

# **Government of Malawi**

## **Report on the Evaluation of the Public Financial Management System of Malawi**

### **Public Expenditure and Financial Accountability (PEFA) Assessment 2018**

#### **Final Report**

**23 November 2018**

**A joint project of the Government of Malawi, the World Bank and Development Partners.**

**FISCAL YEAR**

**July 1 - June 30**

**CURRENCY EQUIVALENTS**

**(as of July 31, 2018)**

Malawi Kwacha (MK);

1 USD = 726 MK

1 Euro = 850 MK

## Acronyms and Abbreviations

AC	Audit Committee
AER	Annual Economic Report
AfDB	African Development Bank
AFROSAI-E	African Organization of Supreme Audit Institutions - English Speaking
AGD	Accountant General's Department
AMP	Aid Management Platform
ASYCUDA	Automated System for Customs Data (by UNCTAD)
BCG	Budgetary Central Government
CG	Central Government
COFOG	Classification of the Functions of Government
CRF	Consolidated Revenue Fund
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DAD	Debt and Aid Division Management in MoFEPD
DFID	Department for International Development
DHRMD	Department of Human Resource Management and Development of OPC
DP	Development Partner
DSA	Debt Sustainability Analysis
EAD	Economic Affairs Division of MoFEPD
EBU	Extra-Budgetary Unit
ECF	Extended Credit Facility
EFPS	Economic and Fiscal Policy Statement
EP&D	Department of Economic Planning and Development
EFT	Electronic Funds Transfers
EU	European Union
FROIP	Financial Reporting and Oversight Improvement Project
GAAP	Generally Accepted Accounting Practices
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GNI	Gross National Income
GIZ	Gesellschaft für Internationale Zusammenarbeit – German International Cooperation
GoM	Government of Malawi

GRF	General Resource Fund
GWAN	Government Wide Area Network
HRMIS	Human Resources Information Management System
INTOSAI	International Organization of Supreme Audit Institutions
IA	Internal Audit
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards for Supreme Audit Institutions
IGFTS	Inter-Government Financial Transfer System
JICA	Japan International Cooperation Agency
LDF	Local Development Fund
LGA	Local Government Act
MAREP	Malawi Rural Electrification Programme
MAPS	Methodology for Assessing Procurement Systems (by OECD)
MCCI	Malawi Chamber of Commerce and Industry
MDA	Ministries, Departments and Agencies (of budgetary central government)
MDGS	Malawi Growth and Development Strategy
MDTF	Multi-Donor Trust Fund
MEJN	Malawi Economic Justice Network
MK	Malawi Kwacha
MoFEPD	Ministry of Finance, Economic Planning and Development
MoEST	Ministry of Education, Science and Technology
MoHP	Ministry of Health and Population
MoTPW	Ministry of Transport and Public Works
MTDS	Medium Term Debt Management Strategy
MRA	Malawi Revenue Authority
NAO	National Audit Office
NLGFC	National Local Government Finance Committee
NPC	National Planning Commission
NSO	National Statistics Office

ODPP	Office of the Director of Public Procurement
OPC	Office of the President and Cabinet
ORT	Other Recurrent Transactions
PAC	Public Accounts Committee
PBB	Program Based Budget
PERMU	Public Enterprises Reform and Monitoring Unit of MoFEPD
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMA	Public Financial Management Act 2003
PFEM-RP	Public Financial and Economic Management Reform Program
PFMRP	Public Financial Management Rolling Plan
PFMSD	Public Financial Management Systems Division of MoFEPD
PI	Performance Indicator
PIMA	Public Investment Management Assessment
PMPB	Performance Management and Program Budget
PPA	Public Procurement Act
PPDA	Public Procurement and Disposal of Assets Authority
PPP	Public-Private Partnership
PSIP	Public Sector Investment Program
RBM	Reserve Bank of Malawi
RFA	Road Fund Administration
RPD	Revenue Policy Division of MoFEPD
SAI	Supreme Audit Institution
ST	Secretary to the Treasury
SWG	Sector Working Group
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
ZCPN	Zero Coupon Promissory Note

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## Validation Workshop

Participants at the Validation Workshop, Capital Hotel Lilongwe. October 10, 2018





## Malawi PEFA Assessment

Public Financial Management assessment following PEFA methodology for  
Malawi

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the **'PEFA CHECK'**.

PEFA Secretariat

December 18, 2018

## **Preface**

This 2018 Public Expenditure and Financial Accountability (PEFA) assessment was carried out jointly by the assessment team comprising officials of the Government of Malawi and the World Bank. The assessment was undertaken with resources provided by the World Bank.

The PEFA Assessment was managed through the PEFA Oversight Team/Steering Committee, chaired by Ben Botolo, Secretary to the Treasury in Ministry of Finance, Economic Planning and Development. The assessment team was jointly led by Government managers: Hetherwick Njati (Director of Public Finance Management Systems Division) and Chrighton Chimombo (Accountant General); and World Bank assessment managers: Trust Chimaliro (Financial Management Specialist), Saidu Goje (Senior Financial Management Specialist) and Srinivas Gurazada (Senior Financial Management Specialist).

Data collection missions and report drafting were undertaken by a team of three World Bank consultants: Frans Ronsholt – team leader, Isaac Kurewa and Alex Mkandawire, PFM experts; assisted throughout by Monaosyile Mhango, Deputy Director and Eliam Kadewele, Economist, both from the PFM Systems Division of MoFEPD.

The in-country assessment missions were conducted during July and August 2018, representing the time of assessment. It followed standard recommended practices of the PEFA Secretariat as laid down in the concept note for the assessment. The PEFA Assessment team acknowledges and appreciates the excellent cooperation extended by officials of all branches of the Government of Malawi, Development Partners and civil society organizations as well as information providers and peer reviewers, including PEFA Secretariat, DFID, European Union, USAID and World Bank staff members.

An Executive Summary is provided for readers who wish to get a brief overview of the main findings. Readers who wish to get a more comprehensive understanding of the findings, but do not have the time to read the entire report, are advised to focus on Chapter 4.

