from the Ministry of Economic Planning and Development however the investment decisions still have some links to sector strategies. The recurrent cost implications are not directly taken into account.

3.3 PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

3.3.1 Transparency and Taxpayer Obligations and Liabilities

3.3.1.1 Tax collection has been buoyed by the improvements in the performance of the Malawi Revenue Authority which was established by an Act of Parliament in 1998. The organisation was launched in February 2000 as the agency of government responsible for tax assessment, collection and accounting for revenue by amalgamating the existing functions of Customs and Excise and Income Tax Departments. VAT was introduced and became part of the Authority in 2005.

3.3.1.2 MRA has embarked on comprehensive reforms to improve how it discharges its responsibility. One area that has been given attention is in the integration of tax administration to overcome fragmentation of the main functions. Pre-March 2007 MRA was organised on the basis of tax types: Income Tax; Customs, and VAT each headed by a Commissioner reporting to the Commissioner General. Under current arrangements a domestic tax division has been created (thereby merging Income Tax, VAT and Excise Duty) to exist alongside Customs. Each is headed by a commissioner (so there is no more a commissioner of VAT but rather 3 deputy commissioners for audit; taxpayers' services; and revenue processing and payment)

3.3.1.3 The new functional structure enhances the functions of tax audit, investigations and operational activities of registering and collections of taxes. A Large Tax Payers Office has been established to address the needs of approximately 320 large tax payers that contribute about 70% of domestic taxes. There is also a Medium and Small tax payers Unit and a Tax Payers Education Unit.

3.3.1.4 MRA has identified the challenges it faces and strategies to address them in its Corporate Plan for the three years covering the period 2006/07- 2008/09. The Authority aims to be a strong organisation that is customer centred; to be viewed as a fair and effective administrator of tax laws; efficient in the delivery of high quality business results for the public; and protecting taxpayers' privacy and to ensure the security of taxpayers' information.

3.3.1.5 To achieve these goals MRA undertakes tax education for taxpayers through newspaper pull-outs; brochures, radio/TV campaigns; stakeholder meetings for particular industry, and through many other channels. It also rewards compliant taxpayers by issuing Tax Compliant Certificates

3.3.1.6 However there are many areas where the authority has fallen short of its own standards and the expectations of tax payers. For example the business community appears to hold the view that event tax compliant businesses are tax audited without due justification, and audit findings are not discussed, and assessment are not communicated properly. In addition the business community holds that tax auditors do not appear to display an understanding of the nature of their businesses.

3.3.1.7 There are relevant laws regulating Income Tax, Customs & Excise, and VAT. These include:

- Custom and Excise Act 1969
- Taxation Act 1964 as amended by various acts including Taxation (Amendment) Act, 2000, 2002, 2003 and 2006
- VAT Act, 2005

3.3.1.8 However with the exception of VAT these laws were enacted before the creation of MRA in 2000. Therefore a number of provisions in the laws are considered to be obsolete and not consistent with the changes current business model. MRA have proposed an update these laws as part of the reform programme.

3.3.1.9 There are also tax appeal mechanisms in place. In the event that a taxpayer disputes an assessment, the area of dispute and the grounds of contest are directed to the Administration & Technical. The law puts the proof of burden on the taxpayer but MRA internal processes require the assessment officer to substantiate his decision. All appeals go to the Commissioner General. The law allows the taxpayer to go to the magistrate courts and further on to the High Court. To improve the system of appeal the Ministry of Finance is planning to institute technical courts to examine tax disputes. MRA reported that they allow 30 days for taxpayers to bring up disputes and aims to complete all internal reviews within 30 days. Again the business community reported that the appeal process is long, cumbersome and sometimes appeals are not responded to. MRA is viewed as a investigator, prosecutor and judge in its own cases. Furthermore the judicial system is perceived to be deficient in the sense that judges seem to lack the tax expertise to decide on the cases in a timely manner. The tax administration has not yet created the environment that minimises unnecessary disputes and the associated compliance cost. Also an independent appeal mechanism is not yet in place.

3.3.1.10 MRA reported that tax officers have only limited discretionary powers, if at all in deciding the amount of taxes due, with the exception of custom penalties where an officer may exercise discretion. Regarding custom duties it was reported that discretionary powers have been removed and government has introduced a Customs Procedure Code (CPC) outlining what steps specific organisations should take to import goods.

Indicator	Score	Brief Explanation
PI-13. Transparency of taxpayer obligations and liabilities (M2)	**B**	
(i) Clarity and comprehensiveness of tax liabilities	C	Existing legislation is clear for VAT, but others are not comprehensive and clear leading to uncertain tax liabilities in some cases. Some of the laws are obsolete and not in harmony with each other. Work is on-going to revise these laws to produce a tax procedure code.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	Comprehensive, user friendly and up-to date information is available for tax liabilities. Assessments based on tax audit and are always communicated clearly to tax payers.
(iii) Existence and functioning of a tax appeals mechanism	B	There are both internal and external processes for tax appeals. The Commissioner General has made recent changes and refers all cases of appeal to a technical committee for advice. It is too early to assess its effectiveness since only few cases come up and tax payers are still unsure about the fairness of the system .

3.3.2 Effectiveness of Measures for Taxpayer Registration and Tax assessment

3.3.2.1 Tax laws in Malawi have set the threshold for tax entity to register for income tax if the entity's taxable income is more than MK72,000 a year ; and for VAT at MK 2 million. Customs registration is done when a person imports or exports dutiable goods or services. There is no direct linkage of the tax registration process to any other government systems. However MRA undertake joint exercises with Ministry of Trade to sensitise taxpayers about their responsibility to register their business. Also ODPP ensures that people who participate in public procurement have registered and are issued with Tax Personal Identification Number (TPIN)

3.3.2.2 MRA prints information leaflets and regularly run TV and radio adverts to educate potential tax payer to register. In 2007 a comprehensive survey and registration exercise, covering the whole country, was undertaken under the Taxpayer Compliance Project (funded by DFID). However there was no evidence to suggest that this had been done before and whether it has become part of MRA's regular operations.

3.3.2.3 MRA issues Tax Personal Identification Number (TPIN) to every registered taxpayer. There does not appear to be any controls built into the process of issuing TPIN as there is no unique control data (such as birth date). It is therefore possible for an individual to obtain more than one TPIN.

3.3.2.4 VAT by its nature is collected on the basis of self assessment, as the law requires registered business to make regular monthly returns. With regards to income and corporate taxes only few tax entities in Malawi are able to file the appropriate documentation for self assessment. MRA is aiming to achieve implement self assessment for income and corporate taxes, but hampered in its efforts by the level of literacy within small to medium size business (made up of traders and farmers) with poor records. As a result the authority interviews traders and undertake assessments on the basis of its knowledge of similar businesses. Officers also undertake tax investigations and refer cases to the tax audits which have been established for each division to make assessment.

3.3.2.5 MRA reported that they undertake tax audits on the basis of risk assessment, but the authorities could not produce an audit plan to support this. Tax compliance certificate are issued to 'good' tax payers but the business community reported that the certificate do not cause the MRA to treat them any fairer.

3.3.2.6 There are fixed penalties for non-payment of income tax, and VAT. Collection of custom duties does not pose a problem as the law allows the authorities to exercise lien on imported goods. The penalties are sufficiently high to deter non-compliance but it was reported by the private sector that penalties are not always consistently and fairly administered.

3.3.2.7 MRA maintains records of tax fraud and reported that fraud cases were 248 in 2004/05, 218 in 2006; 126 in 2007, and 39 in 2008. In the recent history of MRA the authority has referred 11 cases for legal redress and has obtained only 1 successful prosecution. Most of the cases are settles out of court.

Indicator	Score	Brief Explanation
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**C+**	
(i) Controls in taxpayer registration system	C	Domestic tax administration is supported by 3 systems run independently with no interface to exchange information electronically. There is a common taxpayer identification number (TPIN) but in built controls appear inadequate.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	Penalties exist, but taxpayers can get around them as they considered by the business community to be inconsistently applied and not effective
(iii) Planning and monitoring of tax audit and fraud investigation programs	C	MRA undertakes tax audit and fraud investigations. There was no evidence of a documented audit plan for tax audits. Risk assessment is used, but there was no evidence of clear risk criteria.

3.3.3 Effectiveness in Collection of Tax Payments

3.3.3.1 MRA reported that arrears stood at MK2.75 billion at the beginning of 2005/06 fiscal year and at MK 2.65 billion at the beginning of 2006/07. Against these, they collected MK 1.9 billion and MK 2.32 million respectively during those two years. There are a number of data inconsistencies in the reported figures as it appears that the authority lumps all collected taxes together (making no distinction between arrears and assessments during the year). It also appears that MRA only reports on 'collectable' debts as arrears. At the end of each month all outstanding debt are classified into doubtful, deceased and deferred cases to isolate 'collectable debt'. Deferred cases are mostly debts in disputes and was of the order of MK 282 million at beginning of 2006/07 (about 8.5% of Total Debt).

Table 3. 8 :
Collection Ratio for Gross Tax Arrears in 2005/06 and 2006/07

	Beginning of Fiscal 2005/06 (in billion MK)	Beginning of Fiscal 2006/07
Debtors	2.75	3.3
Collection	1.9	2.32
% Collection	69%	70%
Average for 2 years		70%

3.3.3.2 Banking arrangements have been improved to make reconciliation easier. Under the current arrangement MRA has set up bank accounts at the headquarters of 3 commercial banks into which tax payments are accumulated and transferred to the Reserve Bank on daily basis.

3.3.3.3 Reconciliation is done on monthly basis between the Reserve Bank Account and their own data on collections. Information is also sent to the MoF and the Accountant General's department. MRA reported that the current system has built-in incentives to ensure the accuracy of the reconciliation because their income depends on the amount collected and certified by the Reserve Bank (used to be 2.5% but now 3%). Statistics on tax assessment, collection, arrears are not reported to the MOF, however the Minister may request specific data on ad hoc basis as the need arises.

Indicator	Score	Brief Explanation
PI-15. Effectiveness in collection of tax payments (M1)	**D+**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	C	The average tax ration for the two most recent fiscal years was 70%
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	All tax receipts are paid to 3 commercial banks and transfers are made from their headquarters on daily basis to government accounts held at the Reserve Bank.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	D	Monthly reconciliations are carried out for revenue deposits made into the National and Standard banks by the MRA and the amounts received by into the Consolidated Fund held at RBM by the Ministry of Finance (Revenue Division). MRA have indicated that there is no complete reconciliation of tax assessments, collections and arrears.

3.3.4 Predictability in the Availability of Funds for Commitment of Expenditures

3.3.4.1 The Ministry of Finance issues three-monthly expenditure ceilings referred to as funding proposals and issues budget releases on a monthly basis. These ceilings set the cash withdrawal ceilings within which Line Ministries may incur expenditure. It does so by the instructing the Accountant General to set the commitment ceilings within IFMIS. These allocations therefore serve as the basis for commitment control. All accounts are closed two weeks after the close of the fiscal year; any balances are returned and un-cleared cheques must be re-issued in the new budget year. The IFMIS commitment controls serves as a useful mechanism for controlling virement.

3.3.4.2 The Budget Division is responsible for cash management which is based upon the consideration of revenue forecasts, debt maturity profiles, and pro forma cash flows prepared annually by Line Ministries and updated each quarter. Such considerations though still maintain an ad hoc element to them, since no comprehensive cash flow forecasting framework has yet been implemented. The Reserve Bank of Malawi (RBM) operates a Treasury Single Account that provides fully reconciled daily bank balances for all Line Ministries. Each Department maintains revenue and expenditure accounts in one of Standard or National Bank, both commercial banks with country wide branches, which are linked to the RBM through the Credit Ceiling Authorisation scheme. Under this scheme Departments can only withdraw up to the credit ceilings set by the IFMIS ceilings. The RBM will only reimburse the commercial banks to the levels of the credit ceiling authorizations. In this way the commercial accounts serve as mirror accounts to the RBM departmental accounts and this facilitate the determination of a fully reconciled global cash position on a daily basis.

3.3.4.3 Adjustments to budgetary allocations should be made by normal ex-ante virement procedures; or possibly by issuing a Supplementary Budget, once or so within the year; or alternatively it may occur by ex-post regularisation of unauthorised spending. In Malawi, virements at the level of programme or item must be granted by the Minister of Finance and is controlled by the Office of the Accountant General through the IFMIS system. The Minister is further authorised to make advances from the Consolidated Fund for meeting urgent and unforeseen needs for public expenditure. The amounts advanced must be subsequently standardised by a Supplementary Budget procedure. Apart from emergency expenditures as in the case of drought and floods, all significant in-year adjustments have been addressed through a supplementary budget process usually carried out in December after the mid-year review.

Indicator	Score	Brief Explanation
PI-16 Predictability in the availability of funds for commitment of expenditures (M1)	**B**	
(i) Extent to which cash flows are forecast and monitored	B	Annual cash flows are prepared by the Line Ministries and updated each quarter..
(i) Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	B	MDAs are provided with three-monthly expenditure forecasts (funding proposals) to serve as commitment ceilings. Actual funding releases are done on a monthly basis.
(ii) Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	B	All significant virements must be made subject to the approval of the Ministry of Finance IFMIS ensures a strict application of virement control. Most significant in-year adjustments are done through a supplementary budgetary budget process after a mid-year review even though emergency drought and subsidies stay outside of this arrangement.

3.3.5 Recording and Management of Cash Balances, Debt and Guarantees

3.3.5.1 The Minister of Finance is the sole authority for the contracting of loans, after consultation with the Attorney General and obtaining a legal opinion, and subject to the endorsement of parliament. In the case of external loans it requires the approval of Cabinet after consultation with the Secretary to the Treasury. While not yet evolved into a full debt management strategy, the Government of Malawi put out "Guidelines on External Debt Management in Malawi" that sets out clear guidelines on: the uses of loans; the process of contracting new loans; the level of concessions; and the annual limit of new borrowing, which is set at 183 Million USD. The objective for managing the debt is to keep it sustainable; sustainability being interpreted in accordance with the World Bank Long Term Debts Sustainability Framework. When statutory bodies contract loans that require a Government guarantee, the guarantee must be authorised by the Minister of Finance with prior approval by Cabinet.

3.3.5.2 It should be noted that in spite of the stated strategic objective of limiting borrowing, there remains potential risks that threaten to undermine the debt management strategy. These primarily derive from the possible bail outs by the Government of loss making Public Enterprises (see PI-9).

3.3.5.3 The Debt Management Unit uses the CS-DRMS. Comprehensive records on external debt are compiled and are updated and reconciled on a monthly basis. The server is housed in the Ministry of Finance with a back up server housed in the Reserve Bank of Malawi. The reconciliation is done on the basis of internal consistency checks, comparisons with the Central Bank as well as reconciliation with the bank statements from the lending institutions. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are prepared monthly by the Debt and Aid Department as well as the RBM. In the case of Domestic Debt, under the PRGF arrangements the RBM and the IMF reconcile domestic debt stock on a monthly basis.

3.3.5.4 The Guidelines on External Debt Management in Malawi provides clear guidelines on the management of guarantees but does not set clear ceilings on guarantees.

3.3.5.5 The recording and management of cash balances is carried out by the RBM and reported to the Ministry of Finance. This role provides a critical component both for managing budget to the Line Ministries as well as serving as an important information input to the function of managing borrowings carried out by the Debt and Aid Division within the Ministry of Finance. The Debt and Aid Division monitors all external debt. It reports comprehensively on debt stock levels, debt maturity profiles, and creditor, rate and currency compositions.

3.3.5.6 The payments system utilizes the Consolidated Fund for all payments on Government expenditure (except for grant and loan funded project accounts). This facilitates a monitoring mechanism that reports and reconciles the account on a daily basis. All active project accounts are held in the RBM and withdrawals disbursed through the Credit Ceiling Authorization scheme. Balances are reconciled on a daily basis. While there are some extra-budgetary arrangements used for some donors, these do not qualify for inclusion in the Malawi budget process. These include aid provided by the US and Japan.

Indicator	Score	Brief Explanation
PI-17 Recording and management of cash balances, debt and guarantees	**A**	
(i)Quality of debt recording and reporting	A	Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. Comprehensive statistical reports providing information on debt stocks, debt service and debt management operations are prepared by the Debt and Aid Management quarterly and the RBM on a monthly basis.
(ii) Extent of consolidation of the Government's cash balances	A	The payments system utilizes the Consolidated Fund for all payments on Government expenditure (except for grant and loan funded project accounts). This facilitates a monitoring mechanism that reports and reconciles the account on a daily basis. All active project accounts are held in the RBM and withdrawals disbursed through the Credit Ceiling Authorization scheme. Balances are reconciled on a daily basis.
(iii) Systems for contracting loans and issuance of guarantees	B	The systems for contracting loans and issuing guarantees are bound by transparent procedures set within the legal and regulatory framework. Loan level ceilings may be inferred from the Guidelines on External Debt Management but limits on total guarantees are not articulated.

3.3.6 Effectiveness of Payroll Controls

3.3.6.1 The personnel emolument amounts to approximately 25% of the primary expenditures. There is a total work force of approximately 140,000 public servants in Central Government. Payroll management is centralised with a three tier structure; namely, approved funded posts, personnel rolls, and payroll. The Department Of Human Resource Management and Development (DHRMD) serves as the oversight body responsible for setting the establishment ceilings and for monitoring personnel levels. The department issues each year the Schedule of Established Offices which serves as the first tier of payroll control.

3.3.6.2 Payroll management is based upon an integrated proprietary software application, Global HRMIS and Payroll System. This system was implemented in September of 2006. The software includes signature and photo information along with unique employment numbers and so in principle has a basis for curbing double dippers. The DHRMD has sole data update access to the posts database that it maintains on its server. Therefore ministries and departments, having processed the requisite new hires employment forms must submit these to the DHRMD for entry into the Approved and Funded Posts database. The new hire can only be entered if such a post is available and empty. The Ministries and Departments have no access to this control module. The DHRMD also maintains sole control of all promotions. The transfers and postings are controlled solely by the Accountant General. The Ministries and Departments run their own payrolls with direct control on deletions that may arise due to terminations. There is some question as to how quickly the ministry headquarters receive information on voluntary terminations. Delayed updates would mean that personnel continue to receive payments after they have vacated their posts. This is a particular threat since a substantial number of staff still receive their emoluments in cash; given the restriction sin number of bank branches.

3.3.6.3 The Ministry of Education, which is responsible for about 240,000 employees or approximately 50% of the total number of public personnel, employs a computerised payroll system however it is not based upon a single control personnel database that includes all of the teaching staff in the approximately 15,000 facilities. As reported in a Basic Education Tracking Survey carried out by the World Bank published in December 2006 there are substantial delays and inconsistencies in salary delivery. It points to a common practice of uncertain salary deduction by principals. The report notes that field surveys found that teachers never see their pay stubs and they never know how much they are supposed to receive for a particular month. Officials state that it is unlikely that such delays extend beyond three months, given that the heads of cost centres check and certify the active rolls each month. There have been no comprehensive payroll audits performed since the implementation of the current integrated personnel and payroll system.