Readers who would like information on PEFA assessment methodology, including indicator scoring system, scoring criteria for each indicator and the PEFA CHECK quality assurance system) are advised to visit the PEFA Secretariat's website [www.pefa.org](http://www.pefa.org) where the information can be obtained e.g. from the three volumes of the PEFA Handbook.

## **Executive Summary**

### **Assessment Purpose, Coverage, Management, and Timing**

The objective of Malawi's PEFA 2018 assessment is to provide the government with an objective, indicator-led assessment of the national PFM system in a concise and standardized manner to assist in identifying those parts of the PFM systems in need of further reform and development. The assessment also offers an update of progress in PFM systems performance since the last PEFA assessment in 2011.

The scope of the assessment is central government comprising ministries, departments, and agencies (MDAs) as well as extra-budgetary units (EBUs). The cut-off date for consideration of data and other information for the assessment is August 2018 i.e. the last completed fiscal year considered for the assessment is 2017/18.

The 2018 PEFA assessment is a joint Government-World Bank exercise, conducted under the guidance of a Government – Donor Oversight Team. The technical work of the assessment is undertaken jointly by a team consisting of Government of Malawi officials and World Bank staff/consultants. Quality assurance of the assessment follows PEFA CHECK procedures as well as the World Bank's internal quality assurance procedures.

### **Impact of PFM reforms on the three main budgetary outcomes**

The PEFA Assessment focused on the extent to which PFM systems are supportive of Government efforts to deliver the three main fiscal and budgetary outcomes which are – (i) aggregate fiscal discipline, (ii) strategic allocation of resources and (iii) efficient service delivery.

#### ***Aggregate fiscal discipline***

Aggregate budget outturns of GoM indicate that the approved budget is a good indicator of actual performance at the aggregate level for both revenue and expenditure, leading to budget deficits roughly in line with the fiscal framework proposed prior to the beginning of each year. The effect of the very substantial extra-budgetary operations on aggregate fiscal discipline is not known due to lack of consolidated data. The main part relates to development support provided by various Development Partners which is unlikely to negatively influence fiscal balance, whereas financial performance of extra-budgetary units is subject to limited monitoring and is more likely to pose a fiscal risk. Of more concern, however, is the situation regarding expenditure arrears, i.e. informal debt that is only recognized in fiscal reports when it is paid, as well as inadequate monitoring and reporting of fiscal risks from public corporations where deficits may build up and to which loan guarantee have been issued.

The executive has been able achieve the estimated aggregate expenditure through rigid cash management and use of the extensive powers of the Minister of Finance to re-allocate budget funds during the year, despite regular underperformance on development expenditure and frequent responses to political and external events which lead to change of priorities during the year. The quite well-functioning tax administration system and – in aggregate - realistic revenue estimates support collection of the estimated revenues. Fiscal strategy is also clear even if this is primarily determined and reported in consultation with the IMF under the ongoing ECF arrangement.

However, cash budget management creates incentives for managers of public services to commit expenditure outside the central commitment controls built into IFMIS with no sanctions applied to the responsible officers when discovered. IFMIS controls are also limited by not accommodating multi-year commitments. These may be some of the reasons for appearance of expenditure arrears.

### ***Strategic resource allocation***

The high levels of compositional variance in budget outturns every year – particularly for expenditure - indicate important issues that need addressing. Some votes and economic items show consistent over- or under-performance from year to year, which suggest that such budgets are unrealistic or not respected. Budget estimates for most sectors follow proper processes, and are based on comprehensive medium term sector strategies and clear statements of program objectives and output targets. As there is hardly any contingency reserve set aside in the budget, the frequently materializing fiscal risks (such as calls on guarantees and emergency funding for natural disasters) lead to significant in-year re-allocations and poor expenditure outturns for many sectors, as the priority is to keep aggregate expenditure within the ceiling. The established medium-term budget planning system should in principle support strategic allocation, but this is not being fully achieved due to unreliable annual budget outturns and lack of reconciliation and explanation of outer year estimates from one budget cycle, with the budget year estimates and related outer year forecasts presented for the following budget cycle.

Transparency in strategic allocation suffers from lack of actual outturns from the previous year (by the same classification as budget estimates) in budget documentation. Also missing is public access to some key fiscal documents, such as regular budget execution reports, consolidated and up-to-date reporting on extra-budgetary units, off-budget donor support and financial reports of public corporations, as well as completion and updating of allocation formulas to local government councils.

### ***Efficient service delivery***

Service objectives and quantitative output and activity targets are extensively set out in the Program Based Budget parts of budget documentation, including reporting on actual achievements, but the corresponding reporting on actual spending by (sub-) program is missing, thus hampering assessment of efficiency. Whilst medium term budget planning should support efficient service planning, this is not achieved as mentioned under Strategic Resource Allocation.

The comprehensive PSIP system for investment management helps in proper selection of priority projects for budgetary funding, even if capacity to fully implement the system could be improved. Lack of monitoring and transparency of procurement processes point to procurement being a high risk area in the pursuit of value for money in public expenditure. Large compositional variance in expenditure budget outturns suggest that shifts in priorities during the year lead to some services being deprived of funding for the planned annual service outputs, and whilst some service managers may try to make up for the difference by committing expenditure by bypassing central controls, this likely results in expenditure arrears with high financing costs for suppliers and consequently increased prices on government procurement.

Inadequate public access to comprehensive information on budget execution and extra-budgetary operations, poor implementation of internal and external audit recommendations and lacking application of sanctions for non-compliance with rules and regulations suggest that accountability for use of public resources may not be as effective as desirable.

Table I overleaf provides a summary of the 2018 assessment based on the 2016 PEFA Framework, which should be the baseline for monitoring progress for the future. A brief explanation for each score is provided in Annex 1. For a generic description of the score levels and scoring methodology, refer to the commencement of Chapter 3 on page 33.

### **Main Performance Changes since 2011 PEFA Assessment**

Overall, the findings show substantial progress in the performance of many PFM sub-systems, particularly in the revenue management area, but also several systems where performance has deteriorated over the past seven years.

The main areas of improvement were:

- Revenue management with strong improvement in tax collection outturn and in tax registration and assessment, as well as minor improvement in transparency of taxpayer obligations and liabilities.
- Annual budget preparation, and multi-year budgeting (MTEF and PSIP).
- Parliamentary oversight of budget proposals and scrutiny of audited annual financial reports.
- Improvements were also noted in reporting on extra-budgetary operations (Treasury Funds), procurement (legislation), bank and advance account reconciliation, internal audit (reporting) and information on resources for primary service delivery units (cost center classification and reporting through IFMIS).

The areas of declining performance were:

- Outturn on composition of expenditure deteriorated significantly;
- Budget documentation (actual outturn data in comparable format now missing),
- Inter-governmental fiscal relations (horizontal allocation formulas and consolidation of financial data for general government),
- Oversight of fiscal risk from EBUs and public corporations (timeliness and completeness of information),
- Predictability in the availability of funds for commitment of expenditure,
- Public debt reporting,
- Effectiveness of internal controls for non-salary expenditure (commitment controls and degree of non-compliance with rules).

### **Ongoing and Planned PFM Reform Agenda**

In 2011, Government adopted the Public Finance and Economic Management Reform Program (PFEM-RP) as its umbrella framework for providing greater coherence and guidance to reforms of its PFM systems. Implementation of PFEM-RP resulted in significant progress in enhancing the

PFM environment for which there are a number of notable achievements as illustrated above. On the basis of the experience from PFEM-RP implementation, the Government has prepared a new PFM Rolling Plan (PFMRP) covering the period July 2018 to June 2021. This PFMRP carries forward a number of priority reform areas that were not completed under the PFEM-RP. However, the PFMRP is yet to have its many components and activities prioritized, sequenced and set in annual work plans. The present report may assist the Government in that process.

<b>Table I: PEFA Assessment Summary of Scores 2018 (measured by 2016 PEFA Framework)</b>							
PFM Pillar and Performance Indicator		Scoring Method	Dimension Ratings				Overall Score
			.1	.2	.3	.4	
<b>Pillar I: Budget reliability</b>							
PI-1	Aggregate expenditure outturn	-	A				A
PI-2	Expenditure composition outturn	M1	D	C	A		D+
PI-3	Revenue outturn	M2	A	D			C+
<b>Pillar II: Transparency of public finances</b>							
PI-4	Budget classification	-	A				A
PI-5	Budget documentation	-	B				B
PI-6	Central government operations outside financial reports	M2	D*	D*	D		D
PI-7	Transfers to sub-national governments	M2	C	C			C
PI-8	Performance information for service delivery	M2	B	B	D	D	C
PI-9	Public access to fiscal information	-	D				D
<b>Pillar III: Management of assets and liabilities</b>							
PI-10	Fiscal risk reporting	M2	D	D	D		D
PI-11	Public investment management	M2	C	C	D	C	D+
PI-12	Public asset management	M2	D	D	D		D
PI-13	Debt management	M2	B	A	D		B
<b>Pillar IV: Policy-based fiscal strategy and budgeting</b>							
PI-14	Macroeconomic and fiscal forecasting	M2	D	C	D		D+
PI-15	Fiscal strategy	M2	D	C	C		D+
PI-16	Medium term perspective in expenditure budgeting	M2	B	A	A	D	B
PI-17	Budget preparation process	M2	C	A	C		B
PI-18	Legislative scrutiny of budgets	M1	C	B	A	B	C+
<b>Pillar V: Predictability and control in budget execution</b>							
PI-19	Revenue administration	M2	A	B	C	C	B
PI-20	Accounting for revenue	M1	A	A	A		A
PI-21	Predictability of in-year resource allocation	M2	D	A	C	B	C+
PI-22	Expenditure arrears	M1	D*	D			D
PI-23	Payroll controls	M1	C	A	C	B	C+
PI-24	Procurement management	M2	D	D*	D	B	D+
PI-25	Internal controls on non-salary expenditure	M2	B	C	D		C
<b>Pillar VI: Accounting and reporting</b>							
PI-26	Internal audit	M1	D	C	C	D	D+
PI-27	Financial data integrity	M2	D	D	A	C	C
PI-28	In-year budget reports	M1	B	C	B		C+
PI-29	Annual financial reports	M1	C	B	D		D+
<b>Pillar VII: External scrutiny and audit</b>							
PI-30	External audit	M1	C	D	C	D	D+
PI-31	Legislative scrutiny of audit reports	M2	C	B	B	B	B



## **Chapter 1. Introduction**

Chapter 1 outlines the context and purpose of the public financial management (PFM) assessment, the process by which the assessment report was prepared, the methodology used in undertaking the assessment, and finally explains the content of the remainder of the report.

### **1.1 Background**

PEFA assessments of central government which includes many tasks decentralized to the districts in Malawi were carried out in 2005, 2006, 2008 and 2011. The PEFA assessments have made an important contribution to the shaping and implementing of reforms and improvements to the PFM system. With seven years since the last PEFA assessment and several PFM interventions having taken place in various areas, it is now an appropriate time to take stock of overall progress on PFM systems performance to evaluate the impact the reforms are having and to guide the government and its development partners (DPs) on the future direction of reforms. Therefore, Government of Malawi (GoM) has decided to conduct the PEFA Assessment and requested the World Bank to support the process.

### **1.2 Rationale and purpose of the assessment**

The objective of the PEFA 2018 assessment is to provide the government with an objective, indicator-led assessment of the national PFM system in a concise and standardized manner, to form an updated understanding of the overall fiduciary environment of the PFM systems and to assist in identifying those parts of the PFM systems in need of further reform and development. The assessment will also assist the government in identifying PFM weaknesses that may inhibit the realization of its development strategy. Once it is completed, it will provide the basis for a coherent PFM reform program that can be supported by DPs, as well as through the government's own initiatives. PEFA assessment is desirable also to assess the progress of reforms made under the Malawi Public Finance and Economic Management Reform program. However, it is appreciated that other more focused analyses may be required to better inform a new PFM strategy.