3.3.6.4 The Accountant General, in addition to making postings and transfers changes, is responsible for making actual payroll payments. Officials report that ministries prepare their payrolls by the 10th of each month and all postings and transfers are completed by the Accountant General before the 23rd when payrolls are run. The requirement for retroactive changes is only infrequent and almost never extends beyond three months.

3.3.6.5 The Global HRMIS and Payroll system, based on Microsoft Structured Query Language provides an audit trail for all database transactions. The payroll management changes are recorded using standardised personnel input forms which serve as a reference for legitimate database changes reflected in the audit trail.

3.3.6.6 There have been no dedicated payroll audits carried out regularly but the DHRMD perform regular operational inspections of the MDAs' human resource management.

Indicator	Score	Brief Explanation
PI-18 Effectiveness of Payroll Controls	**C+**	
(i)Degree of integration and Reconciliation between personnel Records and payroll data	A	The personnel and payroll databases are directly integrated ensuring data consistency and providing for real time reconciliation.
(ii) Timeliness of changes to Personnel records and the payroll	B	While the changes with respect to new hires and postings are performed on a monthly basis with only occasional requirements for retroactive adjustments, it is not clear that all terminations are updated monthly. In the cases of voluntary terminations officials report such adjustments occur within 3 months.
(iii) Internal controls of changes to personnel records and the payroll	A	The authority to change records in payroll and personnel records is highly restricted directly by software controls and distributed between the DHRMD, the Accountant General and the Line Ministry and results in an audit trail.
(iv)Existence of payroll audits to identify control weaknesses and /or ghost workers.	C	Only partial pay roll audits have been taken by the Internal Audit and NAO in the past three years. In addition the DHRMD undertake personnel inspections.

3.3.7 Competition, Value for Money and Controls in Procurement

3.3.7.1 The Government of Malawi, in 2003, passed a new Procurement Law that introduced a number of modern public procurement management features including the establishment of the Office of Director of Public Procurement (ODPP) as a regulatory body for public procurement. The Act also decentralised procurement activities to procuring entities and introduced procurement units to undertake all procurements within public organisations. The act also introduced Internal Procurement Committees (IPCs) which have been given the responsibility for all decisions on procurement including tender evaluation and vendor selection. The Law allowed for sharing of IPCS where procuring entities undertake low volumes of procurement. The Procurement Law comprises the Procurement Act itself, the Public Procurement Regulations Desk Instructions, and Standard Bidding Documents for works, goods and services (all available at www.odpp.gov.mw) In 2006, the ODPP issued a three year strategic plan with one objective being to accelerate the implementation of the Public Procurement Act.

3.3.7.2 Civil Society including such bodies as the Chamber of Commerce point to continuing difficulties in public procurement such as ineffective competition, lack of transparency in the evaluation and selection processes, and instances of fake competition. Tender evaluations are often not transparent and there is no indication of the evaluation criteria to be used provided on bidding documents. NAO's findings on procurement have also identified a number of weaknesses.

3.3.7.3 The ODPP is required to make a "no objection" endorsement of all procurement with values above 1 Million Kwacha. On the basis of such submissions in the fiscal year 2006/2007 which added up to a total of 38 Billion[15] MK 33% of the Non Salary Expenditure for that year. This represents a sizeable sample, though not necessarily a random sample. Out of this sample 88% was procured using the open tender method. The ODPP is also required to maintain data on public contracts awarded in individual Line Ministries above 3 Million MK in the cases of goods and services and 4.5 Million MK in the case of works. The law establishes the open tender method as the default procurement method, requiring justification for the application of all other methods.

3.3.7.4 The Public Procurement Law provides the justification for less competitive methods. It provides for restricted bidding, competitive bidding, request for quotations as well as direct purchase. It does not however, provide clear and unambiguous guidance on the circumstances or procedures for use of the other methods. For example there is no reference to the exclusion of urgent circumstances that have arisen out of the dilatory conduct of a Procuring Entity. Employing a direct purchasing method justified on the basis of not wasting time would undermine effective competition. There are also instances where the Director of Public Procurement may wave the requirement for Open Tender in the case of a national security threat without providing clear guidelines on what constitutes a national security threat.

[15] Based upon 2006/2007 estimates of Central Government Operations issued by the Division of Economic Affairs, the total expenditure less wages and salaries and interest payments was 113 Billion Kwacha, so the sample size represents 33.5% of ORT and capital expenditure and 53% of non salary and wage primary expenditure. This sample includes procurement under grant and loan funded projects and so does not strictly measure the performance of national systems. As indicated in D3 a very small proportion of grant and loan funded projects adopt national procurement systems. There was no straightforward way to segregate those procurements which were carried out using national systems, and so the data applied here does not necessarily reflect procurement using national procedures.

3.3.7.5 There are complaint mechanisms in place. The complaint mechanism begins with resolution through the Chairman of the IPC. Where, satisfactory resolution is not achieved the complaint may be submitted to the Administrative Review Board. Unresolved complaints may be forwarded to the judicial system. In practice the Administrative Review Board, while independent by way of membership, has not been very effective in addressing complaints. In the fiscal year 2006/2007 only two public procurement complaints were adjudicated, and in the first six months of the 2007/2008 fiscal year, only one has been adjudicated. The data on the resolution of complaints is not yet posted on websites or made accessible to the public in other ways for external scrutiny.

Indicator	Score	Brief Explanation
PI-19: Competition, value for money and controls in procurement (M2)	**<NS>** [16]	
(i) Use of open competition for award of contracts that exceed the nationally established threshold for small purchases	<NS>	Data on public procurement shows that approximately 88% of contracts above the requisite threshold are awarded on the basis of open competition. However, the data sample does not distinguish between procurement under national procurement systems versus others, and so may not be representative of the awards made using national procurement systems.
(ii) Justification for use of less competitive procurement methods	C	The justification for the use of procurement methods other than the open tender method remains weak due to ambiguity arising from emergencies due to dilatory behaviour. There are instances where the Director of Public Procurement may wave the requirement for Open Tender in the case of a national security threat without providing clear guidelines on what constitutes a national security threat.
(iii) Existence and operation of a procurement complaints mechanism	C	A process exits for submitting and addressing complaints, but appears to not yet be fully operational.

Effectiveness of Internal Controls for Non-salary Expenditure

3.3.7.6 The concept of management responsibility for internal control is firmly established and outlined in the Public Financial Management Act. The Controlling Officer's responsibilities are detailed in Section 10 in a way that leaves no doubt about where the responsibilities lie. The section also underlines officers' responsibility for internal control. However, it is unclear how much those rules have permeated the ministries at different levels and thus the application of the rules.

[16] The Office of Director of Public Procurement (ODPP) in their comments wished Dim (ii) and Dim(iii) to be rated A, and B respectfully thereby scoring A for PI-19. Dim(i) was not rated because the government database did not distinguish between the proportion of open competitive public procurement that used national rules and the proportion that was driven by donor rules, thereby resulting in overall 'No-Score'. An NS it indicates that there was a difficulty that when resolved will lead to an improvement of the score in the next assessment.

3.3.7.7 Evidence from Auditor Generals reports and more recently from Internal Audit show that several errors or mistakes are made, indicating either ignorance or lack of applied rules at the operational levels.

3.3.7.8 The latest PAC reports for 2001/2002 and 2002/2003(published 2006 and 2007 pointed out many deficiencies in the application of the Financial Management Act. One concluding observation was that "Most controlling Officers were not conversant with the spirit and expected subsequent application of the Public Finance Management Act, the Public Procurement Act and the Public Audit Act as well as other rules and regulations in the Civil Service, including Treasury Instructions which are issued from time to time". Although the observations are some years old, the subsequent recent hearings indicate that there are still considerable problems.

3.3.7.9 The adoption of an audit committee concept represents a positive development even if implementation is far from completed. A more efficient Internal Audit (see PI-21) together with a new follow-up system for internal and external audit by audit committees might be able to raise the awareness and sensitize managers once the committees are fully operational. The Audit Committees are required to take action on all audit remarks and implement all necessary measures of correction and follow-up.

3.3.7.10 Also, the recently introduced IFMIS system will, as it is configured, substantially increase the quality of transaction processing, commitment control and security of payments. For all entities integrated in IFMIS it is virtually impossible to make an unwarranted commitment or an unauthorised payment, but all MDAs are not yet integrated in IFMIS. There are however vast areas of financial management outside IFMIS.

Indicator	Score	Brief explanation
PI-20: Effectiveness of internal controls for non-salary expenditure (M1)	**C+**	
(i) Effectiveness of expenditure commitment controls	**B**	The recently introduced IFMIS system has substantially increased the quality of transaction processing, commitment control and security of payments. For all entities integrated in IFMIS it is virtually impossible to make an unwarranted commitment or an unauthorised payment.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	**C**	The concept of management responsibility for internal control is firmly established and comprehensively outlined in the Public Financial Management Act. The controlling officers responsibilities are detailed in Section 10 in a way that leaves no doubt about where the responsibilities lies and the section also underlines all officer's responsibility for internal control. However, there are doubts how much those rules have permeated the ministries at different levels.
(iii) Degree of compliance with rules for processing and recording transactions	**C**	Evidence from Internal Audit and Auditor General shows that several errors or mistakes are made, indicating either ignorance or lack of applied rules on the operational level. The new follow-up system for internal and external audit, i.e. Audit Committees, might be able to raise the awareness once they are fully operational.

3.3.8 Effectiveness of Internal Audit

3.3.8.1 The Public Finance Management Act of 2003 (Section 10 p) prescribes that an effective internal audit function is to be developed and maintained. Although the Act thus established an internal audit function, it did not set out specific provisions relating to its functioning, including its charter, reporting arrangements, and relationship with ministerial audit committees. These issues have, however, been dealt with in subsequent provisions made in Treasury Circular No.1 of 2005/06. To comply with this requirement of the Act, the Government has decided to establish Internal Audit Units and Committees in all line ministries. Also, there is a draft proposal on more detailed legislation on Internal Audit waiting for inclusion in the Public Finance Management Act.

3.3.8.2 It appears that the platform has been established for effective Internal Audit arrangements. Ongoing reforms in the Central Internal Audit Unit based in the Ministry of Finance would give the internal audit good conditions for its future work. Major milestones planned are:

- the establishment of internal audit units and audit committees in all ministries;
- the regulation on internal audit(a draft Internal Audit Charter exists but is not yet approved)
- management action on internal audit reports;
- the adoption and implementation of modern internal audit standards for the internal audit;
- the recruitment of additional qualified audit staff.

3.3.8.3 When the new platform, complying with the Institute of Internal Auditors (IIA) standard, has been fully implemented and operational it will be a major achievement. However, it is not yet fully operational for all ministries and so far only 12 Audit Committees have been established. There is also a need for further recruitment and qualified training in order to reach and sustain an overall professional level for the new internal audit organisation. Resourcing Internal Audit seem to be a problem, as logistics such as transport, effectively limits an adequate coverage of government entities with a wide geographical spread.

3.3.8.4 In the most recent annual work plans, (2006/07, 2007/08) compliance audit dominates. Pre-audit does not take place any longer and an increasing part of the audits are containing systemic issues. From the audit reports available it is clear that the audits are directed to assess and verify internal control systems.

3.3.8.5 Audit Reports are distributed to the Controlling Officer in the Ministry, the Treasury, the Central Internal Audit Unit, the Audit Committee for the ministry, and the Auditor General. The Audit committee is the body that should move matters arising from the report further. The Director of the Central Internal Audit issues consolidated reports twice a year made up of a mid-year, and a final annual report.

PI-21. Effectiveness of Internal Audit	C+	Brief Explanation
(i) Coverage and quality of the internal audit function	C	Internal audit units have been created in nearly all ministries and professional international standards (IIA) are being implemented. Systemic issues are being increasingly observed.
(ii) Frequency and distribution of reports	B	Reports are made as the audits are finished. They are distributed to the Controlling Officer in the Ministry, Treasury, the Central Internal Audit Unit, the Audit Committee, and to the Auditor General. The Director of the Central Internal Audit issues consolidated reports twice a year, of which one is the annual report.
(iii) Extent of management response to internal audit findings	C	The Audit committee is the body that should move matters arising from the report further. As most of the Audit committees are not yet operational, actions and responses are still delayed.

3.4 ACCOUNTING, RECORDING AND REPORTING

3.4.1 Timeliness and Regularity of Accounts Reconciliation

3.4.1.1 The RBM maintains the Consolidated Fund as a treasury single account which assigns one revenue and one expenditure account for each Line Ministry. While withdrawals are made through commercial accounts these are operated under the Credit Ceiling Authority scheme which limits how much departments may withdraw and reimburses expenditure from the RBM account. The RBM monitors and reconciles the Consolidated Fund account on a daily basis and so is in a position to determine the current status of bank balances for the entire Government on a next-day basis. The RBM submits bank statements to the Ministry of Finance within 15 days of the close of the month. The Accountant General reconciles the Consolidated Fund account on a monthly basis.

3.4.1.2 While the signatories for grant and loan funded project accounts may not be Government officials, these accounts are managed under a similar scheme using Credit Ceiling Authorities. The placement of all project accounts (reported within the budget) with the RBM facilitates the reconciliation for all central government bank accounts on a monthly basis and within 15 days of the close of the month.

3.4.1.3 The Government of Malawi has taken steps to reduce substantially the need for suspense accounts. It has done so by eliminating all need for advances to cover such items as travel and has adopted a per diem basis for addressing travel costs. The only mechanism for accruing suspense account entries that remain are imprest accounts. These are currently limited to 150,000 Kwacha and are monitored directly through IFMIS and thus reconciled on an on-going basis. These accounts are cleared at the end of each year[17].

[17] In the Malawi system of accounts there are a number of multi-year personnel loans that are labelled as advances. The repayments of these loans, typically over a multi-year period, are managed directly through the proprietary payroll management software – Global Payroll System. However, the label advances is typically applied to temporary transactions and so would be considered inappropriate.

Indicator	Score	Brief Explanation
PI-22 Timeliness and regularity of accounts reconciliation (M2)	**B+**	
(i)Regularity of Bank reconciliations	A	The RBM monitors and reconciles the Consolidated Fund account on a daily basis and so is in a position to determine the current status of bank balances for the entire Government on a next-day basis. The RBM submits bank statements to the Ministry of Finance within 15 days of the close of the month. While the signatories for grant and loan funded project accounts may not be Government officials, these accounts are managed under a similar scheme using Credit Ceiling Authorities. The placement of all project accounts (reported within the budget) with the RBM facilitates the reconciliation for all central government bank accounts on a monthly basis and within 15 days of the close of the month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	Suspense accounts are monitored through IFMIS and reconciled on an on-going basis. The accounts are cleared at the end of each year

3.4.2 Availability of Information on Resources Received by Service Delivery Units

3.4.2.1 A Public Expenditure Tracking Survey is planned for the current fiscal year however no such surveys have been carried out successfully since 2001. The IFMIS tracks disbursements to all cost centres. However, since the devolution of Basic Education and Health to the Local Authorities, the transfers to primary health schools and clinics cannot be tracked through the IFMIS system. The reporting structure for the Local Authorities Budget Estimates issued by the National Local Government Finance Committee does not detail transfers to the cost centres and so cannot be used to determine actual flows to the primary schools and health clinics either.

Indicator	Score	Brief Explanation
PI-23 Availability of information on resources received by service delivery units	**D**	There has been no comprehensive data collection on resources disbursed to service delivery units in the past three years. The current financial reporting systems do not indicate fund flows to the primary schools and primary health care clinics.

3.4.3 Quality and Timeliness of in-year Budget Reports

3.4.3.1 The Budget Implementation reporting system requires the Line Ministries to submit fully reconciled Monthly Budget Execution Returns by the 10th of each month. At the present time the Accountant general prepares and submits all monthly Budget Execution Reports emanating out of the Consolidated Fund to the Budget Division on behalf of the Line Ministries. Officials state that this is a temporary arrangement and as capacity develops with the ministries they shall take on direct responsibility for this task. Officials state that in practice the actual submittals occur well within 10 days of the close of the month. While no logs are maintained, cover letters for the Monthly Expenditure Returns for December 2007 was issued on 4th January 2008 and for January 2008 on February 7th corroborate their statements. The Monthly Expenditure Returns format is fully consistent with the budget format and facilitates expenditure statements by budget head and economic classification. It does not provide any information on commitments (authorised expenditure), however the Accountant General demonstrated a report format for Monthly Expenditure Returns which is currently available on the IFMIS implementation which includes both commitments as well as expenditures but is not requested for by the Budget Division to whom it is submitted. The expenditure reports reflect the same structure as the budget which includes the Part I.

3.4.3.2 The format does not include opening and closing bank balances for the period nor does it include entries on arrears accumulated. While the IFMIS includes an Accounts Payable module this is yet to be implemented. Upon implementation it would be possible to monitor any accruals of arrears.

Indicator	Score	Brief Explanation
PI-24 Quality and Timeliness of in-year budget reports	**C+**	
(i)Scope of reports in terms of coverage and compatibility with budget estimates	C	The Monthly Expenditure Returns allow a direct comparison of budget implementation to the original budget at the budget head level and by economic classification. Only expenditures are covered, not commitments. Information included covers all of the budget estimates items, including Part1 (donor financed projects)
(ii) Timeliness of the issue of reports	A	Reports are prepared through IFMIS by the Accountant General on a monthly and quarterly basis and submitted within 10 days of the close of the month.
(iii) Quality of information	B	There are no material concerns regarding that accuracy. However, given that double entry book keeping is not adopted neither are bank balances reported to ensure reconciliation data accuracy cannot be assured.

3.4.4 Quality and Timeliness of Annual Financial Statements

3.4.4.1 Under the modified cash accounting system the source document for accounting entries is the payment voucher. Entries are dated using the date on the cheque. For cheques issued within 14 days after the close of the fiscal year, as per the end of year procedures these are back dated to June 30th. A single consolidated account held with the RBM is used for making all Government funded payments out of the Treasury. The Accountant General prepares consolidated final accounts annually. Consolidated government accounts are prepared with revenue and expenditure information as well as a table of financial assets and liabilities.

3.4.4.2 The Minister of Finance prepares a single consolidated financial statement for submission to the Cabinet and the NAO. The Public Finance Management Act, 2003 states that the Secretary to the Treasury shall submit the consolidated final accounts to the Auditor General (NAO) no later than October 31st. In practice, as evidenced by the schedule of submittals of financial statements to NAO presented in Table 3.9, the Finance Ministry has submitted the statement for external audit within 7 months of the close of the fiscal year for all of the years considered for this assessment.