### **1.3 Assessment management and quality assurance**

The stakeholders of the PEFA Assessment are GoM and the main DPs involved in PFM in Malawi. The PEFA assessment is a Government led exercise conducted jointly with the World Bank and supported by other Development Partners. Primary data collection and analysis was done jointly by the Government team and World Bank team (staff and consultants). The national authorities and six DPs are represented in the assessment's Oversight Team (OT) providing oversight of the exercise, ensuring that data for assessment is available when required, and managing the quality review process. The individual members of the OT are as shown in Box 1.1. Other DPs involved in PFM (such as ADB, JICA and IMF) have been invited to events and to provide comments on the concept note and draft report.

**Box 1.1: Assessment Management and Quality Assurance Arrangements (for details see Annex 5)**

**PEFA Assessment Management Organization**

Oversight team:

- Government representative (chair) – MoFEPD/Director of PFM Systems Division
- Government representatives (MoFEPD/Director of Budget, Accountant General, Auditor General and Malawi Revenue Authority)
- World Bank representative (Country Manager and Senior PFM Specialist)
- Representatives of DPs active on PFM in Malawi (EU, DFID, GIZ, NORAD, and Irish Aid)

**Review of the Concept Note**

- Draft concept note was reviewed during June-July 2018. Review comments were provided by World Bank staff, EU, DFID and PEFA Secretariat,
- Final concept note was approved on July 18, 2018

**Review of the assessment report**

- The Draft Report for Peer Review of September 24, 2018 circulated for review on September 25, 2018. Review comments were received from MoFEPD, World Bank staff, EU, DFID, USAID and PEFA Secretariat
- The final draft report was issued on October 19, 2018 and circulated to the Oversight Team.

The Oversight Team provided overall guidance on the management aspects of the assessment, facilitated data collection & coordination, and provided peer reviews of the concept note and draft reports. The Oversight Team received debriefing on the initial findings of the assessment mission and provided guidance on resolving challenges. The Oversight Team was responsible for considering and approving the final draft presented after peer view.

The PEFA assessment was conducted by a joint Government - World Bank Assessment Team. The entire composition of the Assessment Team is listed in Annex 5.

Quality assurance of the assessment follows the PEFA Program's PEFA CHECK procedures (see details in Annex 5) as well as the World Bank's quality assurance procedures. Quality review covered the concept note and the assessment report with first line of review by the Government and World Bank assessment managers. Peer reviewers included World Bank specialists from units not involved in the assessment, Development Partners represented by The European Union and DFID/UK, as well as the PEFA Secretariat.

An overview of the management and quality assurance arrangements is provided in Box 1-1 with further details provided in Annex 5. The timeline of the assessment is illustrated in Table 1-1.

Members of the GoM oversight and assessment teams attended a PEFA training workshop delivered by the PEFA Secretariat in South Africa in January 2018. Data collection was initiated during a preparatory mission by the consultants at the beginning of July 2018. The assessment team held meetings with some key departments of MoFEPD as well as the Auditor General. The mission also included a short workshop to update a larger number of government staff on PEFA methodology and the issues of scope and timeframe for the assessment at hand. During the

following three weeks the government counterpart team collected data, and at the end of July the main mission took place. During this mission meetings were held with numerous MoFEPD departments, line ministries and agencies, with Parliament, the Auditor General as well as EBUs and civil society as listed in Annex 3A. The team briefed the Oversight Team on progress and initial findings on August 10, and continued collection of outstanding data requested until August 17. After circulation of the draft report of September 24, 2018 a validation workshop was held with members of the Oversight Team, the Assessment Team and other invited Development Partners – in total 45 officials participated. In addition to the written comments received, the workshop provided verbal comments from MoFEPD departments and divisions, MRA and NAO as well as various DP representatives.

**Table 1-1 Timeline of the Assessment**

<b>Task</b>	<b>Timelines</b>
<b>Preparatory work</b>	
• Establishment of Oversight Team	January 2018
• Drafting of Concept Note	January-April 2018
• Draft Concept Note cleared by GoM	April 14, 2018
• Peer Review of Concept Note	May-June 2018
• Approval of the Final Concept Note	July 18, 2018
• Recruitment of Consultants	June 2018
<b>Field work</b>	
• PEFA methodology workshop	July 5, 2018
• Preparatory Field mission - Initiation of Data collection	July 2-5, 2018
• Main Field Mission	July 30 – August 17
• Presentation of initial findings to the Oversight Team	August 10, 2018
<b>Post field work</b>	
• Draft report prepared by assessment team (for Peer Review)	September 24, 2018
• Peer review, report distributed to peer reviewers	September 25, 2018
• Validation workshop	October 10, 2018
• Peer review comments received	October 5 – 11, 2018
• Final draft report completed	October 19, 2018
• Revised report distributed to Oversight Team	October 22, 2018
• Decision review meeting	October 30, 2018
• Final report changes submitted to all peer reviewers and PEFA Secretariat for PEFA CHECK validation	November 2018

#### **1.4 Assessment methodology, coverage, and scheduling**

The PEFA assessment is conducted using the PEFA 2016 framework as applied to central government operations, in line with the IMF Government Finance Statistics (GFS) Manual 2014.

The scope of the assessment is the central government of Malawi and its ministries, departments, and agencies, including extra-budgetary units and statutory funds.

The assessment also examines the potential fiscal risk to central government from other public sector entities such as Local Government Authorities and Public Corporations/State Enterprises. This is to the extent they pose fiscal risk to the central government.

The data used for assessing the PFM performance indicators cover the time periods as specified in the PEFA 2016 Framework for each indicator, and is clearly indicated for each indicator assessment on Chapter 3 of the present report. This typically reflects the situation at the time of the main mission of the assessment team (up to the middle of August 2018) or systems performance during the most recent, completed fiscal year (i.e. 2017/18<sup>1</sup>). However, some indicators require data for up to three completed fiscal years, namely 2015/16, 2016/17 and 2017/18. The fiscal year of the Government covers the twelve months from July 1 to June 30. Data sources used for each indicator are listed in Annex 3B.

While the new 2016 PEFA Framework provides for an improved assessment framework, it only allows for limited comparisons with previous assessment conducted in early 2011 (Final Report 25 March 2011) which used an earlier version of the PEFA Framework issued in January 2011. In 2016 many indicators were revised and some new ones added, requiring data for the assessment, which was not collected in 2011. Therefore, in order to allow for full comparison and hence enable a review of all specific changes since the previous assessment, the comparison of the 2011 and 2018 assessments is carried out using the 2011 PEFA Framework (in Annex 4).

The three donor practice indicators of the 2011 assessment have not been reassessed in 2017 as these indicators did not measure government performance and were not included as standalone indicators in the 2016 Framework. In the new 2016 PEFA Framework donor funded projects are no longer assessed separately but are included in government operations as any other operations irrespective of source of funding.

The government has during 2018 undertaken two other PFM diagnostics: One supported by the IMF on Public Investment Management Assessment (PIMA)<sup>2</sup> and the second by the World Bank on Methodology for Assessment of Procurement Systems (MAPS)<sup>3</sup>. In addition, the Open Budget Survey 2017 was released in January 2018 and included Malawi. All of these three comprehensive studies have been drawn upon for the PEFA assessment, as well as on some IMF Technical Assistance Reports prepared during 2017-2018. Finally, the TADAT assessment of tax administration of May 2015 has been consulted, but could not be directly used as it covers the situation well before the period assessed for this PEFA report.

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<sup>1</sup> For indicators that look at budget preparation and forecasts the processes undertaken during 2017/18 concern the 2018/19 budget; whereas the Auditor General's report issued in 2017/18 concerned fiscal year 2016/17 etc.

<sup>2</sup> Final report June 2018

<sup>3</sup> At the time of assessment the report was still in a draft version.

## 1.5 Report Structure

The remainder of the main report is structured as follows:

- Chapter 2 provides an overview of relevant country-related information that provides the context underpinning the indicator results and the overall public financial management (PFM) performance;
- Chapter 3 provides the detailed assessment of performance in terms of the seven pillars of the PFM system. It provides analysis and measurement of results in terms of the 31 performance indicators (PIs) of PFM performance;
- Chapter 4 includes the broad conclusions from the analysis of PFM systems. It also identifies the most important system strengths and weaknesses in that respect, summarizes findings related to the internal control framework, highlights systems performance implications for achieving the three main fiscal or budgetary outcomes, and summarizes the main performance changes since the 2011 assessment.
- Chapter 5 provides an overview of government initiatives to improve PFM performance summarizing the approach to PFM reform, including the institutional factors that are likely to have an impact on the planning and implementation of reforms.
- Annex 1 provides summary tables of performance indicator scores for 2018 with short explanation, as assessed using the 2016 PEFA Framework.
- Annex 2 provides a summary of observations on the internal control framework.
- Annex 3 lists the sources of information.
- Annex 4 contains the PEFA assessment scores comparing the 2011 and 2018 assessments using the 2011 PEFA Framework.
- Annex 5 contains details of the PEFA assessment management organization.
- Annex 6 includes a number of data tables used for selected indicator assessments.
- Annex 7 provides a list of public sector institutional units.

## Chapter 2. Country Background Information

To place the PFM performance measurement in a wider context, this chapter provides information on core characteristics relevant to the government's PFM system. This covers country economic, budgetary, and fiscal trends, the structure of the public sector, legal and institutional framework for PFM, and other aspects of the government's framework for financial management.

### 2.1 Country economic situation

**Malawi is a landlocked country of 18 million inhabitants with a per capita GNI of just US\$320 in 2017<sup>4</sup>.** Economic growth in Malawi has been historically more volatile and lower than the rest of Sub-Saharan Africa growing at an average of around 1.5 percent between 1995 and 2015<sup>5</sup>, even though during the last few years the economic growth rate has been in the 3-4 percent range. The erratic growth performance has been attributed to both external shocks, such as severe climate shocks and, often domestically generated policy-induced, macroeconomic instability. Poverty levels have remained among the highest in the region, although there have been improvements in non-income poverty indicators.

**The agricultural sector dominates the economy, accounting for almost 30 percent of GDP, around three-quarters of total exports, and 64 percent of the labour force.** Over 80 percent of households depend on the sector for at least some of their income. Other major sectors of the economy are highly dependent on agricultural performance, including manufacturing and wholesale and retail trade. Since the agricultural sector serves as a primary source of food supply, incomes, employment, foreign exchange and government revenue, risks affecting the sector have a far-reaching impact on the overall economy.

**Volatile economic growth and recurrent natural shocks have made it difficult to achieve meaningful reductions in poverty in Malawi.** The results from the fourth Integrated Household Survey (IHS-4) suggest that the level of poverty has seen little change since 2010. In fact, the national poverty rate increased slightly from 50.7 percent in 2010 to 51.5 percent in 2016. This period was initially characterized by macroeconomic instability following the devaluation of the Malawi Kwacha (MK) in 2012, and then a series of natural shocks: floods in 2015 and a major drought in 2016. Estimates using the international poverty line of US\$1.90 per day indicate that 69.2 percent of the population is classified as being poor in 2017.