Table 3.9
Schedule of Submission of Financial Statements to NAO

	2004/2005	2005/2006	2006/2007
Month Submitted to NAO	August 2005	January 2007	October 2007
Months after close of Fiscal Year	2	7	4

3.4.4.3 The Government of Malawi employs a cash based accounting system and has adopted a The Generally Accepted Accounting Principles (GAAP) for its accounting standards for all public service institutions. Standard and consistent formats have been adopted and are used across all Line Ministries, but the GAAP has not been adapted to specific national accounting standards. It was indicated that Malawi intend to migrate towards a full IPSAS cash standard.

Indicator	Score	Brief Explanation
PI-25 Quality and timeliness of annual financial statements	**C+**	
(i) Completeness of the financial statements	C	The Ministry of Finance prepares consolidated final accounts annually. Consolidated government accounts are prepared with revenue and expenditure information as well as a table of financial assets and liabilities. However, the financial statements do not include any expenditure arrears or tax arrears.
(ii) Timeliness of submission of the Financial statements	A	The last Annual Financial Statement was submitted was submitted 4 months after the fiscal year
(iii)Accounting standards used	C	The GAAP standard is applied for preparing financial statements on consistent basis from one year to the next. The GAAP not adapted to national accounting standards, so there are disclosure of some accounting policies

3.4.5 External Scrutiny and Audit

3.4.5.1 The Malawi Auditor General's role and functions are enshrined in the Constitution of Malawi (section 184 (3)) and is legislated in the Public Audit Act of 2003. The National Audit Office (NAO) is a public Office. The Auditor General is appointed by the President and confirmed by the National Assembly. Concerning the independence of the Auditor General the constitution says (section 184 (7)) "No person or authority may inhibit the Auditor General in the conduct of his or her functions or duties". Furthermore, there are specific regulations (section 184(6)) for when an Auditor General can be removed from Office protecting him from undue removal. Under these provisions though, he can be removed from office by the President without confirmation by the National Assembly which is a weakness in his independence from the executive.

3.4.5.2 The Public Audit Act of 2003 is detailing the duties and powers of the Auditor General and is also prescribing his reporting rights and duties. The Act even contains regulations for the Public Accounts Committee in its role in the accountability chain. The Auditor General's mandate covers the whole of central and local government, as well as parastatals. The latter are in practice not audited by the NAO but by its own auditors. The reports are sent to NAO who can act on them if necessary. The NAO has adopted the INTOSAI Auditing Standards but their implementation has just started. These professional standards have not yet permeated the practices of NAO.

3.4.5.3 The NAO seems in principle to have the key constitutional and legal requisites in place for an effective and independent audit but in practice there are important deficiencies. There is a serious concern regarding the Auditor General's financial independence. NAO is dependent on the approval from the Ministry of Finance for its budget and has to negotiate its budget through the ministry. Also, his staff is part of civil service under the Government. According to the rules of INTOSAI (Lima Declaration and the Auditing Standards), an Auditor General must be independent of the executive and be able to fully control its own resources for a full and professional independent audit of the State budget and everything else within its audit mandate.

3.4.5.4 Another serious concern, also partly reflecting NAO´s insufficient control over its own resources and financial dependence of Government, is lack of professional staff. Of a total recent approved establishment of 397 positions, the NAO is currently functioning with about 200, of which 150 are auditors. The NAO has recently obtained the approval to recruit 134 and has instituted a taskforce to implement it. Even if the office in the past has trained staff with own resources and with donor support, most of those trained have left. NAO has been failing to retain qualified staff because of low salaries. NAO has no independence to recruit its own staff and has to go through the Department of Human resources and the Civil Service Commission.

3.4.5.5 The NAO´s annual audit, in spite of limited staff resources, should in principle cover the whole budget as far as financial audit is concerned. The actual coverage of central Government, according to the Auditor General, is in terms of budget value about 50% annually and when it comes to the local Government even less, at best about 30% of budget value and with a huge backlog. The audit executed is transaction and compliance audit and Performance Audit is still in the waiting. The NAO is trying to increase its coverage by the planned recruitment and introduction of more efficient audit methods, but that capacity building will take time and is ultimately dependent on budget increases for training and other developments.

3.4.5.6 According to the Public Audit Act, the Auditor General is required to report annually, and within 6 months of the end of the fiscal year (December 31), on the audit in relation to that fiscal year. As per the Constitution (Section 184 (2)), the Auditor General shall submit the annual report to the National Assembly, through the minister responsible for Finance. The last Annual Audit Report submitted to the National Assembly was for the fiscal year 2003/2004. Thereafter no report has been submitted since the sudden death of the Auditor General in 2006 left the post vacant and no new Auditor General, who can sign the reports, has yet been appointed, partly due to a political impasse. The report for 2004/2005 is already drafted and the 2005/2006 report is almost finalised and once a new Auditor General is appointed, this specific problem will be solved and the reporting will be resumed. However, even earlier the NAO has been late with is statutory reporting in part depending on late submission of the annual accounts to NAO.

3.4.5.7 Concerning follow-up, NAO is sending reports to ministries in a contradictory process before they are finalised and once they are finalised each ministry get a report and the Treasury Secretary receives all reports. Until now this reporting does not seem to trigger much response before the issues turns up much later in PAC hearings. The NAO is also making some follow up of its audits when it returns to the same audit subject again

3.4.5.8 A new organisation for audit follow-up in the Government has been decided (2006) and started to be implemented by the Government. Audit Committees will be implemented in all ministries, tasked with analysing and acting on all audit reports, both from external audit and internal audit, and also on PAC reports. This new organisation has so far been implemented in 12 ministries but will probably add much structure and substance to the audit follow-up once the Audit Committees are fully functioning. So far the feedback from the Audit Committees has been limited.

Indicator	Score	Brief Explanation
PI-26. Scope, nature and follow-up of external audit	**D+**	
(i) Scope/nature of audit performed (incl. adherence to auditing standards)	**C**	From available information, it seems that the external financial audit of Central Government has a coverage of about 50%. Performance Audit is not yet implemented and International Auditing Standards have just started to be implemented. The Auditor General's full independence when it comes to control over own resources is still missing.
(ii) Timeliness of submission of audit reports to the legislature	**D**	The last Annual Audit Report submitted to the National Assembly was for the fiscal year 2003/2004. Thereafter no report has been submitted since the sudden death of the Auditor General in 2006 left the post vacant. No new Auditor General, who can sign the reports, had yet been appointed at the time for the evaluation. The report for 2004/2005 is already drafted and 2005/2006 report is almost finalised and once a new Auditor General is appointed, this problem will be solved and the reporting will be resumed. However, even earlier the NAO has been late with is statutory reporting depending partly on late submission of the annual accounts to NAO.
(iii) Evidence of follow-up on audit recommendations	**C**	Until now NAO´s reporting does not seem to trigger much response before the issues turns up in PAC hearings. The NAO is doing some follow up of its audits when it returns to the same audit subject again A new organisation for audit follow-up in the Government has been decided (2006) and started to be implemented by the Government. Audit Committees will be implemented in all ministries, tasked with analysing and acting on all audit reports, both from external audit and internal audit, and also on PAC reports. This new organisation has so far been implemented only in 12 ministries but will probably add much structure and substance to the audit follow-up once the Audit Committees are fully functioning. So far the feedback from the Audit Committees has been limited.

3.4.6 Legislative Scrutiny of the Annual Budget Law

3.4.6.1 In principle, in a parliamentary system, the power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget bill. If the legislature does not rigorously examine and debate the bill, that power is not being effectively exercised and could undermine the accountability of the government to the electorate.

3.4.6.2 In Malawi, the rules dealing with the parliament's approval of the annual budget are set out in the Constitution, The Public Finance Management Act and in the Standing Orders of the National Assembly. The Budget and Finance Committee, which is established by the constitution, is the committee in the National Assembly that is especially tasked with the responsibility of overseeing the preparation of the annual budget.

3.4.6.3 The scope of the Parliaments assessment covers the whole budget as it is laid before them. The budget submissions to parliament include 5 separate volumes and attachments: The Budget Statement by the Minister of Finance, The Annual Economic Report, The Draft Estimates of Expenditure, The Financial Statement, Summary revenue estimates for the budget year and the current year, Debt Service Estimates, The Debt Stock listing individual creditors. (See also PI-6).

3.4.6.4 The Budget Documents has to be submitted to the Parliament not later than 1st of April of each year but in practice they go in late May or June. The Standing Orders says that the budget debate shall last for a period of not less than 21 calendar days. after the budget is laid before the Parliament. According to the Chair of Budget and Finance committee, the committee has about 40 days to work with the budget. That might be a recent development as past years' information indicate shorter periods for budget review in line with the constitutional minimum.

3.4.6.5 The budget debate is reported to be lively and vigorous, more so in recent years. The committee has also got some resources, albeit limited, to assist them with the budget scrutiny. Also, some of the members of the Committee have past experiences from within the Government which makes them very familiar with the process and content of the budget. Through informal contacts with the Government the Committee members are able to get advance information before the whole budget is presented which helps them to have an early start with their budget analysis. Also, there are behind the scene discussions and negotiations whereby, Parliament is able to exercise influence on the budget process.

3.4.6.6 When it comes to in-year amendments, there are clear rules for this, spelled out in the Constitution (Section 177), and these rules are normally respected.

Indicator	Score	Brief Explanation
PI-27 Legislative Scrutiny of the Annual Budget Law	**B**	
(i)Scope of the legislature's scrutiny	**B**	The scope of the Parliaments assessment covers the whole budget as it is laid before them.
(ii)Extent to which the legislature's procedures are well-established and respected	**B**	In Malawi, the rules dealing with the parliament's approval of the annual budget are set out in the Constitution, The Public Finance Management Act and in the Standing Orders of the National Assembly. The Budget and Finance Committee, which is established by the constitution, is the committee in the Assembly that is especially tasked with the examination of the annual budget. Also, there are some backroom discussions and negotiations, whereby the Parliament wields influence to facilitate the budget process and bring it to conclusion.
(iii)Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	**B**	The Budget Documents has to be submitted to the Parliament not later than 1st of April of each year. After the budget is laid before the Parliament it has, according to the Chair of Budget and Finance committee, about 40 days to work with the budget. The Standing Orders says that the budget debate shall last for a period of not less than 21 calendar days.
(iv)Rules for in-year Amendments to the budget without Ex-ante approval by the legislature.	**B**	There are clear rules for in-year amendments, spelled out in the Constitution (Section 177), and these rules are normally respected.

3.4.7 Legislative Scrutiny of External Audit Reports

3.4.7.1 The legislature has a key role in the scrutiny of the execution of the approved budget. The effectiveness of this scrutiny however depends on sufficient resources, including adequate time being allocated to review audit reports in a timely manner.

3.4.7.2 In the National Assembly of Malawi, the Public Accounts Committee (PAC) is one of the standing committees. The functions of the Committee are outlined in the Public Audit Act, (Section 18-24) and in the Standing Orders of the Parliament (Section

163). The committee does not only follow up on Auditor Generals reports but has a wide range of possible control functions within state financial management and has also the authority to “pursue any concerns that the committee believes are justified” (Public Audit Act (Section19 (f)).

3.4.7.3 The PAC´s scrutiny begins as the Auditor Generals report is submitted to the committee through the speaker of the Assembly. The latest available report from the PAC, concerning 2002/2003 was submitted in interim form in April 2006 and in complete form June 2007. The Annual Audit Report concerning this report was submitted to the speaker in 2005, which shows a considerable processing time. Examination of the 2003/2004 report, which was submitted in March 2006, was completed on February 15, 2008. The PAC has had a considerable backlog of accounts to examine which they have now almost completed. PAC has not received any new audit reports since the 2003/2004 report. The breakdown in reporting from the NAO, due to the fact that there is no Auditor General, will stall this accountability process in the parliament for an indefinite time.

3.4.7.4 As can be seen from the reports and evidenced by the PAC chair, PAC seems to work meticulously on the Annual Audit reports although the very long time lapsed from the already delayed reports until the recommendations are issued seriously undermines the value and usefulness of its work. It has to be noted however that the PAC also, in line with its broad mandate, is pursuing other investigations and scrutinizing other reports.

3.4.7.5 PAC issues reports with observations and recommendations after scrutinizing the Annual Audit reports. In the Government, the Secretary to Treasury is tasked with the responsibility to follow up on the PAC report by issuing Treasury minutes to all Ministries, which has only happened once. With a time span of several years from the NAO observations until scrutinizing in PAC and then followed up by Treasury measures, the follow-ups have not been effective.

Indicator	Score	Brief Explanation
PI-28. Legislative scrutiny of external audit reports (M1)	**D+**	
(i) Timeliness of examination of audit reports by legislature (for reports received with the last three years)	**D**	The PAC is currently working on the Annual Audit report from 2003/2004. The breakdown in reporting from the NAO, due to the fact that there is no Auditor General, will stall this accountability process in the parliament for an indefinite time. The very long time lapse from the already delayed audit reports until the recommendations are issued seriously undermines the value and usefulness of its work
(ii) Extent of hearings on key findings undertaken by legislature	**A**	According to evidence, hearings take place, and involve all Ministries. However, judging on the aging of the information being discussed, its overall usefulness becomes questionable.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	**C**	PAC is issuing reports with observations and recommendations after its scrutinizing of the Annual Audit reports. In the Government the Secretary to Treasury is tasked with the responsibility to follow up on the PAC report by issuing a Treasury minute to all Ministries, which has only happened once. With a time span of several years from the NAO observations until scrutinizing in PAC and the following Treasury measures, the follow-up has not been effective.

3.5 DONOR PRACTICES

3.5.1 Predictability of Direct Budget Support

3.5.1.1 Information on direct Budget support is not available for the time before 2005/2006. According to the Debt and Aid Division in the Ministry of Finance earlier data are not reliable or complete. That means the scoring is based only on two years, not three as requested by PEFA. There were four donors giving Direct Budget support 2005/2006 and 2006/2007: EU, World Bank, DFID and Norway. For 2005/2006 there was a total variance of 40%. For 2006/2007 the predictability of budget support has actually become stronger. The timing of disbursements was not as projected, but in two cases (DFID and Norway) this related in part to Government. Also the positive variance for EU was the result of Malawi receiving Flex funding. Disregarding this additional funding, the EU was slightly short of the projection but this was not a case of unpredictability as Government failed to meet an indicator for full funding access. The World Bank's under-disbursement could also partly be explained by circumstances rather than not adhering to their projections. The variance for this year should be 15%. Predictability of budget support has improved and is better than for project support. Strictly following the PEFA methodology, the dimension is not scored as we have only used two complete years. The trend shows that it is the situation is moving to a strong predictability.

3.5.1.2 The dimension for in-year timeliness can not be assessed for the last three years. Information is lacking or is incomplete for 2004/2005 and 2005/2006. For 2006/2007, no delays or the delays are insignificant; no delays more than one quarter, except the World Bank but there are special circumstances to explain that. However no scoring could be done.

3.5.2 Financial information provided by Donors for Budgeting and Reporting on Project and Program Aid

3.5.2.1 For 2006/2007 eight out of fifteen development partners met all of Government of Malawi requirements for provision of data to the Ministry of Finance. However the remainder failed to meet at least one of the requirements. These requirements are not only submission of data but also completeness of data. There have been improvements of data but up to the last full fiscal year there are still some incompleteness concerning timeliness, quality of data and projections. Some donors fail to provide projections in time for budgeting activities and they are not all consistent with Government budget classification. Even when projections are provided, they could be inaccurate. For project support only three development partners disbursed funds to within 10% of the projections they provided to the Government. This is, however, not always solely due to poor donor projections; in some cases Government failed to provide counterpart funding or meet other project requirements, slowing the implementation.

3.5.2.2 Donors have provided quarterly reports but are now required to report monthly, as a consequence of IMF´s requirement on Government reporting.

3.5.3 Proportion of aid that is managed by use of national procedures

3.5.3.1 The information from the Ministry of Finance shows, according to figures compiled by Debt and Aid Department, that the development partners administer about 66% of their support through Government systems. However, the current criteria for whether support is on budget or not requires revision as there are some inconsistencies in the use of the criteria. This revision would likely adjust the figure considerably downwards although no one will try to do an estimate.

Indicator	Score	Brief Explanation
D-1 Predictability of Direct Budget Support	**<NS>**	**No overall score Is given as (i) and (ii) could not be scored**
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	**<NS>**	The scoring is based only on the two years, 2005/2006 and 2006/2007 where reliable data was available. For 2006/2007 the predictability of budget support has actually been stronger and predictability has improved considerably. No scoring is done on this dimension.
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates	**<NS>**	Information is lacking or is incomplete for 2004/2005 and 2005/2006. For 2006/2007 information is complete and delays are insignificant.
D-2 Financial information provided by donors for budgeting and reporting on project and program aid (M1)	**C**	
(i) Completeness and timeliness of budget estimates by donors for project support.	C	For 2006/2007 eight out of fifteen development partners met all of Government of Malawi requirements for provision of data. However the remainder failed to meet at least one of the requirements. These requirements are not only submission of data but also completeness of data and consistency with Government budget classification..
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	C	Donors has provided quarterly reports but is now required to report monthly, as a consequence of IMF´s requirement on Government reporting.
D-3 Proportion of aid that is managed by use of national procedures	**C**	
(i) Overall proportion of aid funds to central government that are managed through national procedures.	C	The development partners administer about 66% of their support through Government systems according to figures compiled by Debt and Aid Department. The figure is likely to be too high depending on inconsistent criteria.

4. GOVERNMENT REFORM PROCESS

4.1 GENERAL DESCRIPTION OF RECENT AND ON-GOING REFORMS

4.1.1.1 Dating back to the mid-1990s Malawi embarked on a variety of initiatives to improve public expenditure outcomes, most notably was the attempted introduction of the Medium Term Expenditure Framework. While progress was made in certain areas, the reforms had only a limited impact and after few years its effects begun to wane. Subsequent reforms have attempted to restore macro-stability, strengthen incentives to improve the budget process, improve intra-sectoral allocations such as education, health, agriculture and roads, and improve the monitoring and restructuring of pensions and parastatals. Furthermore, around 2000/01, there was a surge in domestic and donor pressures to improve governance that found expression in strengthening the Anti-Corruption Bureau, Office of Ombudsman, Law Commission, Auditor-General's office and the Judiciary by increasing their funding. In 200/01 the combined budgetary allocation of these bodies was about .2 percent of GDP.

4.1.1.2 With the coming of the new government in 2004, attempts were made to institute comprehensive measures of reforms that were translated into the Malawi Financial Accountability Action Plan (MFAAP) that was approved by Cabinet. A technical committee in the Ministry of Finance was established to oversee the reforms under the chairmanship of the Accountant General as an acknowledgement of the central place of IFMIS in the public financial management reforms. However at different times, leadership responsibilities were assigned to either the Accountant General or the Permanent Secretary of Administration in the Ministry of Finance.

4.1.1.3 More recent PFEM reform activities have centred on planning, budgeting, accounting, procurement, auditing, monitoring and accountability. The Action Plan was prioritised to a list made of 33 activities which drew on lessons learnt from the PEFA 2006 studies. A forum of government and donors through the Group of Finance and Economic Management (GFEM) was also established to update reform plans and prioritise activities.

4.1.1.4 In October 2007 a review of the activities under the priority list indicated that 9 were completed, 12 under implementation, 8 nearly completed and 3 yet to be undertaken.

4.1.1.5 Three main aspects appear to characterise the recent PFEM reforms:

- Government and donors in the process of working out a sector wide approach (SWAp) to support the reforms
- There has been uncertain leadership, and that is being addressed by assigning the role to the Secretary of Treasury to be supported by the Permanent Secretary of Administration
- There is a recognition that attempts should be made to go beyond the present PFEM action plan to a more programmatic approach.

4.2 INSTITUTIONAL FACTORS AFFECTING REFORM PLANNING AND IMPLEMENTATION

4.2.1.1 The 2006 Public Expenditure Review (PER) identified the need to design the type of reforms that would strengthen the budget process and payroll management. These two areas were recognised to remain at the centre of the reforms agenda. The current PFEM Action Plan[18] outlined a programme of work covering:

A. Planning:

System and models for national and sector planning

Coordination of planning process

B. Resourcing the National Development Strategies:

Effective Revenue mobilisation

Strategic approach toward resource allocations:

C. Budgeting and Financial Management:

Efficiency of budget preparation

Accounting and Finance Procedures

D. Monitoring systems for Management decision making

Strengthen internal controls and accounts reporting requirements

Baseline parameters and data sourcing

E. Reliable Reporting system

Reporting for accountability and control

F. Directing Improved Proficiency in Public Finance and Economic Management

Steering the PFEM process

Coordinating with the Malawi Growth and Development Strategy

4.2.1.2 The programme of work covers the period of 2006- June 2009. The success of the reforms depends on institutional factors such as:

- Government Ownership
- The continuity of reform leadership
- Sustainability of reforms
- Capacity constraints
- What activities to include- Comprehensiveness vrs priority
- Sequencing of activities and realism in setting target dates for achieving results (as individual ministries set their own target dates)
- Stakeholder Involvement and External Scrutiny
- Coordination of donor support

4.2.1.3 Government Ownership and Leadership of the Reform Programme: The financial management reform programme is anchored on the government's broader policy priority of the MGDS that has strong ownership and support at the political level due to its participatory and consultative preparation. Other institutional arrangements for implementing the programme cut across government and the MOF. The preparation of the PFEM Action Plan has been led by the MOF to ensure that component managers own what is being implemented.

4.2.1.4 Partnership Arrangements: The CABs represent a number of development partners that have come together to support the PFEM programme through a common

[18] There have been various updates of the Action Plan, the previous one was done in Nov 2007

framework by aligning behind the government strategy. The GFEM provide a forum for better coordination between the government and the development partners, the framework will improve the effectiveness of external support and strengthen local ownership of the reform process.

4.2.1.5 Sustainability of reforms: Sustainability has been identified within the MoF to be a critical factor because of frequent changes in officials at all levels within government. Experiences from previous attempts showed that reforms are undermined as priorities change with changing personnel.

4.2.1.6 Reform Implementation Capacity: The capacity to implement reforms is critical to success. To build local capacity, the PFEM programme is being implemented from a PFEM Secretariat within existing government structures as opposed to previous approaches that relied on project implementation units. The challenge however will be retention of the capacity that is built. This would require policy steps to mitigate against high staff turn-over throughout the public service.

4.2.1.7 Sequencing and Prioritization: A holistic integrated comprehensive approach has been adopted in the design of the PFEM programme. This will provide an opportunity for significant improvements in public expenditure management, allowing for a coordinated approach that ensures different components within the programme are complementary. The integrated approach provides a mechanism for managing effectively the sequencing and synchronization required for implementing the different activities of the programme.

4.2.1.8 What activities to include in the programme to achieve desired reform output/outcome: The current PFEM Action plan as a comprehensive programme of work covers many areas. This makes the reform process complicated in the sense of ensuring that identified activities are sufficient to achieve an output/ outcome. The PFEM Secretariat have identified that there a need to avoid ad hoc action plan, and to build a consistent programme of reforms

4.2.1.9 Stakeholder Involvement and External Scrutiny: To build demand driven accountability mechanism, the preparation of the MGDS and the reform strategy was participatory and inclusive of major stakeholders within and without government. This has ensured inbuilt tracking mechanisms by various stakeholders and a demand driven accountability framework. As with any public effort parliament and civil society will play an important oversight role on behalf of the people. The impact of political developments in Malawi is a critical determinant of the pace of PFEM reforms.

4.2.1.10 Continuing Donor Support and the coordination of efforts: Malawi's development partners have been supportive of the reform process in terms of provision of funds and technical assistance. The continuing support of donors is a critical factor in the PFEM reforms.

APPENDIX 1: TERMS OF REFERENCE

LOT No. 11
REQUEST No. 2007/147114

SPECIFIC TERMS OF REFERENCE

PUBLIC FINANCE MANAGEMENT ASSESSMENT FOR MALAWI BASED ON THE PUBLIC EXPENDITURE FINANCIAL ACCOUNTABILITY FRAMEWORK (PEFA)

1. BACKGROUND

Common Approach to Budget Support (CABS) donors (currently composed of DFID, EC AfDB and Norway, with UNDP, World Bank, IMF and Germany as observers) are providing budgetary support to Malawi. This support largely depends on the status of public finance management reforms. A June 2005 PEFA based Public Finance Management Assessment for Malawi revealed that the new government, which came into power in May 2004, inherited an economy in fiscal crisis with high interest payments on domestic debt and significant level of arrears throughout Government. Since then, the new government has shown political commitment to reverse the trend as evidenced by some positive developments in areas of transparency and accountability in the management of public resources.

In addition, the GoM successfully completed the IMF Staff Monitored Programme (in June 2005) and signed a new three-year Poverty Reduction and Growth Facility (in August 2005). During 2006, the IMF completed the second quarterly review of the on-going three year PRGF programme signed in August 2005. The GoM met most of the economic targets, and consequently, the EC continued to disburse funds under the Poverty Reduction Budgetary Support (PRBS 1- €41.5 million). In order to provide continuity of budget support, a new programme for €34 million (PRBS II) was signed in the last quarter of 2006 to cover fiscal years 2006/07 and 2007/08. Currently, €12.25 million has been disbursed under PRBS II, following the successful completion of IMF-PRGF arrangement third review and positive reviews conducted by the Common Approach to Budget Support donors based on the Performance Assessment Framework (PAF) by the end of first half of 2007. Budget support has been instrumental in helping the country to achieve the HIPC Completion point at the end of August 2006.

The 2006 PEFA based Public Finance Management Assessment for Malawi revealed that some improvements have been made by the new government in the exercising of fiscal discipline, linked with reductions in the levels of interest payable on domestic debt and the payment of some outstanding government arrears. A decrease in the level of political interference in government processes also seems to have occurred. Some aspects of the PFM process have also improved as a result of the recent implementation of the Integrated Financial Management Information System (IFMIS), in the collection of information on donor funding and the integration of donor-funded projects into the GoM's own budgeting systems and some PEFA indicators shown improvement since the 2005 review. However, concerns remain over weak parliamentary oversight, the lack of linkage between the Government's Strategic Plan (Malawi Growth and Development Strategy) and the financial planning and budgeting systems, the complexity of budget documents, delays in the publication of Audit reports and follow-up of audit recommendations, and concerns over continuing weaknesses identified within the GoM's internal control systems.

The challenge for the GoM is now to translate the existing achievements into long term and sustainable systems with appropriate internal and external checks and balances. These systems will restore all stakeholders' confidence; and facilitate and promote effective and efficient service delivery by Government. Requested by the Government, the independent PEFA assessment proposed under this assignment will assist Government in setting a clear list of PFM priorities according to an internationally agreed upon methodology.

2. DESCRIPTION OF THE ASSIGNMENT

➢ **Global objective**

The main objective of the current assessment is to take stock of the progress made in the PFM reform process since the previous exercise (May-June 2006) and assist Government in determining its most urgent PFM priorities, which should help Government to prioritize and take forward the PFEM Action Plan. The assessment results will assist the Common Approach to Budget Support donors in making an informed decision on its support to Malawi through budgetary support and technical assistance to PFM issues.

➢ **Specific objective(s)**

The specific objective of the assignment is to provide an update of the qualitative and quantitative assessment of the below listed PEFA indicators while providing an independent analysis presenting the reasons for success or failure in achieving the indicators, including identifying any reasons that are within and/or beyond Government control. The opinion of the experts will be evidence based and provided with justifications. Experts will strictly adhere to the PEFA Performance Measurement Framework and are required to apply the Framework guidance contained in the Framework annexes 1 and 2.

The PEFA indicators are as follows:

A. PFM –Out-turns: Credibility of the budget

1. Aggregate expenditure out-turn compared to original approved budget.
2. Composition of expenditure out-turn compared to original approved budget
3. Aggregate revenue out-turn compared to original approved budget.
4. Stock and monitoring of expenditure payment arrears

B. Key Cross-cutting Issues: Comprehensiveness and Transparency

5. Classification of the budget
6. Comprehensiveness of information included in budget documentation
7. Extent of unreported government operations
8. Transparency of inter-government fiscal relations
9. Oversight of aggregate fiscal risk from other public sector entities
10. Public access to key fiscal information.

C. Budget Cycle

(i) Policy Based Budgeting

11. Orderliness and participation in the annual budget process
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

(ii) Predictability and Control in Budget Execution

13. Transparency of taxpayer obligations and liabilities
14. Effectiveness of measures for taxpayer registration and tax assessment
15. Effectiveness in collection of tax payments
16. Predictability in the availability of funds for commitment of expenditures

17. Recording and management of cash balances, debt and guarantees
18. Effectiveness of payroll controls
19. Competition, value for money and controls in procurement
20. Effectiveness of internal controls for non-salary expenditure
21. Effectiveness of internal audit

(iii) Accounting, Recording and Reporting
22. Timeliness and regularity of accounts reconciliation
23. Availability of information on resources received by service delivery units
24. Quality and timeliness of in-year budget reports
25. Quality and timeliness of annual financial statements

(iv) External Scrutiny and Audit
26. Scope, nature and follow-up of external audit
27. Legislative scrutiny of the annual budget law
28. Legislative scrutiny of external audit reports

D. Donor Practices
29. Predictability of Direct Budget Support
30. Financial information provided by donors for budgeting and reporting on project and program aid
31. Proportion of aid that is managed by use of national procedures

Sources of information for the scoring and means for collecting information and evidence will be critical to the work of the experts. The experts are expected to highlight information gaps rather than attempt to give a score where data is substantively incomplete. Any deviation from the Framework must be exceptional, well justified and in any case approved by the Ministry of Finance and the EC Delegation (representing the CABS) in advance.

➢ **Requested services, including suggested methodology**

The work of the experts will be to assess progress on public finance management reforms in line with the PEFA based performance assessment framework. The experts are expected to come up with reliable and well-documented statistics and information on all the indicators within a specified timeframe. This will require working very closely with the Ministry of Finance, the Accountant General's Department, the Ministry of Economic Planning and Development, the Internal Auditor, the National Audit Office and other public institutions as necessary, as well as with all development partners that are currently involved in budgetary support and public finance management reform issues. These include EC, Norway, Sweden, DFID, GTZ, UNDP, the World Bank, the AfDB, USAid and the IMF. In addition, CABS members may be associated to some of technical meeting led by the experts.

3. EXPERTS PROFILE

➢ **Number of requested experts per category and number of days per expert**

The exercise requires services of three experts. It is expected that the total input of the experts will be **79** working days, divided as follows:

Proposed work programme:

Project Phase	Item	Time Frame
Travel days (international)	- One way/return	2 days
Field phase (in country)- *(1 Team Leader and 2 Category II experts)*	- In country mission preparation Working days - Briefing - Literature review - Inception report - Consultation with stakeholders and beneficiaries - Preparation of draft final report - Debriefing session	5 working days (team leader only) 20 days each
Report finalisation *(Team Leader and supporting experts)*	- Integration of comments into the final report - Submission of the Final Report to the Client	4 day team leader 2 days each for support experts
Total working days		31 days (Team Leader) 48 days (2 support experts)

In summary, the team Leader will have a workload of (2+5+20+4=) **31** working days (25 in country) while the Supporting Experts will work (2+20+2=) **24** working days (20 in country), for each expert.

➢ **Profile required (education, experience, references and category as appropriate)**

This is an exercise which calls for **3 PFM Specialists** (1 category I expert as Team Leader and 2 Category II as Supporting Experts) with the following qualifications and attributes:

The category I Team Leader Expert shall have:
1. A Masters Degree level of qualification in Economics or Development studies relating to Public Finance
2. At least 15 years of solid experience and expertise in public finance management of which 8 years of experience in analysis and/or audit of PFM in Sub Saharan Africa or Southern Africa.
3. Demonstrated experience in the PFM assessment using the PEFA methodology.
4. Excellent command of the language used during the assessment and in the report.

The category II Support Experts (2) shall have:
1. Masters Degree level of qualification in Economics or Development studies relating to Public Finance
2. At least 10 years of solid work experience of which 5 years expertise in public finance management.
3. Demonstrated knowledge and experience in analysing PFM using the PEFA methodology.
4. At least one expert should have good knowledge of the specific budget and PFM situation in Malawi.

Collectively, the team will have experience which is complementary to ensure enough coverage of analysis of areas included in the PEFA such as budget process, planning, preparation and execution, public accounting, supreme audit institution functioning, legislative scrutiny etc

Category I PFM Specialist will be the Team Leader. S/He will coordinate the finalisation of the report and ensure communication with the Ministry of Finance and the EC Delegation.

- **Working language(s)**

The experts are expected to be fluent in written and spoken English.

4. LOCATION AND DURATION

- **Starting period**

Performance should start no later than 15 days after the signature of the contract.

- **Foreseen finishing period or duration**

The overall period of the services is expected to be about 10 weeks, with 5 weeks in country, 4 weeks for comments by Ministry of Finance and the CABS (consolidated by EC Delegation) and 1 week for the integration of the comments in the final report by the experts.

- **Planning**

The experts will work closely with all relevant government ministries and departments as well as with the CABS Group and other financial institutions in Malawi (IMF). The Ministry of Finance will appoint a liaison officer to facilitate the work of the experts and will assist the team with the planning of the mission, preparation of the meeting, interviews, briefing, debriefing as well as with the collection of necessary data and information. The EC Delegation will appoint a liaison officer to facilitate the interactions between the experts and the CABS Group.

The experts are expected to carry out the following activities:

(i) Attend a briefing session arranged by the Ministry of Finance and the EC Delegation on the behalf of the CABS group.
(ii) Conduct a presentation session on the PEFA methodology for all stakeholders (GoM officials, development partners, members of Public Accounts Committee and Budget and Finance Committee of Parliament, and Civil Society etc.) that will include information on the background, scope and coverage of the PEFA Framework, methodology and details of the indicators. MoF and the EC Delegation will assist with the arrangements.
(iii) Get acquainted with the overall PFM situation through review of latest studies, analytical works conducted in Malawi such as: 2005 PEFA Assessment by ECORYS, 2006 PEFA Assessment by ACE, IMF Board papers, SIDA Public Finance Management Reform (2005), CABS Aide Memoire(s), PER etc.
(iv) Elaborate the methodology to be used during the assignment and the format of the final report (inception report).
(v) Prepare a schedule of meetings to be held with relevant stakeholders. A copy of the document is to be provided on a regular to Ministry of Finance and the EC Delegation in order to allow for the participation of CABS member to a certain number of meetings, as deemed necessary by CABS members.

(vi) Maintain contact with PEFA Secretariat in order to ensure correct use of the PEFA methodology.
(vii) Meet with all relevant stakeholders (ministries, departments, etc) eventually with CABS members.
(viii) Produce a draft final report.
(ix) Conduct a debriefing session with the Ministry of Finance, relevant line ministries, CABS and other interested development partners, members of Public Accounts Committee and Budget and Finance Committee of Parliament, and some Civil Society.
(x) Produce a final report within 1 week after receiving comments from the Ministry of Finance and EC Delegation (on the behalf of CABS). Comments will be provided within 30 days of the submission of the draft final report.

- **Location(s) of assignment**

Lilongwe, Malawi.

5. REPORTING

- **Content**

Report content and format will be elaborated jointly by the experts, the Ministry of Finance and the EC Delegation, on the behalf of the CABS group, prior to the submission of the inception report.

The report will be of a maximum of 35 pages (+annexes). It will include an executive summary of 4 pages maximum; a section 1 covering objectives, methodology, PFM measurement framework; a section 2 covering country background in brief; a section 3 on credibility of the budget; a section 4 on comprehensiveness and transparency; a section 5 on policy based budgeting; a section 6 on predictability and control in budget execution; a section 7 on accounting, reporting and recording; a section 8 on external oversight and legislative scrutiny, a section 9 on donor practices.

Annex 1 to the report will include a summary table of the Performance Management Framework indictors: the table will list all PEFA indicators with respective scores, justifications and evidences for the scores, recent evolution and requirements for sustainable change.

In addition, the experts will annex to the final report an Annex 2 presenting the comments provided by Ministry of Finance, an annex 3 presenting the comments provided by the CABS Group and an Annex 4 with the answers provided by the experts to the series of comments received.

Experts will add as many annexes as deemed necessary.

- **Language**

All reports will be in English.

- **Submission/comments timing**

The following outputs are expected from the assignment:

1. An inception report expressing the experts understanding of the assignment and schedule of activities, within five days of commencement of the project
2. An 'aide mémoire' (10 pages maximum excluding annexes) indicating the main findings and reflections which will be developed in the draft report submitted to the Ministry of Finance and the EC Delegation **2 days** prior to the debriefing session with

the Ministry of Finance, the EC Delegation, CABS group and other relevant stakeholders.

3. A draft 'final report' submitted to the Ministry of Finance and the EC delegation within one week after the end of the mission on the spot.
4. A 'final report' (five hard and bound copies and an electronic version of the report) not later than one week after reception of comments from Ministry of Finance and the EC Delegation (on the behalf of the CABS Group). The Ministry of Finance and the EC Delegation will have 30 days to provide comments after the submission of the draft final report.

The draft 'final report' will be subject of an external validation: the draft report will be communicated to the CABS members and to the PEFA Secretariat for comment on the way in which the PEFA Framework has been applied (e.g. correct use of the methodology, adequacy of documented evidence for scoring the indicators). This will take place within the 30 days period for comments by the Ministry of Finance and the EC Delegation.

6. **ADMINISTRATIVE INFORMATION**

- **Management Arrangements**

The experts will report to the Ministry of Finance and to the EC Delegation, representing the CABS Group. The MoF and the EC Delegation, on behalf of the CABS, will comment and approve the final report. The Ministry of Finance, as the Contracting Authority, will act as Supervisor.