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<sup>4</sup> World Development Indicators 2018

<sup>5</sup> World Bank: 2017 Country Economic Memorandum

**Table 2-1: Selected Economic Indicators**

	2014	2015	2016	2017 estimate	2018 projection
Population (million inhabitants)			18.1		
Life expectancy at birth (years)			63.2		
GDP at current Prices (MK billion)	2570	3201	3910	4503	5068
GNI per capita (current US\$, Atlas method)	350	340	320	320	
Real GDP growth (%)	5.7	3.0	2.3	4.0	3.5
Inflation, consumer prices annual average (%)	23.8	21.9	21.7	11.5	10.4
Total Public Debt (% of GDP)	48.0	54.6	54.4	55.1	54.3
External Debt (% of GDP)	33.1	37.3	33.2	32.6	32.1
Domestic Debt (% of GDP)	14.9	17.3	21.2	22.6	22.2
Current account Balance (% of GDP)	-8.3	-9.4	-13.6	-10.0	-8.9
Gross Official Reserves (US\$ millions)	588	670	605	757	703
Gross Official Reserves (months of import cover)	3.0	3.4	2.9	3.3	3.0

Sources: WB: World Development Indicators 2018; IMF ECF Review July 2017 and Article IV Report May 2018

**Malawi's economy rebounded in 2017 from the two consecutive years of drought.** Real growth picked up - estimated at 4 percent in 2017 (up from 2.3 percent in 2016) - owing to a recovery in agricultural production. However, regular and prolonged electricity outages weighed on manufacturing and wholesale and retail trade. Inflation declined by end-2017 owing to the stabilization of food prices, prudent fiscal and monetary policies, and a stable exchange rate.

## 2.2 Fiscal and budgetary trends

### *Fiscal performance*

**Weaknesses in public financial management (PFM) have tended to transmit recurring shocks into poor fiscal discipline, in turn exacerbating macroeconomic instability.** Besides a short period after 2005, when fiscal space opened up following debt relief, fiscal indiscipline has frequently been a source of instability and volatility in Malawi. There have been recurring instances of fiscal slippages, where realized deficits significantly exceeded those planned at the beginning of the fiscal year, and the central bank financed most of the gap. These slippages often result from both a shortfall in resources and unplanned expenditures undertaken during the year. Volatility in foreign aid receipts has also played a role in erratic fiscal management, with corruption scandals leading to the suspension of budget support. The 2013 'cashgate' scandal

resulted in the most recent downturn in Official Development Assistance provided on budget<sup>6</sup>.

**The Government regained control over budget execution in 2016/17.** Revenue collection increased by almost 2 percentage points of GDP relative to the previous year, reflecting expansion of VAT coverage, elimination of several exemptions, and a one-off revenue mobilization from capital gains tax. Firm spending control was exerted by requiring detailed monthly fiscal reports from all spending units as a condition for the subsequent month's funding and better targeting of the farm input subsidy program (FISP). The overall balance of 5.1 percent of GDP improved by 1.5 percentage points in 2016/17 relative to the previous fiscal year.

**The fiscal position deteriorated significantly in the first half of 2017/18.** The overall deficit was 4.7 percent of GDP relative to 2.9 percent of GDP in 2016/17. Revenues underperformed due to power outages slowing economic activity and weaker than anticipated customs collection. The bailout of the Agricultural Development and Marketing Corporation (ADMARC, MK 45 billion or 0.9 percent of GDP) and higher domestically financed development spending added to budget pressures. Fiscal space created by lower interest bills was used to increase wages and goods and services spending. Progress was made in resolving arrears dating back to 2012/13. Domestic arrears of over 5 percent of GDP, accumulated during July 2012–June 2017, are in the process of being cleared. As of end-2017, almost all of them were securitized through zero interest promissory notes. About 65 percent of these (in domestic and foreign currency) have already been repaid in cash and the rest will be maturing during 2017/18 and 2018/19.

**Table 2-2: Malawi aggregate fiscal data 2014/15 to 2017/18**

	(in % of GDP)	2014/15 actual	2015/16 actual	2016/17 estimate	2017/18 projection
<i>Total revenue</i>		21.4	21.7	23.6	22.4
- <i>Own revenue</i>		18.6	18.0	20.1	19.5
- <i>Grants</i>		2.8	3.7	3.5	2.8
<i>Total expenditure</i>		27.8	28.5	28.7	29.7
- <i>Non-interest expenditure</i>		23.8	24.5	22.5	22.6
- <i>Interest expenditure</i>		4.0	4.0	6.2	7.1
<b>Primary balance</b>		-2.4	-2.8	-0.6	-3.0
<b>Fiscal Deficit excl. grants</b>		-9.2	-10.5	-8.6	-10.1
<b>Fiscal Deficit incl, grants</b>		-6.4	-6.8	-6.8	-7.3
- <i>External financing</i>		2.5	1.9	2.5	3.2
- <i>Domestic financing</i>		4.0	5.0	4.3	5.9

Source: IMF ECF Review July 2017 and Article IV Report May 2018

<sup>6</sup> In September 2013, revelations came to light of misappropriation of public funds through fraudulent transactions carried out through the Government's Integrated Financial Management Information System (IFMIS).



**Government expenditure is dominated by three sectors, namely general administration, education and agriculture** which jointly – and in equal parts - account for some 60% of primary expenditure, ref. table 2-3.

**Malawi’s public sector wage bill has grown rapidly over recent years**, to about 30% of total government budget expenditure, crowding out resources for other recurrent expenditures. This leaves limited space for non-wage expenditure on items such as teaching materials in schools, medicines in hospitals or the maintenance of existing capital assets, where the marginal impact of additional spending on social outcomes is likely to be much higher. It has made the Government heavily dependent on off-budget donor funding for service delivery. At the end of 2016/17 there were 213,000 payees on the government payroll, funded through the budget. Of this number, 146,000 were in the civil service. Recent budgets have increasingly restricted the funding of new positions, and for 2017/18 all the additional money for personal emoluments has been absorbed in pay and allowance adjustments for existing staff. This practice has led, over the years, to a growing gap between approved establishments and positions filled of around 25 percent, and even higher in specialized areas such as health service delivery.