- **Equipments**

The contractor is required to ensure that all experts are equipped with own computers (laptops) and telephones at the contractor's cost.

- **Tax and VAT Arrangements**

In general the contract will be free from taxes and duties in Malawi, except for goods and services, purchased by the Consultant on the local market, on which taxes and duties have already been levied.

- **Fees, per diems and working hours**

The duration of the assignment is defined as the "total engagement including holidays and weekends". Fees will be paid for the working days (on which a service is provided). Per diems will be paid for the duration of the stay in the beneficiary country (excluding any leave days) at the rate applicable at the time of request (see Europe Aid website).

Days taken as annual leave are not considered as working days. The expert may wish to take leave during the assignment (as agreed with the Head of NAO Support Unit) or reduce the length of assignment by foregoing the leave entitlement.

The working hours (article 21 of the General Conditions) are fixed on the basis of local laws and the requirements of the service. Working hours will be 7:30 - 17:00 (normal ministry hours), but will depend on local activities and demands.

National Travel: Intra-city travel is included in per diems and cannot be paid twice. Inter-city travel in Malawi will be reimbursed based on the presentation of invoices for car hire and fuel as well as proof of payments.

International Travel: International travel to the place of mission and back is considered to start at the closest station/airport to the expert's residence and to end at the airport of destination.

Office rental, office supplies, communications, printing and copying of reports under the contract are covered in the fees and may not be recovered again in the reimbursables.

These points are covered on the Europe Aid website dealing with framework contracts including instructions for completing the offer for services:
http://europa.eu.int/comm/europeaid/tender/cadre05/index_en.htm

APPENDIX 2: LIST OF STAKEHOLDERS INTERVIEWED

Name	Position
RESERVE BANK OF MALAWI	
Joseph Symon	Senior Analyst – Exchange Control & Debt Management
Peter Ziwa	Supervisor, Accounts Monitoring and Processing
Lenia Banda	Director, Banking & Payment Systems
Mercy Kimbatira	Manager, Banking
Meg Kayiyanike	Director Exchange Control & Debt Management
Eric Hanjahanja	Senior Economist, Research & Statistics
MALAWI REVENUE AUTHORITY	
Steven Kapoloma	Manager, Public Relations and Taxpayer Education
David Loga	Deputy Director of Finance
Crosby M. Phiri	Deputy Commissioner Audit
F.E. Mzungu	Commissioner Customs
MJM Phiri	Commissioner General
MINISTRY OF FINANCE	
Keith Hammond	Treasury – Revenue
Perks Ligoya	Director of Economic Affairs
Naomi Ngwira	Director of Debt & Aid
Dorothy Banda	Director of Budget
Saulos Nyirenda	Deputy Director, Economic Affairs
Nwazi T. Mntambala	Deputy Accountant General
Andue Tench	Adviser PFEM
Chipo Msowoya	Principal Economist
J.C.K. Mhango	Deputy Director
A.M.J. Chirwa	Assistant Director
R.A Kampanje	Accountant General
Auzius Kazombwu	Principal Accountant
N. Mnthambala	Deputy Accountant General
B.Y.M. Ganga	Chief Accountant
G.N. Banda	Chief Accountant
R.J. Chirupani	Chief Accountant
V. Malewa	Chief System Analyst
J. Njanji	Assistant Accountant General
Mr. Chamdimba	Assistant Accountant General
Mrs. E.M. Kamba	Principal Accountant
Mercy S. Kulima	Procurement Officer
Asma Zubiri	Procurement and Planning Officer
Augustine Kamlongera	Director of Education Planning
Saidi Kaluwa	Senior Financial Management Specialist
Gerald A. Kachepa	Director of Finance

Edward Kataika	Deputy Director of Planning
Madalo Nyambozi	Principal Budget Officer
William Lapukeni	Principal Procurement Officer
Z.D. Chikhosi	Director of Finance & Administration

PERMU

Chifundo Kapulula	Principal Financial Analyst
Phileas Chienda	Acting Director

NAO

L.D Gomani	Deputy Auditor General

INTERNAL AUDIT

Mr Hassan	Director of Central Internal Audit

APPENDIX 3: DOCUMENTS RECEIVED FOR ASSESSMENT OF THE PFM IN MALAWI

General

Constitution of the Republic of Malawi

Budget Documents:

- Annual Economic Reports, 2007, 2006
- 2007/2008 Budget highlights
- Budget document 2 (Annual Economic report)2004, 2005, 2006, 2007
- Budget Document 3, Approved Financial Statement for 2006/2007 Fiscal Year
- Budget document 4 (Draft estimates of expenditure on recurrent and Captial Budget, volume 1 and 2, volume 4)
    - 2004/2005, Output based Approved Estimates
    - 2006/2007, Detailed estimates for Assemblies (Vol XII)
    - 2006/2007, Detailed estimates, (Vol I; II; VIII; Vol X; Vol XI,)
- Budget Document 5 (approved estimates of recurrent and capital budget for the)Financial Year 2005/2006
    - 2004/2005 (Vol I; Vol II, Combined, Approved and Detailed estimates)
    - 2005/2006 (Vol I; Vol II; Vol III; Vol IV, Combined, approved and detailed estimates)
    - 2005/2006 (Detailed estimates, Assemblies)
    - 2006/2007 Draft estimates of Expenditure on recurrent and Capital budget (Output based)
    - 2007/2008 (Vol I; Vol II; Vol III; Vol IV, Combined, approved and detailed estimates)
    - 2007/2008 (Detailed estimates, Assemblies)
    - 2007/2008 Draft estimates of Expenditure on recurrent and Capital budget (Output based)
- Mid-year review of the 2006 – 2007 budget
- Malawi Public Expenditure Review 2006
- Public sector investment programme, 2007/2008 – 2011/12
- Budget
- Malawi Growth and Development Strategy

Accounting and Reporting:

- Consolidated annual Appropriation Accounts for the financial year ended 30th June, 2004, 2005, 2006
- Public Finance Management Act, 2003

Human Resource Management

- Schedule of Established offices With Effect from 1st July 2007- Management Services division of Department of Human Resources Management and Development (DHRMD)
- User Manual – Global HRMIS

Debt Management:

- Report on Public Debt Sustainability and new financing analysis in Malawi
- Annual Debt and Aid report. October 2007, Ministry of Finance

- Guidelines on external debt management in Malawi. October 2007, Ministry of Finance
- Report and Accounts 2006 - Reserve Bank of Malawi

Local Government:

- National Local Government Finance committee, 2007/2008 Local Authorities, Constituency Development fund, financial returns
- Local Authorities Budget estimates, 2006/2007 Revised and 2007/2008
- Malawi decentralisation policy
- Local Government Act, 1998

Revenue:

- Report of the results of the 2007 Malawi Business Climate Survey. Malawi Confederation of Chambers of Commerce and Industry
- MRA Taxpayers Educational Materials
    - Tax Rates 2007/2008
    - MRA Profile
    - Facts about VAT
    - Exempt and Zero-rated Supplies
    - Withholding Tax
    - Dangers of Smuggling
    - Provisional Tax
    - The Difference Between Market Fees & Income Tax
    - Pay as You Earn (PAYE)
    - Vehicle Imported on a Temporary Import Permit
    - MRA Radio Jingle on Taxes
    - The Difference between VAT and Withholding Tax
    - The Importance of Registering for Income Tax
    - What is Fringe Benefit Tax

The Anchor: A Quarterly magazine of the MRA Vol.1 No.1, 3, 4)

Procurement:

- ODPP, Strategic plan, 2006 – 2008
- Public Procurement Act, 2003
- Public Procurement Act, 2003
- Desk instruction for Public Procurement, ODPP
- ODPP, Annual report 2004/2005 Financial year
- The Public Procurer, Magazine from ODPP, October – December 2006

From Parliament:

- Parliamentary Service Act, 1998
- Standing orders for Malawi Parliament
- Interim report of the Public Accounts Committee on the Auditor General's reports for the Financial years ending 30th June, 2002, and 30th June, 2003. Adopted by the Committee on 2oth April 2006
- Public Accounts Committee meeting Summary report on the Auditor General´s reports for the Financial years ended 30th June 2002 and 30th June 2003
- Brief report of the Budget and Finance Committee on the consultative meetings with stakeholders; adopted by the Committee on 5th February, 2007

- Treasury Minute on the second meeting of the Public Accounts Committee in the Thirty-Sixth session of Parliament; following its examination of the accounts of the Government of Malawi. For the years ended 30th June 1999, 2000, and 2001

From Internal Audit:

- Training progress report 2006/2007
- Establishment of Internal Audit units and Audit Committees. Treasury Circular no 1 of 2005/2006
- Draft Internal Audit Charter, 2008
- Proposals about Internal Audit for inclusion in the Public Finance Management Act
- Internal Audit Plan for 2007/2008
- Selected Internal Audit reports from different Ministries

From Auditor General:

- Annual Audit plans; NAO, for the years 2006/2007 and 2007/2008
- Report of the Auditor General on the Accounts of the Government of the Republic of Malawi, 2003/2004 (last one, no report submitted later)
- Public Audit Act

Donors:

- Summary of project support managed outside Government systems. June 2007, Ministry of Finance
- Minutes from CABS meetings

Other Documents:

- PEFA Reports of 2005 and 2006
- Malawi Public Expenditures- Issues and Options

Appendix 4

APPENDIX4: TABLE TRACKING PROGRESS OF PFM PERFORMANCE SCORES- MALAWI PEFA 2008

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
A. Credibility of the Budget					
1. Aggregate expenditure out-turn compared to original approved budget	M1**Dim (i)**	**C+**	**A**	**A**	There has been a better fiscal discipline from controlling domestic debt charges, thereby creating fiscal space. The 2005 PEFA report noted that in the FY 2003/04 total expenditures rose by approximately 150 percent, which was solely attributable to the rise in domestic debt charges There has also been improvement in financial discipline through the roll-out of IFMIS as observed in PEFA 2006
2. Composition of expenditure out-turn compared to original approved budget	M1**Dim (i)**	**D+**	**D**	**D**	The main problem is the reallocation of funds between votes, as line ministries failed to treat the budget as binding. There is the perception that MOF retains additional funds outside the budget. Poor enforcement of budget legislation leading to significant within-year adjustments in resource allocation as well as un-authorised and over-spending
3. Aggregate revenue out-turn compared to original approved budget	M1**Dim(i)**	**D**	**A**	**A**	The robust revenue performances mask an underlying potential problem of possible of under-budgeting of tax revenue, poor reconciliation of revenue arrears. PEFA 2005 observed that despite the positive domestic revenue performance, the large fluctuations in tax and non-tax revenue illustrate that revenue-forecasting capacity. There appear to be poor reporting of non-tax revenues as well
4. Stock and monitoring of expenditure payment arrears	M1	**C**	**D+**	**<NS>**	Uncertainty over stock of arrears data and reconciliation.
	Dim (i)		**D**	**<NS>**	After the pay-off of 5.444 billion MK in 2005 no evidence was presented to show that the stock of arrears are being monitored
	Dim (ii)		**B**	**D**	Decline from previous performance. It appeared that the 2004/05 audit was a special exercise, thereby providing the PEFA 2006 instantaneous data. The underlying system remains weak.
B. Comprehensiveness and Transparency					
5. Classification of the budget	M1**Dim(i)**	**B**	**B**	**B**	The situation has been stable for some time. Suggested improvements anticipated as MOF reported that work is underway.
6. Comprehensiveness of information included in budget documentation	M1**Dim(i)**	**C+**	**B**	**B**	Presentation of budget documents has not changed fairly comprehensive but complicated

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
7. Extent of unreported government operations	M1	**B**	**B**	**<NS>**	Additional documentation provided by IMF (March 2007 Report) indicated that there is scarcity of information on the operation of the Treasury Funds.
	Dim (i)		**B**	**<NS>**	PEFA_S had commented on the insufficiency of information for rated this indicator. Information was not provided to the team on the operation of the Treasury Fund, its existence is only anecdotal.
	Dim(ii)		**B**	**A**	Dim(ii) measures activities included in the budget but managed outside it. Government exclude donor projects managed outside the budget from its budgeting and accounting system.
8. Transparency of Inter-Governmental Fiscal Relations	M2	**D**	**C**	**B+**	The improvement in the score is based on improved evidence being provided to the 2008 PEFA team
	Dim (i)		**B**	**A**	There was sufficient evidence for an ‘A’ rating. PEFA 2006 had qualified the rating on the basis that the formula was not updated every tow years.
	Dim(ii)		**C**	**B**	There was sufficient evidence for a ‘B’ rating, if PEFA 2006 indicated that local governments receive their allocation in January. The 2008 team were told notification of allocations around February/March, which is sufficient for them to make significant changes to budget proposals
	Dim(iii)		**D**	**B**	There was sufficient based on the consolidation of reports done by the National Local Government Finance Committee. This was not taken into account in the 2006 PEFA.
9. Oversight of aggregate fiscal risk from other public sector entities.	M1	**D+**	**D+**	**C+**	Improvement due to appraisal of evidence (interpretation of the law)
	Dim (i)		**C**	**C**	The monitoring of AGA’s and PEs remain the same.
	Dim (ii)		**D**	**A**	The ‘A’ rating was based on the fact that local government, by provision in the legislation in Malawi, cannot generate fiscal liabilities for central government. This was not taken into account in the PEFA of 2006
10. Public Access to key fiscal information	M1	**D+**	**B**	**C**	The decline is attributable to the lack of presentation of audited financial statements to Parliament and being published in the absence of the Auditor General
C (i) Policy-Based Budgeting					
11. Orderliness and participation in the annual budget process	M2	**D+**	**B**	**C+**	
	Dim (i)		**C**	**C**	No change
	Dim (ii)		**B**	**B**	No change
	Dim(iii)		**B**	**C**	Decline due to the timing of the approval of the budget by Parliament., i,e approved within 2 months. The 2006 PEFA report aw

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	**D**	**D+**	**B**	Progress due to improved multi-year fiscal forecast , debt sustainability analysis, and more sectors preparing costed sector strategies
	Dim (i)		**C**	**A**	
	Dim (ii)		**B**	**A**	
	Dim(iii)		**D**	**C**	
	Dim(iv)		**D**	**D**	
C (ii) Predictability and Control in Budget Execution					
13. Transparency of taxpayer obligations and liabilities	M2	**D+**	**C**	**B**	Progress due to improvement of provision of information to tax payers and the recent changes made by the Commissioner on the tax appeals mechanism
	Dim (i)		**C**	**C**	
	Dim (ii)		**C**	**B**	
	Dim(iii)		**C**	**B**	
14. Effectiveness of measures for taxpayer registration and tax assessment	M2	**D**	**C**	**C+**	Marginal upgrade of perhaps due to a slight difference in interpretation of the rating for the penalties for non-payment i.e. D(ii). There is no doubt that penalties exit, but the business community indicated that it is possible to get around them, as they are not consistently applied.
	Dim (i)		**C**	**C**	
	Dim (ii)		**C**	**B**	
	Dim(iii)		**C**	**C**	
15. Effectiveness in collection of tax payments	M1	**D**	**D**	**D+**	Marginal progress due to improvements in the effectiveness of transfer of tax collections to the Treasury from MRA as in Dim(ii). The transfers of collections to the Reserve Bank of Malawi are into accounts controlled by the Treasury on daily basis. There are differences in the interpretation of the evidence from the two assessment
	Dim (i)		**D**	**C**	
	Dim (ii)		**D**	**A**	
	Dim(iii)		**C**	**D**	Reduction in rating because MRA have indicated that there is no complete reconciliation of tax assessments, collections and arrears.

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
16. Predictability in the availability of funds for commitment of expenditures	M1	**D+**	**C+**	**B**	Marginal progress in the communication of in-year information on budget ceilings. Again it could be differences in interpretation of the evidence. But there was evidence that ceilings information are communicated to line ministries on quarterly basis and funding is done on monthly basis.(Dim-ii should be a 'B' rating.
	Dim (i)		**B**	**B**	
	Dim (ii)		**C**	**B**	
	Dim(iii)		**B**	**B**	
17. Recording and management of cash balances, debt and guarantees	M2	**C+**	**C**	**A**	Great progress in this area due mainly to the improvements in the quality of debt recording and reporting, and the extent of consolidation of government cash balances
	Dim (i)		**C**	**A**	PEFA 2006 observed that Debt and Aid data was fairly high standard, but quarterly reconciliation should be made the norm. In 2008 there was evidence that debt data is of high integrity , reconciled on monthly basis and comprehensive statistical reports are prepared at least on quarterly basis.
	Dim (ii)		**C**	**A**	PEFA 2006 observed that at the time consolidation of government cash balances was done on monthly basis. The current evidence is that all payments from the Consolidated Fund , and balance are reconciled on daily basis
	Dim(iii)		**C**	**B**	No progress made, rating is based on interpretation.
18. Effectiveness of payroll controls	M1	**D+**	**C+**	**C+**	No progress overall , but the implementation of integrated personnel and payroll system means improvements in internal controls
	Dim (i)		**B**	**A**	Improvement due to the implementation of integrated personnel and payroll system
	Dim (ii)		**B**	**B**	
	Dim(iii)		**C**	**A**	
	Dim(iv)		**C**	**C**	
19. Competition, value for money and controls in procurement	M2	**D+**	**D**	**<NS>**	Overall scoring indicate progress as a result of the increasing use of open tender for public procurement
	Dim (i)		**D**	**<NS>**	Estimated 88% of all public procurement is done by open tender. Difficulties exist as to whether ODPP data should make a distinction between national and donor funded procurements
	Dim (ii)		**D**	**C**	The ratings given in PEFA 2008 are consistent with the criteria stated in the PEFA Handbook

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
	Dim(iii)		**D**	**C**	The ratings given in PEFA 2008 are consistent with the criteria stated in the PEFA Handbook
20. Effectiveness of internal controls for non-salary expenditure	M1	**D+**	**B**	**C+**	This scoring is based on corroborated evidence. In our view the preceding PEFA based their judgment on promising nascent development, not on firm evidence
	Dim (i)		**B**	**B**	IFMIS has developed well but is not yet able to capture all transactions, otherwise should have earned an A
	Dim (ii)		**B**	**C**	This dimension(ii) is about rules and their comprehensiveness , and there is evidence that the rules exist and are comprehensive, according C rating is justified
	Dim(iii)		**B**	**C**	According to evidence C rating is justified
21. Effectiveness of internal audit	M1	**D+**	**D+**	**C+**	Internal audit has improved, but slowly. The right structure is established and with staff and other resources in place progress could be fast.
	Dim (i)		**C**	**C**	
	Dim (ii)		**B**	**B**	
	Dim(iii)		**D**	**C**	
C (iii) Accounting, Recording and Reporting					
22. Timeliness and regularity of accounts reconciliation	M2	**C+**	**B**	**B+**	The implementation of IFMIS has facilitated the timeliness and regularity of accounts reconciliation
	Dim (i)		**B**	**A**	The impact of IFMIS
	Dim (ii)		**B**	**B**	
23. Availability of information on resources received by service delivery units	M1 **Dim (i)**	**D**	**D**	**D**	No change
24. Quality and timeliness of in-year budget reports	M1	**D**	**C+**	**C+**	No overall change
	Dim (i)		**C**	**C**	
	Dim (ii)		**B**	**A**	Impact of IFMIS on the timeliness of the issue of in-year reports
	Dim(iii)		**C**	**B**	Impact of IFMIS has also improved the quality of information
25. Quality and timeliness of annual financial statements	M1	**D+**	**D+**	**C+**	Progress made in this area as result of the implementation of IFMIS
	Dim (i)		**D**	**C**	PEFA 2006 indicated significant unreported expenditure for 2004/05. The current evidence was that MOF have prepared complete consolidated financial statements, but do not include information on expenditure arrears.
	Dim (ii)		**C**	**A**	Timeliness of submission has also improved since PEFA 2006