**Table 2-3: Actual Budget Allocations by Function**

(% of total expenditure)	2014/15	2015/16	2016/17
General Administration	15.9%	12.2%	18.6%
Defense Affairs	2.6%	2.1%	2.4%
Public Order and Safety	5.6%	3.6%	5.1%
Education Affairs and Services	16.9%	16.7%	13.8%
Health Affairs and Services	7.1%	10.1%	8.0%
Social Security and Welfare Services	7.0%	3.6%	4.8%
Housing and Community Amenity Services	1.7%	1.8%	6.9%
Recreational, Cultural, Tourism & other Social Services	0.9%	0.2%	0.3%
Mining, Manufacturing and Environmental Protection	0.8%	2.5%	1.1%
Agriculture and Natural Resources	16.0%	14.8%	16.1%
Transport and Communication Services	7.8%	4.2%	5.7%
General Economic, Commercial and Labour Affairs	1.3%	0.7%	0.6%
R&D Economic Affairs	1.5%	13.2%	0.0%
<b>allocated expenditure</b>	<b>85.1%</b>	<b>85.7%</b>	<b>83.4%</b>
interests (vote 040 Debt Service Charges)	14.9%	14.1%	16.4%
contingency (vote 278 Unforeseen exp)	0.0%	0.2%	0.2%
<b>total expenditure</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: GoM Annual Economic Report 2015, 2016, 2017, 2018 (as per annex 6)

**Malawi’s public external debt stood at about US\$ 2.0 billion (32.6 percent of GDP) in 2017.** Most of Malawi’s external debt (around 78%) has been contracted with multilateral creditors,

particularly the International Development Association (43 percent); the African Development Fund (14 percent); and the International Monetary Fund (11 percent), with all this debt contracted on highly concessional terms. However, the proportion consisting of bilateral external debt has been increasing rapidly, although from a low base, with most of this debt contracted with China and India. Debt to China now accounts for about 12 percent of total debt. According to the joint World Bank/IMF Debt Sustainability Analysis (DSA), Malawi is rated at a moderate risk of external debt distress. However, domestic debt has been increasing significantly and poses a larger risk to fiscal management in the short to medium term. Overall, payments of interest on debt correspond to about 16% of total expenditure. Malawi's aggregate fiscal indicators are shown below in table 2-2, whereas distribution of expenditure by main economic categories is shown in table 2-4.

**Table 2-4: Actual Budget allocation by economic classification**

(% of total expenditure)	2014/15	2015/16	2016/17
Current Expenditure	79.3	81.4	75.6
-Employment Costs	29.5	30.0	28.3
-Goods and services	21.1	22.1	21.0
-Interest on debt	14.9	14.8	16.5
-Current transfers	13.9	14.5	9.7
Capital expenditure	20.7	18.6	24.4

*Source: GoM Annual Economic Report 2015, 2016, 2017, 2018 (as per annex 6)*

## 2.3 Legal and regulatory arrangements for PFM

**Chapter XVIII of the the Constitution of Malawi includes several provisions which impact PFM.** These include:

- a) Setting out the principles that must guide public finance:
- b) Raising of revenue and setting up of the Consolidated Fund
- c) Mechanism of withdrawal of money from the Consolidated Fund and Appropriation Bill
- d) Types of expenditure to be charged on the Consolidated Fund
- e) Responsibilities of the Minister of Finance regarding Annual Estimates for receipts and expenditure for any financial year
- f) Supplementary appropriations
- g) Raising of loans by the Government and Parliamentary approval
- h) Creation of the Development Fund, Special Funds and Trust Funds
- i) Protected expenditure
- j) Creation of the office of the Auditor General
- k) Giving Parliament the right to oversee state revenue and expenditure

**Other important legal and regulatory documents that underpin the PFM practices in Malawi include the following:**

- i. The Public Finance Management Act 2003 (PFMA) was enacted to foster and enhance effective and responsible economic and financial management by Government, including adherence to policy objectives; to provide accompanying accountability arrangements together with compliance with those arrangements; to require the Government to produce statements of proposed budget policy, confirmation of adherence to fiscal discipline, economic and fiscal statements, including economic and fiscal forecasts and updates, and performance information, including comprehensive financial statements.
- ii. The Public Audit Act 2003, which has been amended through Public Audit (Amendment) Act 2018, gives effect to the principle of the accountability of the Government to the public through the National Assembly. The Act makes various external audit provisions for public sector audits including the appointment, qualification, removal, duties and powers of the Auditor General. The Auditor General's position is constitutional.
- iii. The Public Procurement Act 2003, which has been amended through Public Procurement and Disposal of Public Assets Act 2017, was enacted to provide for the principles and procedures to be applied in, and to regulate, the public procurement of goods, works and services; to provide for the establishment of the Director General of Public Procurement as the main authority responsible for the monitoring and oversight of public procurement activities, and for the development of the related regulatory and legal framework and professional capacity of public procurement. The Public Procurement and Disposal of Public Assets Act 2017 has transitioned the directorate to an authority called Public Procurement and Disposal of Public Assets Authority. At the time of the Assessment in August 2018, however, the new Act has not yet been operationalized as the relevant regulations and desk instructions were also being amended.
- iv. The Income Tax Act, Value Added Tax Act, and Customs and Excise Act provide technical guidance to administration of revenue collection undertaken by the Malawi Revenue Authority (MRA).
- v. The Local Government Act provides for the financial management of local councils.
- vi. Public Corporations and EBU's are governed by their respective establishing Acts or in some instances by the Companies Act.

## 2.4 Institutional arrangements for PFM

**Malawi is a unitary state and a constitutional democracy with a President as Head of State and Government.** Its supreme law is the 2010 Constitution. Government exercises its power and authority through parliament, whose members are elected. The President appoints Ministers irrespective of whether they are members of parliament or not. The judicial system in Malawi is headed by the Chief Justice of the Supreme Court who together with other judges are appointed by the President on the advice of the Judicial Service Commission. In terms of Section 49 of the Constitution of Malawi, the legislature consists of Parliament and the President. The President is part of the Legislature in his capacity as Head of State who holds the Public Seal and accordingly must assent to Bills passed by Parliament before they become law. Malawi has a unitary Parliament called the National Assembly with all its members directly elected. Parliamentary elections take place at every five years on predetermined dates. The next elections are due in May 2019. The

clerk of Parliament, appointed in terms of Section 55 of the Constitution of Malawi is responsible for the day to day administration of Parliament.