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
	Dim(iii)		**C**	**C**	National standards based on GAAP are applied for all statements in the last 3 years, but the GAAP have not been adapted to national standards
C (iv) External Scrutiny and Audit					
26. Scope, nature and follow-up of external audit	M1	**D**	**D+**	**D+**	Overall, the scoring is unchanged since 2006
	Dim (i)		**C**	**C**	No change
	Dim (ii)		**C**	**D**	The decreased scoring for 2008 is due to the stalling of reporting from the Auditor General.
	Dim(iii)		**D**	**C**	What has happened since 2006 is the partial introduction and function of Audit Committees tasked with follow up of audits
27. Legislative scrutiny of the annual budget law	M1	**D+**	**<NS>**	**B**	The 2006 PEFA did not get information enough to score at all. We got access to the chair of the committee to obtain both oral and written evidence and have carefully considered the evidence before scoring. However, the increased engagement of the Parliament in the budget process could be a result of a recent political development.
	Dim (i)		**<NS>**	**B**	
	Dim (ii)		**<NS>**	**B**	
	Dim(iii)		**<NS>**	**B**	
	Dim(iv)		**<NS>**	**B**	
28. Legislative scrutiny of external audit reports	M1	**D+**	**D+**	**D+**	Overall no progress appeared to have been made
	Dim (i)		**D**	**D**	
	Dim (ii)		**C**	**A**	The overall score has not changed, but on Dimension (ii) we have evidenced a level of activity and involvement from the PAC that should be noted as a positive development.
	Dim(iii)		**C**	**C**	
D. Donor Practices					
D-1 Predictability of Direct Budget Support	M1	**D**	**D**	**<NS>**	No scoring is done on this indicator, strictly following PEFA requirement. We do not understand how and why the PEFA 2006 scored this dimension for a 3 year period. However, data availability is improving and the next PEFA will be able to score
	Dim (i)		**D**	**<NS>**	
	Dim (ii)		**D**	**<NS>**	
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	M1	**D**	**C**	**C**	Overall no progress appeared to have been made
	Dim (i)		**C**	**C**	

PFM Performance Indicator	Dims	2005 Score	2006 Score	2008 Score	Narrative on PFM Progress
	Dim (ii)		**C**	**C**	
D-3 Proportion of aid that is managed by use of national procedures	M1**Dim (i)**	**D**	**D**	**C**	The proportion of funds through Government systems has increased to about 66 %,, from 40-50% at the time for the previous PEFA. Marginal improvement but the criteria may not be consistent

M1 scorings are based upon the lowest scored dimension making up that indicator
M2 scorings represent an aggregate scoring of the dimensions making up that indicator.
<NS> indicator could not be scored due to unavailability of data or the lack of reliable data.

APPENDIX 5: COMMENTS AND RESPONSES

Comments and Responses Version 2 - Malawi PEFA 2008

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
Overall impression	Overall this is a good report and reflects good understanding of the PEFA methodology. No tracking of progress in PFM performance since the last assessment in 2006 has been attempted, although this was a requirement under the terms of reference		The report is well received and found to be both full and very rich. Performance Measurement Framework guide which require a report of 35 pages, with the detailed assessment against the PFM indicators to be set out in an annex. Not following the format makes reading against previous reports a more onerous task, and may give rise to missed comparisons. An "at a glance" view of the evolution is sought, and such a comparison could be addressed in a single page annex. We would seek assurance on some of the scores that have improved quite dramatically from the 2006 PEFA scores, or where there has been a fall in performance	The team wanted to reach independent conclusions without being influenced by previous assessments. This was discussed with stakeholders during the assessment. However we agree that it would be useful to provide a table that shows the comparisons of the scorings. Comments take into account whether progress is spurious or a real progress. **Action:** **Tracked progress against previous assessments added to the report a table form** **Executive Summary Assessment shortened to 4 pages and Background reduced to 1 page**
	The sources of information are not always provided in the text			Agree, there were omitted details for some of the tables **Action:** **Sources of information provided for all tables**
Summary Assessment	The quality of the summary assessment would benefit greatly through being shortened. It is 11 pages (excluding the first page, some of which could be incorporated into the Introduction). There tends to be too much detail.			Agree. **Action:** **Summary shortened to 4 pages**
	Some of the points made in the summary assessment appear to be at variance with the analysis of the performance indicators in the main body of the report			Comments not specific **Action:** **Consistency re-checked, variances identified and**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
				corrected.
	"Assessment of the impact of PFM weaknesses", the paragraphs on capacity constraints, the fiscal space provided by reaching the HIPC completion points and the successful compliance with the PRGF program are not immediately relevant			These factors have immediate impact on some of the indicators (example PI-8 and PI-1). However to conform to reporting format has been deleted. **Action: Removed from the final report**
	A table could usefully be provided in the summary assessment, indicating the scores for each PI under each of the three assessments accompanied by a brief analysis of the reasons for changes in the scores.			Agree **Action: Table provided**
		Issue: About the 2003/04 Auditor General's Report (Page 13, paragraph) Comments: The latest position on this matter is that the Committee completed examining the report on 15th February 2008. Currently, the Secretariat is drafting the report for the Committee's adoption at its next meeting in April 2008. Subsequently, the report would await presentation to the House during the Budget Session of Parliament in June/July 2008. The same applies to the information under paragraph 3.4.7.3 on page 70.		Agree **Action: the identified factual inaccuracies corrected**
		Legislative scrutiny of the Annual Budget Law (Page 13). The last sentence under paragraph I should be rephrased to read as follows: *"The Budget and Finance Committee, which is established by the Constitution is the*		Agree **Action: amend text**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		Committee of the National Assembly that is especially tasked with the responsibility of overseeing the preparation of the annual budget.'		
			Comments relating to fact: P 13: The 2003/04 audit report was tabled in Parliament in March 2007, not March 2006. P 15: The current PRGF programme ends in August, not May 2008. P 15: The Auditor General passed away at the beginning, not the end, of 2006.	Re P.13. Agree the team recall asking the D- AG how they could submit the report in 2007 when the AG died in 2006, and he explained that the AG had just signed the report before he died. Typographical error **Action: the identified factual inaccuracies corrected**
		Page 7, second last para: An improved system for paying utilities is in place, and will eliminate such arrears.		This was not yet in place as of June 30 2007 so the improved system was not relevant to this assessment. But improvement would be reflected in the next PEFA Assessment. **Action: comment noted as area of improvement , but no change in score**
		Page 8, para three: There is a draft debt management policy, which will be presented to Cabinet shortly		This is in preparation but does not become an official policy document until approved. **Action: comment noted as area of improvement , but no change in score**
		Page 14, Section 7, second bullet: It's monthly actuals that are provided, not monthly forecasts. **Page 16, last two paragraphs:** Many donors outside of CABS also support PFEM activities, including USAID.		Agree **Action: amend text**
Introduction	The first sub-section covering the objective of the PFM-PR would have			Tracking Table will be provided in the Executive Summary

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	benefited from the inclusion of the tracking of progress made in the PFM reform process since the last PEFA assessment.			Assessment.
Background	The paragraphs on public finance under "Country Economic Situation" could be strengthened through emphasizing the contribution of sound fiscal management towards the preserving of macroeconomic stability in support of the country's economic development. Reference is made to revenue and aid projections but expenditure and fiscal deficit projections are not mentioned. The last two sentences of paragraph 2.1.1.11 are unclear.		P 21: The Integrated Household Survey 2004/05 indicated a poverty headcount of 52%, not 54%. P 22 and p 75: The team presents CABS as a number of donors that have come together to support the PFEM programme through a common framework by aligning behind the government strategy. This is misleading. CABS stands for Common Approach of Budget Support and include the donors providing direct budget support to Malawi. CABS interact jointly with GoM to assess overall performance and progress in areas such as poverty reduction, macroeconomic stability, public financial management and political governance. (In footnote 1 Ireland should be added to the list of observers to CABS.) P 27: In addition to PSIP, MEPD has an overall responsibility for implementation and monitoring of MGDS, and for macroeconomic reporting and forecasting through the Annual Economic Report. P 29: In table 2.4 Parliament should be included as an institution responsible for external audit and external scrutiny.	Re: Country Economic situation. Brevity was the key. **Action: but added a sentence to complement the exiting text in 2.1.1.4** Re: 2.1.1.11: Unclear text . Did not add any extra points Action: the unclear sentences deleted to make report more readable Re P.21 Agree, **Action: Amend** Re: P22 & P75, Agree **Action: Amend** Re: P.29. Donors' comment is a constitutional confusion. Parliament is not responsible for external audit, but for oversight; and that is already ticked. Re: P27 on the role of MEPD **Action: Additional role recognised in the text**
		PERMU stands for Public Enterprises Reform and Monitoring Unit. 2.3.2.12 page 27		Agree, **Action: Amend page 27**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	The section on Budgetary Outcomes could be strengthened through showing the composition of the financing of the fiscal deficit in terms of external and domestic sources and through cleaning up Table 2.3 (grants are shown as an expenditure, though are not part of total expenditure, and debt amortization is incorrectly shown as a capital expenditure rather than a financing item).			Re: (i)Composition of financing of fiscal deficit. Agree, would be useful if the data was readily available in published reports. (ii)Treatment of Grants and Debt Amortisation **Action:** **(i) Checked the composition of the financing of the fiscal deficit but data not available** **(ii)Checked the treatment of Grants and Debt Amortisation as presented from the source document**
	Paragraph 2.3.3.3 should clarify that the payroll management system is now integrated with the personnel management system.			Clarified in PI-18
Section 3: Performance of systems, processes and institutions: As recommended in the Framework document (page 60) it would have been useful to more clearly distinguish between the assessment of the present situation and the description of any reform measures being used to address identified weaknesses.	PI-1:The 'A' rating appears correct, based on sufficient evidence. Some data is missing under Outturns for 2005/06 in Table 3.1. The numbers mentioned for Part 1 and Part 2 expenditure seem to be the wrong way round in terms of the definition of expenditure used to assess the indicator.		P 34: Although the sentence in para 3.1.3.5 may be correct, the team should be aware of the humanitarian crisis that took place in 2005/06 that took place due to low rainfall shortages. Perhaps the sentence could be rephrased.	Re comments by PEFA-S, Agree **Action: amendments made to tables** Re P.34 **Action: sentence rephrased as suggested by EC**
	PI-2:The D rating appears correct, based on sufficient evidence. The correct total should be inserted in Table 3.3 for the outturn for 2005/06, which should be the same as in the total in Table 3.1. The fact that the rating has not improved since the 2006 PEFA should be highlighted. But note that 2006 assessment omitted domestically-financed investment expenditure due to lack of data. Also clarify how many agencies are included under "Aggregate" and whether this	**Response:** Budget releases are not done in an ad hoc manner. Ministries present annual cash flows to the Budget Division at the beginning of a financial year. Budget Division consolidates these and compares them to projected cash inflows. Where cash outflow requirements are lumpy and at variance with inflows, the	**Expenditure Outturn – Budget Heads/Votes** P 33, Table 3.3: Under 2006/2007 Column, the budget heads/votes does not correspond to the financial statements. Generally, Malawi Budget in 2006/2007 had heads/votes such as Agriculture, Education and Health taking up a lions share in terms of amounts of the total budget. However, this is not reflected in the amounts against the budget heads. Moreover, Education is not even included in these budget heads. The team is requested to reconcile and align the budget heads against the financial	Re: Comments by PEFA_S: Agree **Action: Tables 3.1 amended** Re Comments by GOM on Budget released: The cash flow forecasting system is still rudimentary and affects budget implementation **Action: text amended**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	includes the "unforeseen " and "miscellaneous statutory expenditure" indicated in paragraph. 3.1.2.2.	Division communicates to some Ministries to postpone some activities to earlier or later months where this is feasible. Quarterly ceilings are communicated to Ministries although funding is done monthly. Ministries have latitude to decide on monthly releases within the quarter. To strengthen this, government and IMF have agreed on a Structural benchmark that requires Accountant General to present performance information to Management on a quarterly basis. This information will compare actual releases in a quarter compared to ceilings that were communicated for each vote. This information will alert management of potential problem areas/votes.	statements.	The comment on IMF benchmarks does not apply because they were not yet in place at the time of the studies Re Comments by EC/Donors: The 2006/2007 budget heads/votes were affected because of the implementation of the fiscal decentralisation policy. Education votes for example falls into the 'Aggregate' in the bottom of the table
	PI-3:The 'A' rating appears to be correctly rated, based on the evidence. Nevertheless, the figures are very doubtful and of concern in terms of the trust that can be placed on revenue projections. The report should note that the classification of treasury bill sales as a revenue item partially explains the large over-performance of non-tax revenue, as mentioned in the 2006 PEFA assessment. The status of the macroeconomic model referred to in the previous PEFA report in relation to improved revenue forecasting should be referred to, if known.	**3.1.3.1** It is alleged that there is no clear and unambiguous financial reporting on Capital Revenue (i.e. sales of assets and of stocks). There is also a demonstration of very huge divergences between projected revenues and actual revenue outturns of the magnitude of 71% and 85% between 2006/06 and 2006/07 fiscal years as outlined in ***Table 3.4A.*** As has been reported under ***3.1.3.2*** that there are two		Re : PEFA Comments: Revenue from TB sales was not the source of worry in this study as reported in the 2006 PEFA Macroeconomic model was not yet in place to improve revenue forecasting Re: Comments from GOM: Comments on Capital Revenue reporting was hanging The comments concede that there is a high probability of double counting from the Fiscal Tables

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		different sets of data, that is, those coming from the Economic Affairs Division and the Accountant General's Office the discrepancy is coming from the interpretations derived from the Fiscal Tables. There is a high probability of double counting reported figures in the ***Fiscal Tables*** by the authors of the consolidated Annual Appropriations Accounts. From the Revenue Division's perspective, Non Tax Revenues whether projected or actual outturn, has never exceeded MK13 billion. The highest projected figure under non tax revenues was 12.5 billion for the 2007/08 Fiscal Year which was later revised downwards to about MK10 billion. The table below gives actual Tax Revenue outturns over period of time in MK billions. …/ (Table…see in the GOM submission) It has been highlighted in the table above there is a strong case for rejecting ***Table 3.4A*** whose source is questionable and it needs to be reviewed. It should be pointed out that in line with the provisions of the Public Finance Management Act, revenue projections tend to get reviewed six months after the commencement of the Fiscal Year. This augurs very well		by the authors of the consolidated Annual Appropriations Account. **Action: Table 3.4A deleted**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		with world wide practices in the generation of forecasts, the deviation between revenue forecasts and actual revenue outturn has never exceeded 10% outturns since 2000/01 Fiscal Year though actual revenues outturns have always exceeded the projections. This statement seems to agree with what is given under ***P1-3*** though the magnitude of the variations is exaggerated. These variations may hold true if the computations include donor inflows. ***Under 3.3.1.1:*** The Malawi Revenue Authority came into existence on 15th February, 2000. VAT was introduced before the Malawi Revenue Authority became operational, however it was called Surtax. Surtax was levied on manufacturers but was extended to the wholesale and retail stages in 2002 and the name surtax changed to VAT in 2005.		
	PI-4: The B rating for dim (i) is not sufficiently evidenced. The figure of MK 10.037 billion in total arrears refers to end-2004/05. There is no mention of the arrears outstanding at the end of 2006/07 following the payoff/securitization of MK 5.44 billion during that year. The D rating for dim (ii) (sufficiently evidenced) also does not support the B rating for dim (i).	**Page 35/36 last para:** My understanding is that arrears related to roads are primarily due to contested costs in court. These are not true arrears. **Response:** Ministry of Finance in conjunction with the Newly Established Road Fund Administration are building capacity to be able to assess cost estimates for new roads.		Re: PEFA_S comments: The team requested but did not have a report showing the final outstanding arrears at the end of 2006/07. There was no hard data on arrears. The team agrees that there is insufficient evidence to award a score for this indicator. **Action: change ratings of dim(i) and overall score to ' No-score'**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	The overall rating may therefore be 'no score'.	Ministry of Finance is forming an Arrears Monitoring committee comprising Accountant General, Budget Division, Office of the Director of Public Procurement (ODPP) and Ministry of Economic Planning and Development to be tracking arrears during project monitoring visits. In short, government is aware of this potential problem and is putting in place mechanisms of dealing with it. 3.1.4.3….however Education reported that approximately 10,000 teachers are added to the payroll annually without adequate budgetary provision, resulting in five to six months of payroll arrears…… **Response:** This is an exaggeration of what is happening on the ground. Much as introduction of new employees on a payroll takes a long time, both the time taken and number of new teachers as allegedly claimed by Ministry of Education is not correct. For instance, government currently does not have capacity to train more than 3000 teachers in one year hence the new focus on teacher development through expanding teacher colleges.		Re: GOM's comments Information on the stock of arrears was limited, and appeared not to be up to-date. There appeared to be no effective mechanism in place for monitoring the current arrears. Under those circumstances there was no hard data on arrears, so the team sought anecdotal evidence to illustrate the problem. Team is pleased that the government recognises that there is a problem and is forming an Arrearrs Monitoring Committee The comments relate to actions that government is putting in place rather than what were in place at the time of the assessment.
	PI-5: B rating appears to be incorrect on	**Responses:** Work is underway		Re PEFA_S comments:

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	the basis of the evidence provided, which suggests a C rating. However, the 2006 PEFA assessment rated this indicator as B and mentioned that the Government was planning to strengthen the functional/program classification structure. Further justification for the B rating is advised.	to classify budget using Functional classification as used internationally. Work has commenced with redefinition of government wide programmes which will be discussed with all stakeholders to reach a consensus.		The rating is clearly a 'B'. The situation has been stable for time now.
	PI-6: B rating appears correct. The 2006 assessment mentioned that debt stock figures (element 4) did not show the details. The assessment should mention if the figures are now shown in detail. If in fact the details are still not shown, then only 5 of the information benchmarks are met, but the criteria for the B rating are still met.	3.2.1 Comprehensiveness of the Budget Documentation 3.2.2.1 The appropriations accounts include the actuals in the same format as the budget documents, however for the three fiscal years under consideration the Government of Malawi has been unable to present the audited appropriations accounts. **Response:** With the improvements in the timing of final accounts production, it should now be possible to have a column of actuals in the budget documentation. 3.2.2.2 ……. While the draft consolidated Appropriations Accounts includes financial assets, these have not been included in the budget submissions. **Responses:** Budgets in Malawi have all along been presented as an operating statement without a balance sheet. Assets be it financial or physical can only be captured in		Re comments by PEFA _S The team could not verify at the time of responding to comments whether the debt stock is shown in detail as the team did not have access to the documentation to re-check **Action: Reduce the elements to 5, but the score stays the same.** In response to GOM comments: Noted but no action required In response to GOM comments: The report only noted that the Consolidated Appropriation Account are not part of the budget submission., therefore comments are noted but no action required

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		a balance sheet.		
	PI-7: "A" rating supported for Dim (i). However, the assessment should indicate what has happened since the 2006 assessment for which the Secretariat's review indicated that the B rating was insufficiently evidenced. The "A" rating for Dim (ii) is not sufficiently evidenced. The second sentence in paragraph 3.2.3.2. indicates that a number of donors do not provide complete financial expenditure data to the Government with respect to project expenditure. The assessment should indicate what has changed since the 2006 assessment, which determined that no score was possible as there was insufficient evidence covering actual expenditure. If dim (ii) cannot be rated due to insufficient quantitative evidence, then the indicator as a whole cannot be scored.	3.2.3 Extent of Unreported Government Operations. 3.2.3.1 One element of government operations which affects the efficient allocation of resources is the existence of unreported government operations. ….. Reserve Bank of Malawi posted a loss of K1,012 million in December 2006, government funded it by issuing a debt instrument (Promissory Note) while this loss was included in the Revised Budget framework, the funding has not been reflected directly within the budget process **Response:** Our understanding was that this was a below the line transaction that would be reflected as an increase in government debt stock since there was no cash movement. This would show as an increase in debt in financial accounts and domestic financing in fiscal tables.	Improvement from B (PEFA score) or 'uncertain' (PEFA reviewed score) in 2006 to A in 2008**,** particularly in relation to indicator ii) on income/expenditure information on donor funded projects, where we know that many projects are 'off budget'. As stated on p 40 'given their nature, it is difficult to quantify accurately the extent of unreported government operations'. As such, can the A score really be justified? This appears to require clarification. Further, it is stated (p 40) that "There is no evidence of any special funds being operated outside the budget." The Treasury Funds mentioned on page 44 may actually be an example of an operation outside the budget. And again clarification seems to be required. An IMF report on budget reform provides a little more information on the Treasury Funds (attached).	In Response to PEFA_S comments: For Dim(i) the team could not assume responsibility for what was reported in the PEFA 2006 Report, as it was not clear what evidence was available or not. For Dim (ii) there appears to be some misunderstanding here. Dim(ii) is for activities included in the budget but managed outside the government budget and accounting system. (see PEFA Manual page 19 third line from bottom of first paragraph) The government of Malawi is very careful to exclude from its budget all donor projects for which there is not included in the budget process and for which there is financial reporting. Consequently it should remain an A. **Action: Based on additional information on the opacity in the operations of the Treasury Fund Dim (i) could not be rated so overall the No-Score**
	PI-8: *Note*: The table in the Summary Assessment indicates that local government expenditure is less than 1 percent of total government expenditure, but Table 3.6 indicates that the proportion approaches 8 percent. "A" rating for Dim (i) appears correct, based on sufficient evidence.		improvement from C (PEFA score) or 'uncertain' (PEFA reviewed score) in 2006 to B+ - We would like to know what improvements have been made between 2006 and 2008, particularly in terms of indicators ii) and ii) related to timeliness of information to SubNational Government on allocations, and consolidation of fiscal data according to sectoral categories, particularly given that the local authorities are provided the budget	In Response to PEFA_S comments: The assessment team could not be responsible for inconsistencies in reported government data. The information provided in the table in the Introduction was complied from the Economic Review For Dim(ii) The receipt of

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	The "B" rating for Dim (ii) appears correct, based on sufficient evidence. Note that the 2006 PEFA assessment report mentions that local governments are notified of their allocations in January (not in Feb/March, as the assessment indicates; which is correct?) The "B" rating for Dim (iii) appears to be correct on the basis of sufficient evidence. However, it sharply contrasts with the D rating in the 2006 PEFA assessment and it is not obvious why. The assessment should indicate what has improved since the 2006 assessment.		ceilings along with the line Ministries about three weeks before the completion of the budget process. Is this enough time to make significant adjustments to their budget proposals?	allocations in February March was corroborated by Local Government, Education and Health. We really cannot speak for 2006 review. Again we can only speak about the evidence we provided and cannot comment on the 2006 finding. They may not have had the same access to data and information we had.
	PI-9: Dim (i) rating of C appears correct, based on sufficient evidence. The assessment should indicate if any progress has been made since the 2006 PEFA report. Dim (ii) rating of A is problematic as it appears to be based on the provision of the 2003 Public Finance Management Act that local governments cannot generate fiscal liabilities for central government. The earlier PEFA assessments gave a D rating, indicating that local governments are a significant source of fiscal risk to central government, whatever the legal provision may be. Further justification for an A rating is suggested.	Page 44: notes, PERMU has no oversight over the companies because they are no longer commercial statutory bodies except Airport Development Limited. They should be deleted accordingly. Page 45: Brief Explanation (i) Sentence beginning with however is vague. <u>All</u> should be replaced by <u>are</u>, I suppose		In Response to PEFA_S comments : The justification for the A rating is clear from the language and intent from the PEFA manual. SN by law cannot generate fiscal liabilities for central government. That has been fully explained in the text. In response to GOM comments: Page 44: The assessment was not on what is under PERMU's remit. No comprehensive data could be obtained on those that were not under PERMU's remit and are being supervised by the Statutory Corporation Board. Action: typographical errors corrected. The meaning was to capture <u>'All major AGAs/PEs'</u>.
	PI-10: The C rating seems to be incorrect on the basis of the evidence provided, which suggests a B rating, the same as for		This score has dropped from B in 2006 to C in 2008 although from the text it is not apparent what has worsened? Does this reflect that the	In Response to PEFA_S comments: The death of the Auditor General

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	the 2006 assessment. Element (iii) cannot be scored "yes" or "no" as the audits have not been completed due to the death of the Auditor General and the difficulty in replacing him. Therefore, the indicator should be assessed on the basis of 5 types of information. *Note*: The report mentions only 1 of the elements as justifying a "yes", but the table shows 2 "yes".		B score in 2006 was perhaps overoptimistic? The team rightly notes that 'there is much more information pertaining to PFM laws now available in summary formats on official websites, and acknowledges other efforts to put information on contract awards and payment on notice boards and the Government book shop information provided. However, there is little discussion on how accessible this information is to the general public (ie how many people have access to the internet, or can purchase government publications) or on the role of civil society in accessing and disseminating this information.	should not qualify a scoring. The PFM has failed if it does not seek to replace such a central role in Malawi's PFM. The PEFA manual is clear this deserves a C. Also EC comments …public access to information /civil society groups in Malawi etc. was recognised in the opening paragraph of the section. The team acknowledge the shortfall but it will require more time to research this area and address it in this report.
	PI-11: Correctly rated on the basis of sufficient evidence.	3.2..7 Orderliness and Participation 3.2.7.3 typically Parliament has two weeks of budget discussion before the new fiscal year in which to review and pass Appropriation Bill and about six weeks in total. **Response**: Parliament will now have all the six weeks of budget discussion before the start of new fiscal year. All this is reflected in the new budget calendar.		In response to GOM comments: The change in the Budget Calendar to give Parliament 6 weeks for budget discussion is not yet implemented
	PI-12: "A" rating for dim (i) appears to be incorrect on the basis of the evidence provided. While aggregate spending ceilings are set over the medium term on the basis of the macroeconomic framework, the multi-year forecasts of functional allocations appear to be less rigorously derived and do not appear to play a significant role in the setting of annual budget ceilings (as mentioned in		this score has improved from D+ to B. Indicator i) related to multi-year fiscal forecast and functional allocations has improved from C to A. The report explains that fiscal aggregates are prepared for three years and agreed by the IMF and that these estimates are directly linked to budget ceilings. We would like to know if there has been any improvement on the issue raised in 2006, that 'differences from one year to the next are not	The evidence is directly available in the Economic reports both aggregate and fiscal forecasts are provided and there are links between these and the annual budgets. The team acknowledges that the MTEF in Malawi needs strengthening, but the PEFA manual said nothing about the quality or reliability of the

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	the assessment, the MTEF appears to require significant strengthening). The 2006 PEFA assessment rated this dimension as a C and the evidence provided in the 2008 assessment does not indicate any improvement. The A rating for dim (ii) is sufficiently evidenced. Please indicate when the Ministry of Finance began to conduct DSAs annually (the 2006 PEFA assessment rated this as a B). The C rating for dim (iii) appears to be incorrect on the basis of the evidence provided, which does not include any quantitative evidence. A 'D' rating appears to be warranted, the same as in the 2006 PEFA assessment. More sector strategies have been prepared since 2006, but the costings appear to be incomplete, particularly for investment expenditure. The D rating for dim (iv) is sufficiently evidenced.		explained and not used as the basis for subsequent years' estimates'? Indicator ii) - we would agree on other improvements noted on debt sustainability analysis. Indicator iii) on 'costed' sector strategies, we wonder if this improvement from D to C is justified? Specifically, the sector strategy for education is only in draft.	forecasts. The rating should remain an A on that basis. The DSAs began in 2005/2006 and the team received DSA reports for both years. **Action: Text added** It is as if the PEFA secretariat believes that we must agree with 2006. It clearly states that costed sector strategies exist for health education and finance. A 'D' requires that NONE have substantially complete costings. MEDP have pointed out that there are complete costed investment plans. So PEFA_S assertion appears incorrect.
	PI-13: The rating of C for dim (i) is not sufficiently evidenced. The justification provided for the rating in the scoring box is not necessarily relevant to the scoring for the indicator. Para. 3.3.1.10 indicates that discretionary powers are limited, whereas a C score indicates they are substantial. The B ratings for dims (ii) and (iii) are sufficiently evidenced. .			In Response to PEFA_S comments: This is an example where the reality falls in between 2 ratings, but the higher rate cannot be awarded because even though there may be only limited discretionary powers existing legislation as not always clear and comprehensive (s they are obsolete) so D(i) cannot be rated as 'B.' Action: add changes to text but

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
			Indicator iii) Existence and functioning of a tax appeals mechanism. The team notes that 'it is too early to assess its effectiveness', so we wonder on what basis the score is increased from C to B.	note rating stay at C. Existing legislation is clear for VAT, but others are not comprehensive and clear Response to EC comments: The appeal system does not need to be redesigned (rate C), but just need to be bedded. B is the appropriate grade
	PI-14: Rating of C for dim (i) appears correct on the basis of the information provided. Rating of B for dim (ii) seems too high on the basis of the information provided, which indicates that penalties are inconsistently applied and are not effective. The evidence is not sufficient to justify an upgrading from the C rating provided in the 2006 report. Rating of C for dim (iii) appears correct on the basis of the information provided.			In Response to PEFA_S comments D(ii) is the appropriate rating. Penalties exist, but the business community pointed out that they are not always effective because people can get around them and they are not consistently applied No action required
	PI-15: Rating of C for dim (i) appears correct on the basis of sufficient evidence. Rating of A for dim (ii) appears correct on the basis of sufficient evidence. Rating of A for dim (iii) is not sufficiently supported by evidence and rating is uncertain. The reconciliation mentioned only refers to the transfers to Treasury account in RBM from MRA. The reconciliation as defined in the indicator applies to tax assessments, collections, arrears and transfers to Treasury. The 3 percent incentive referred to is insufficient evidence.	Normally taxpayers are given an assessment. When assessment is not paid for, the enforcement team issues out reminders and if the assessment remains unsettled, a distraint action is taken, whereby MRA seizes assets of the taxpayer. Before a distrait action is taken, taxpayers normally negotiate a payment plan of the outstanding taxes. What is so striking is that interest and penalties are charged on all outstanding tax payments at a rate which is 3% higher than the bank rates.		In Response to PEFA_S comments: There are two sides to this. (i) The process of MRA reconciling tax assessment, collections and arrears and transfer to the Treasury account and sending report to the Accountant General and MOF. (ii) The process of MOF/AG reconciling their records based on reports received from MRA with banking data from RBM, thereby closing the loop. MRA have indicated that there is no complete reconciliation of tax

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	The 2006 PEFA rated dims (i)-(iii) as D, C and D respectively. The 2008 report should indicate what has happened to justify the substantial upgradings	Ideally most taxpayers rush to the banks to borrow and settle their tax arrears since they will incur lesser interest rate as compared to the MRA. Most of the institutions that owe the MRA are parastatals and Government departments and some of the stated arrears could be part of the Government arrears. The interest and penalty charges are quite high so much so that taxpayers normally negotiate for the payment of the principal and ask for a waiver of penalties and interest charges. The reported figure is quite high and has negative implications on domestic revenue mobilization. Since some taxpayers remit current tax liabilities and part of the arrears, it is quite difficult to ascertain the label of tax arrears, as such, we need to remove this particular section from the report.		assessments, collections and arrears. (see their comments that it is difficult to determine the level of tax arrears) thereby reducing the rating from A to D Action: Add additional evidence and change score to D+ In response to GOM comments The last paragraph of GOM comments confirms the weaknesses in their reconciliation process regarding arrears
	PI-16: Rating of B for dim (i) appears correct on the basis of sufficient evidence. . Rating of B for dim (ii) appears correct on the basis of sufficient evidence. Rating of B for dim (iii) appears correct on the basis of sufficient evidence.			
	PI-17: Rating of A for dim (i) appears correct on the basis of sufficient evidence. The report should also explain the sharp improvement in the rating from C in the 2006 PEFA assessment.	**Page 55/56 3.3.5.3** "In the case of Domestic Debt, under the PRGF arrangements the RBM and the IMF reconcile domestic debt stock on a monthly basis."		In Response to PEFA_S comments Rating of D(i) is correct but explanation has been given in the

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	Rating of A for dim (ii) appears to be correct on the basis of sufficient evidence. The assessment report should explain the sharp improvement in the rating from C in the 2006 PEFA assessment. Rating of B for dim (iii) appears incorrect on the basis of the evidence provided, which suggests a C rating. Para. 3.3.5.4 mentions that ceilings are not set on guarantees.	…….should read……. Domestic debt is managed by RBM as mandated by the PFM and RBM Acts.		table tracking Progress of PFM scores to explain the improvement For D(ii) C requires that there not be guidelines for loans and guarantees. But there are guidelines so it would be wrong to give a C. This is a case of a bit of judgement call. While B requires ceilings and guaranteed do not have ceilings they do have guidelines which overall is closer to B than C. In response to GOM comments Comments noted, but the exiting wording alludes to frequency of reconciliation which is not reflected in the suggestions made in the proposed amendment
	PI-18: All dimensions appears to be correctly rated on the basis of sufficient evidence. The assessment should mention that the main factor in the upgrading from the 2006 PEFA assessment appears to be the new integrated personnel and payroll management system.	The Management of payroll has substantially improved since the introduction of the Human Resource Management Information System (HRMIS) in September 2006 through implementation of a three tier control system which include the establishment control system where payroll is fully functionally based on the authorize budgeted public service establishment and personnel database both of which are directly controlled by the Department of Human Resource Management and Development (DHRMD). Updates to establishment and personnel databases are only	We are surprised by the high scores given here, particularly in relation to the 'A' scores for indicators i) and iii). We would welcome more information on the evidence for reconciliation of payroll and personnel records, particularly in light of information provided by Government that the HRMIS and IFMIS systems are not yet integrated. In addition, given that the review of the HRMIS has yet not been undertaken, we find it difficult to assess the extent to which it is functioning properly. The text related to potential problems in the education payroll is very worrying. While the overall score for 2008 does not change from 2006, the PEFA Secretariat review opinion was that the 2006 scoring was 'uncertain': we would therefore query, given the lack of information, whether this 'uncertain' score should be maintained for 2008.	In Response to PEFA_S comments: Action: Tracking Progress Table explains the source of improvement In response to GOM comments Noted no action required In response to Comments by EC: The scores are based on the integration of payroll and personnel systems, the HRMIS and IFMIS is not a requirement for scoring. Data integrity on the HRMIS system is addressed in the scoring of (iiv) which deal with audit consideration.

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		done by authorized officer in DHRMD. Line ministries have access to their information on the establishment and personnel records in read only mode and can only effect internal transfers and postings. As of February 2008 forty-six (46) Votes (ministries, departments, and government agencies) have been updated by placing every employee to the associated posts on the authorized establishment. The Ministry of Education, Science and Technology and Ministry of Energy and Mines are expected to be updated by March 2008. The payroll is operated by line ministries. An employee can only appear in the payroll if his/her record is on the personnel database. Theses are audit trails built in directly into the system to track all transactions. Updates of personnel database, especially as it relates to terminations, is dependent on line ministries providing relevant information as soon as such event occur. The payroll audit which was to be conducted by June 2007 was put on hold because the World Bank which is funding HRMIS activities had imposed a ban on implementing the activities pending outcome review of the system. The World Bank		

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		uplifted the ban in October 2007 and the payroll audit has been planned to be carried out by June 2008. Funding will be required for the audit exercise. The interface between the HRMIS and IFMIS has not been done because the IFMIS side has to finalize the accounting codes to be used and the IFMIS is being upgraded. The HRMIS is ready for interface.		
	PI-19: "A" rating for dim (i) is not sufficiently evidenced. , as the data sample does not distinguish between procurement through national systems and through donor systems. Unless supporting evidence can be produced, this rating should be scored as D. Note: (i) It should be explicitly stated that MK 1 million is the threshold above which open competition is required. (ii) the expenditure data are not consistent with Table 3.1 on page 31, which indicates much lower non-salary expenditure. (iii) Indicator D-3 says that 66% of donor aid uses government systems. The C rating for dim (ii) is not sufficiently evidenced. What is required is evidence of whether the use of less competitive methods in practice is compliant with the regulations. C rating for dim (iii) is not sufficiently evidenced, as data on the number of complaints is not provided. So, it is not possible to judge the effectiveness of the ARB in addressing complaints. .	We believe that we deserve a Score of A. Justification for use of less competitive methods of procurement has been clearly explained in the legal instruments and is therefore not weak as summarised. Complaints mechanism does exist and is fully operational. Please note that the Act was only passed in 2003 and the ODPP set up in 2004. The procurement reforms are therefore fairly new. It is asking too much at this stage to ensure full compliance in terms of public procurement procedures. Good progress is being made. The biggest challenge remains capacity constraints in procurement. This is why the ODPP has intensified capacity building initiatives. We cannot conclude that the system is not working properly when there are a lot of capacity problems within the system.	Increase in PEFA score from D+ (or 'uncertain' according to the PEFA Secretariat opinion) in 2006 to B in 2008. Indicator i) shows a dramatic improvement from D to A, on the basis that data on procurement shows that 88% of contracts are awarded on the basis of open competition. However, the issues raised in footnote 18 would seem to prompt questions on the validity of this data. The score for indicator ii) also seems to us to be generous (C) given the information provided on the inadequacy of the procurement law in this respect. We also wonder if the PEFA team was able to draw on evidence from the sectors, eg the 2005/06 draft health procurement audit, which showed 57% procurement errors. The independence of ODPP is not discussed at all. Currently, the ODPP is not mandated to report to Parliament, but instead reports directly to the President. Finally, there isn't any information in the text on the publication of awards on ODPP websites which would be useful to know.	In Response to PEFA_S comments Pi-19 does not speak of national systems but public systems. This is an important distinction. The sample clearly includes donor data. As a result rating remains the same. The team would like to recommend to PEFA to revise this standard to make interpretation clearer. Dim(ii) cannot be a D this is clearly met. C is an obvious as the Secretariat's comments appear not to be clear here. Dim(iii) in the manual makes no mention of the effectiveness. Dim (iii) is clearly a C – the process exists. In response to GOM comments Noted no action required In response to EC/donors' comments: Comments noted, but

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
				scoring is based on the wording of the PEFA handbook
	PI-20: The 'A' rating for dim (i) is incorrectly rated on the basis of the information provided. The IFMIS is still being rolled out and, as yet, does not cover all MDAs and Part 1 development expenditure; unauthorized commitments are still possible. The rating should be B or C. The 'C' rating for dim (ii) is not sufficiently evidenced, as indicated by "there are doubts how much of those rules have permeated the ministries at different levels" The C rating for dim (iii) appears correct on the basis of sufficient evidence. desirable.		dimension (i) on effectiveness of expenditure commitment controls is given an A score. There are still some questions of the possibility of committing expenditures outside IFMIS and not all MDAs are online with IFMIS. On the basis of the PFM assessment grid a B score, at maximum, would appear correct.	In Response to PEFA_S comments G: For dimension (i), the team agrees and have changed rating to B accordingly. Dimension(ii) is about rules and their comprehensiveness the team do not agree with the PEFA secretariat, the scoring is correct
	PI-21: The C and B ratings for dims (i) and (ii) appear to be correct on the basis of sufficient evidence. The C rating for dim (iii) is not sufficiently evidenced. The report should indicate the extent of action taken by managers in response to the internal audit reports. If the evidence shows only little action taken by managers, the dimension should be scored D.			In Response to PEFA_S comments (In the team's opinion rating is correct even if there are no statistical evidence on the frequency of action taken. The team based its judgement basically on the information from the director of internal audit who was the most knowledgeable and he did not paint a too rosy picture. The scoring is realistic
	PI-22: The ratings of A and B and overall B+ (not B as this is M2 scoring) seem correct on the basis of sufficient evidence. The assessment should indicate what progress has been made from the 2006 PEFA report that justifies an upgrade. The progress seems to relate to the Part 1 accounts, which are now reconciled within 15 days of the end of			Agree **Action: Aggregate score corrected**

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	the month instead of one month in arrears, as before, but it is not clear what has made this possible			
	PI-23: The D rating appears correct on the basis of sufficient evidence.			
	PI-24: *Note: The assessment report could comment on what appears to be great progress since the 2005 report, which was quite negative about this indicator*. Dim (i): It is uncertain whether the C rating is correct. The 2006 PEFA assessment mentions that budget execution reports include commitment reports, and implies that they exclude Part 1 (donor-financed project) budget execution, as this is not covered by IFMIS. The 2008 assessment says that budget execution reports exclude commitment reports and does not mention if Part 1 reports are included. The assessment report should clarify. Dim (ii): Similarly, it is uncertain if the A rating is correct. The assessment report should clarify whether Part 1 reports are included. Dim (iii): Similarly, it is uncertain if the B rating is correct. The 'A' rating under PI-22 in relation to bank reconciliations suggests that an A rating may be appropriate			In Response to PEFA_S comments The expenditure reports reflect the same structure as the budget which includes the Part I. The narrative has been amended to make this clearer. The issues for data accuracy have to do with the error trapping and other issues and not specifically about bank reconciliation.
	PI-25: *Note: As with PI-24, the assessment report could highlight the apparent significant progress since 2006.* The B rating for dim (i) appears to be incorrect, as expenditure arrears are not included; a C rating is evidenced.	3.4.3 Quality and Timeliness of in-year Budget Reports 3.4.3.1 … the Accountant General demonstrated a report format for a monthly expenditure return which is	The report suggests that Annual Financial Statements are given on time, reflected by an A-score in indicator (ii). While Financial Statements for 2006/07 were submitted by the statutory deadline of 31 October, this has certainly not been the case in the past. CABS has monitored the timeliness of financial	Agree, the requirement of full information on liabilities include arrears which is not presented.

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	The B rating for dim (ii) is incorrect on the basis of the evidence provided. An "A" grading is warranted (the annual financial accounts for 2006/07 were submitted to the .Auditor General in October 2007, 4 months after the end of the financial year; on average, 4.3 months after the end of the financial year on the basis of the last three financial years.) The 'A' rating for dim(ii) appears to be incorrect on the basis of the evidence provided.. The GAAP standards appear not to be applied very consistently, as indicated under dim (i). The 2006 PEFA assessment rated this as C.	currently available on the IFMIS ……. But is not requested for by the Budget Division. **Response:** We think this record has been misrepresented possibly arising out of miscommunication. Budget Division does not dictate to Accountant General what reports to produce.	statements closely: Late submission of accounts for 2005/06 was at least partly due to IFMIS being implemented in October/November 2005. The submission was also of poor quality and was returned by NAO at least one time. In October 2007 CABS met with NAO and Accountant General's Department to agree on the timing of audits and accounts submissions. Both institutions confirmed that 2005/06 accounts had only recently been submitted to NAO, giving a time of 15 months after closing of fiscal year and a delay of 11 months. CABS information was that accounts for 2004/05 were submitted to NAO 9 months and not 2 months after the end of the fiscal year. There have no doubt been improvements, particularly in the full respect of the time line in October 2007, but we would question the overall leap from D+ to B+. Specifically, we would like to understand how indicator iii) on 'accounting standards used' has improved from C to A between 2006 and 2008.	Action: Rating reduced to C For dim(ii)Using an average for the three years is a new approach being suggested by PEFA_S. The team believes that what the indicator says very clear interpretation. In one year it was not within 6 months so it falls into a B. Agree, the GAAP has not been adapted to national standards . There were indications that Malawi intend to adopt the Cash Basis IPSAS , but that has not been done yet **Action: rating reduced to C**
	PI-26: The C, D and C ratings for dims (i), (ii) and (iii) are correct on the basis of the evidence provided.	We would like to confirm that, generally, the draft report has captured what was discussed during the study as regards external scrutiny and audit. However, we have the following comments to make on some of the issues raised in the draft report. (a) Independence of National Audit Office - The office requires three (3) levels of independence which are; operational, financial and organizational independence. Currently, National Audit Office is	The scores seem to be a fair reflection, however, we would query why the score for indicator ii) on timeliness of submission of audit reports has gone down from C in 2006 to D in 2008, when the situation could be argued to be unchanged. This may not affect the overall scores but clarification would be welcome. Paragraph 3.4.5.5 refers to the current coverage of the budget by NAO in terms of value standing at 50%. This figure has also been provided in CABS discussions but with little information on how this calculation is arrived at. Further information on this would be welcome. The same paragraph refers to NAO's efforts to increase coverage by capacity-building. Discussions have taken place during the recent CABS review on the possibility of NAO 'contracting	The remarks from GOM is already taken care of in the beginning and changes applied in the main report. Re EC Comments: 1) It is a correct scoring for the situation observed February 2008 covering the relevant assessment period after the reporting stalled. In 2006 the AG was still alive and reports were submitted. 2) The information about 50% was provided by AG and has been taken at face value. The reports

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		operationally independent as enshrined in the Constitution of the Republic of Malawi. (b) Lack of Professional staff - It is wrong to assume that the absence of National Audit Office's financial independence has contributed to lack of professional staff. Through donor support and use of the available financial resources, National Audit Office has made efforts to train its staff to obtain professional qualifications, but most of these qualified auditors have left for greener pastures. National Audit Office is failing to retain qualified staff because of low salaries in the Civil Service, and there are no any other measures that have been put in place to attract and retain professional staff. The total approved establishment for National Audit Office should read 397 positions and not 450 as reflected in the draft report Reporting to Parliament – It should be acknowledged that, in accordance with the Constitution, the State President has appointed someone to fill the position of Auditor General. This process can only be completed by a two-thirds (⅔) majority members of Parliament ratifying the appointment. Therefore, this matter will be	out' to the private sector, which is within its mandate and would be welcome. It could be worth mentioning this.	seem to verify this when you see what is covered, but it does not say anything about the depth and quality of the audit. With advanced audit methodology, not used here, you can cover 100 % by samplings techniques and risk and materiality assessment with the same staff time. To secure information for ourselves about their coverage you should need much more time than we had available.

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
		discussed during the next sitting of Parliament. I would suggest that the relevant paragraph be rephrased so that the strong sounding phrase of "Political Impasse" is toned down		
	PI-27: The A rating for dim (i) is incorrect on the basis of the evidence provided. The medium term fiscal framework is not presented to Parliament, so the B rating is appropriate. The C rating for dim (ii) is not sufficiently evidenced. The partial evidence provided indicates a B rating is possible, The B rating for dim (iii) is correct on the basis of the evidence provided. The B rating for dim (iv) is correct on the basis of the evidence provided. However, the report could indicate the basis for the improvement over the D rating provided in the 2005 PEFA.		The scope of Parliament's scrutiny has recently improved. However, after following the budget scrutiny for the last three years, it is surprising that PI-27, dimension (i) is given an A score. It is not correct that "the legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue", as the PEFA methodology requires for an A score. The score can at least not be more than a B for this dimension. Further, there is apparent discrepancy between the report on p 69 that the Chair of the Budget and Finance Committee informed that the Committee were given at least 40 days to work with the budget, while on p 14 it seems to be stated that Parliament cannot have this period to scrutinise the budget and meet the fiscal year start date. Moreover, this would be contrary to information given to CABS that a much shorter time period is given for budget scrutiny – in line with the actual periods shown on p 14. The draft budget for FY 2007/08 was perhaps an exception, with the delays incurred following the passing away of the First Lady.	Agree, for dim(i) Action: Rating reduced to B. Dim(ii) Agree, the evidence points to B Action: Increase to B Dim (IV) The basis for improvement is in the constitution, confirmed by interviews with parliamentarian. The previous studies might not have had the access to undertake all interviews. On the questions from the donors about time for debate, we agree there might be inconsistencies. The chair informed us about 40 days but one interpretation in hindsight is that these days might be consecutive calendar days when not all of the days were use for debate. The standing orders say that the <u>debate shall last</u> for at least 21 days. If you interpret that as scheduled debate, then these days are not burned off without any pause for meetings and analyses in between. Explanation has been made in the text.
	PI-28: The D rating for dim (i) is correct on the basis of the evidence provided. The 'A' rating for dim (ii) is			

Comments by PEFA	Comments by PEFA	Comments by GoM	Comments from EC/donors	Team's Responses
	insufficiently evidenced, as it is not clear that in-depth hearings take place 'consistently'. A B rating would seem to be more appropriate. The 'A' rating also contrasts sharply with the C rating provided in the 2006 assessment and it is not clear why. The C rating for dim (iii) appears to be correct on the basis of the evidence provided			(II) The team believes that the evidence is sufficient. From the information provided by the PAC chairman they follow -up and have hearings on reports and all remarks disclosed.
	D-1: The D rating for dim (i) is not correct on the basis of the evidence available. Dim (i) cannot be scored as only 2 years' information are available. The same argument applies for dim (ii). The assessment report should clarify whether the data provided in the 2006 PEFA assessment were subsequently determined to be not useable.		– it surprising that the score has dropped from D+ to D. Through aide memoirs from March budget support reviews, CABS informs GoM of planned budget support disbursements well before the start of each fiscal year. Hence, it is not correct to say that "Overall predictability of Direct Budget Support was poor as information was limited." Aide Memoires from the previous three years are attached. In addition CABS informs GoM on any revisions to these plans in the September review. The only question here could be against the variable tranche used by the EC, where at then present time the reduction comes within the current fiscal year, and within weeks of the end of the year. Copy extracts of AMs can be supplied if required. Strategic Partnership for Africa monitors budget support predictability every year. Copies for all CABS donors from 2006 (2005/06 budget) and 2007 (2006/07) are attached. For 2005 (2004/05 budget) I only have the Norwegian submission. I suggest DFID and EC informs directly on actual budget support disbursements for 2004/05.	Agree, no-score Direct information required from Donors was late and not complete. Information from Debt and Aid (MOF) started only 2 years ago. On (ii) we do the same. Text changed to make it clearer..
	D-2: The C rating for dim (i) is evidenced, though more information could have been provided The C rating for dim (ii) is insufficiently		- It is not understood why the score for indicator D-2 is only a C. Information on project and program aid has been given by some donors for more than three years. Table 1.1 of the Debt and Aid Report for 2006/07,	Re EC comments To understand why it is only a C is simply because it does not fulfil the requirements for a B as it is not always consistent with

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	evidenced as no information is provided on the percentage coverage of the externally financed project estimates in the budget.		shows that 9 (not 8) of 15 development partners met all GoM requirements for data. More than half the donors, and the 5 largest ones (DFID, Norway, EU, World Bank and USAID) provided projections for 2006/07. The report should detail more fully how or why this indicator is not scored higher	Governments budget classification.
	D-3: The C rating is evidenced. However, more information on how the 66 percent coverage figure is derived would be useful.			The proportion of funds through Government systems has increased to about 66 %, based on estimates from reports published by DAD. criteria might not be previous PEFAs was data was limited
Reform Effort	This section provides a useful and concise description of the recent PFM reform efforts, the institutional arrangements to support these and the challenges to be met (such as capacity constraints) in order to ensure success and sustainability.			No Action required

Final Comments & Responses Received 16th June 2008: Malawi PEFA 2008

Source	Comments	PEFA Team's Response
GOM	Tracked changes to the PI-19	The tracked changes to the rating completely undermine the independence of the PEFA exercise. With respect to the text, GOM deletes the fact that the Chamber of Commerce has some real concerns. That is a very serious omission. As far as the rest is concerned, the team did not have any real objection except that much of it is irrelevant to the scoring to the indicator. The changes aimed to explain away the findings of the team. The suggested changes refer to recent efforts to improve the system that will take time to be fully implemented. The PEFA assessment examined what was on the ground within a cut-off period, and not changes that would take effect in future. The team recommends that an annexe should be added that presents the government perspectives and also state that the Government's own self assessment rates itself solely A's and B's.
PEFA Secretariat, June 2, 2008	*General Comment:* We greatly welcome the inclusion of the progress tracking table and the diligence of the team in addressing our comments. We are satisfied with the quality of the draft final report.	
	Specific Comments *PI 7 dim (ii):* It is still not clear that A rating is warranted. The PI concerns reporting of income and expenditure of donor-funded projects managed outside the government's budgeting and accounting systems (but which nevertheless may appear in the government's budget documentation). PI-7 belongs to the group of indicators under the "Comprehensiveness and Transparency" dimension of the PEFA framework. To qualify for an A rating requires evidence that complete income/expenditure information is provided in fiscal reports for at least 90% in value terms of all donor-funded projects (both loan and grant financed) that government is a contractual party to, other than inputs	This fiscal report, The Summary of Project Support Managed Outside Government Systems, is submitted to parliament along with the Budget documentation. So there is a mechanism in place for informing parliament of all Income / expenditure information on donor funded projects. We note that for the fiscal year 2006/2007 23% of Donor Expenditure was reported outside the budget; however these expenditures were captured within other fiscal reports", however for the last two years they have published 'The Summary of Project Support Managed Outside Government Systems which has comprehensively collected ALL data on expenditure, which is more than 90%. That is the evidence provided. There was no reason to believe that the exercise was flawed or only partial. Furthermore the report has been submitted to parliament.

Source	Comments	PEFA Team's Response
	provided as aid-in-kind. The report does not provide evidence that the 90% benchmark is met.	
	PI 12: Dim (i): The point we made was about the forecasts of functional allocations (e.g. for education and health sectors), not the fiscal aggregates, which concern aggregate expenditure and expenditure according to economic classification. An A grade requires forecasts for both functional classifications and for the fiscal aggregates. Paragraph 3.2.8.3 indicates that the MTEF (which consists of projections of expenditure on a functional or program basis) is still not fully developed. The text as it stands appears to refer only to forecasts of fiscal aggregates.	The team accepts that the narrative did not explicitly state that the macro-fiscal forecasts include functional forecasts. It was only made implicitly and would be made clearer in the text. There are functional forecasts that set the sector ceilings for the PSIP inclusion in the budget and it is not just at the fiscal aggregate level. A statement such as 'Three year functional forecasts are prepared which serve as sector ceilings for the integration of the PSIP into the budget' would make it clearer.
	PI 12: Dim (iii): Accept your point but suggest you clarify the text, specifically referring to the quantitative benchmark mentioned in the Framework document under this dimension.	The team accepts to further clarify the text to underlie the fact that the MDGS has costed strategies. There are 5 thematic areas representing several major sectors exceeding 25% of primary expenditure. The strategies outlined in the MDGS were built bottom up, thereby reflecting sector strategies.
	PI 19: Dim (i): The public procurement system refers to the government's procurement system and does not include procurement through donor systems. We are currently revising the "Clarification Notes"; the revision will include a clarification concerning the definition of public procurement.	The debate was if public procurement referred to all procurement (government and donors) or government procurement (national) only. The logic of the situation is that 'public' referred to all procurement irrespective of the rules. However if PEFA Secretariat has decided that it refers only to the national procurement systems then the assessors would give the indicator 'no score' since ODPP did not make a distinction in the database on the rules applied. It is clear though that the database integrates all procurement, irrespective of rules applied.
	PI 19: Dims (ii-(iii) and PI 20 dim (ii): We accept your scores of C	No Action Required
	PI 21: Dim (iii): We accept your clarification.	No action required
	PI 25: Dim (ii): The PEFA "Guidelines on Evidence" state that the reference point is the date of the last annual financial statement submitted for audit.	The team's previous response maintained a B evidenced by the submission of final statements within 10 months. In view of PEFA_S 'Guidelines on Evidence' dim (ii) rating has changed to 'A'.