**Table 2-5: Structure of the Public Sector**

Year: 2017/18	Public Sector				
	Government Sub-sector			Public Corporations (PC) Sub-sector	
	Budgetary Units (BCG)	Extra-budgetary units (EBUs)	Social Security Funds	Non-Financial Entities	Financial Entities
Central Government	46	39	0	27	1
Local Government Councils	35	-	-	-	-

Source: [www.finance.gov.mw](http://www.finance.gov.mw); *Public Sector Institutions: List of Institutional Units; Details in Annex 7*

**The public sector in Malawi comprises the central government, local government councils, and public corporations/state enterprises.** Central government in turn constitutes of 46 budgetary units and 39 extra-budgetary units<sup>7</sup> (EBUs), the latter comprising entities subvented by the central government budget, as well as non-subvented entities, ref. table 2-5. The PFMA provides for the national budget through expenditure estimates and the Appropriation Acts for operations of the Consolidated Fund (CF).

#### *Budgetary Central Government*

**Budgetary central government (BCG) comprises ministries, departments and agencies as well as a number of constitutional offices all of which are mainly funded by the government budget and subject to the financial management rules and regulations of the government budget.** Ministries are responsible for policy formulation and monitoring the progress of implementation of various government programs intended to meet the development policy objectives. While the political head of a ministry is a Minister, the administrative head and controlling officer responsible for managing the Ministry’s tasks is the Principal Secretary (in Ministry of Finance: Secretary to the Treasury). Currently, there are 18 ministries in government. In addition, several constitutional offices in the government sector – such as the Presidency, Office of the President and Cabinet (OPC), the National Assembly, the Judiciary, the Electoral Commission, the Ombudsman’s Office and the National Audit Office - work independently within the remit of the legal provisions made in the Constitution and the PFMA. Departments and their divisions perform tasks of implementing the Government’s development programs as well as ministry-level policies. Central government also operates district offices for some line ministry functions.

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<sup>7</sup> ref. definition of each group of entities in GFS Manual 2014

**The PFM Act provides for the national budget through expenditure estimates and the Appropriation Acts for operations of the Consolidated Fund.** The Budget Department of the MoFEPD is responsible for the budget development process. The 2018/19 Annual Budget includes 46 budgetary units – divided into sub-votes (ref. Annex 7A).

**A total of 18 Treasury Funds have been established under section 30 of the PFMA.** They are all accounted for as part of the CF, but under a separate sub-account. Treasury Funds are managed by various MDAs, which are allowed to retain a proportion of the funds collected and deposited in the funds from fees and charges. The retention range from 75-99% of funds collected. The total 2018/19 budget estimates for Treasury Funds is about MK 45 billion, of which the Malawi Rural Electrification Program (MAREP) fund accounts for two thirds.

**GoM operates 39 extra-budgetary units (EBUs) which generate their own revenue and spend it outside the central government budget appropriations.** Twenty-eight of these EBUs receive subventions from the CG budget, which fully or partly finance their operations, whereas 11 EBUs are financially independent of the CG budget. Outside the CG budget, EBUs collect about 10% of total CG revenue and spend about 15% of total CG expenditure, ref. table 2-6.

**Four Trust Funds have been established under sections 40-41 of the PFMA,** two of which are classified as commercial public corporations (CMS and SFFRF) whereas the other two funds (SMEDI and Greenbelt Authority) operate as central government EBUs, ref. Annex 7B and 7C for details.

#### *Role and Structure of the Ministry of Finance, Economic Planning and Development*<sup>8</sup>

**The Ministry of Finance, Economic Planning and Development (MoFEPD) was created in June 2014 as a result of the merger between the Ministry of Finance and the Ministry of Planning and Economic Development.** The Ministry plays a central role in formulating economic, financial and regulatory policy and implements them through the annual budget and programmes, including managing, controlling and monitoring revenues and expenditures.

The Ministry plays a key role in establishing, implementing and reviewing the Government's economic, fiscal, financial management and tax policies for the promotion of sound and efficient management of financial resources of the Government. The Ministry acts as the treasurer to the Government and is responsible for consolidating and presenting a balanced national budget focused on prudent fiscal management of all Government funds and rigorous expenditure management control.

The Ministry initiates development policy proposals and formulates relevant long-term development strategies<sup>9</sup> aimed at achieving faster and sustainable development consistent with the Government's priorities and strategies. The Ministry is also responsible for formulating strategies

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<sup>8</sup> Ref. MoFEPD Organizational Structure Review and Analysis, Draft Report, 29th May 2015

<sup>9</sup> In 2017, Government established the National Planning Commission (NPC) to champion formulation as well as implementation of both medium and long term national development strategies.

with a view to increasing the type and volume of external development assistance by participating in project formulation, appraisal, negotiation and monitoring of donor-funded projects as well as preparing status reports on these activities for the Government's consideration.

In addition, the Ministry supervises a three EBUs (MRA, Road Fund Administration and Local Development Fund) and two public corporations (RBM and Malawi Enterprise Development Fund) and also exercises financial oversight control over all state owned institutions by setting financial and accounting policies to promote and enforce transparency in financial management and thus to improve their economic efficiency.

The powers and functions of the Minister include the running of the Ministry as prescribed in Article 96 of the Constitution, which stipulates the duties and function of a Cabinet Minister. In addition, the general and specific responsibilities of the Minister of Finance are outlined in Article 3 and 4 under Part II of the PFMA. The Secretary to the Treasury (ST) is the Chief Executive and head of the MoFEPD under the leadership of the Minister. The responsibilities of the ST are stipulated under Article 7 and 8 of the PFMA.

**The Department of Finance/Treasury** is charged with the responsibility of formulating financial and economic policies, promoting efficient use of the nation's productive resources and facilitating sustainable socio-economic development. This responsibility makes the department strategic and central to the country's economic management.

The department is headed by the ST<sup>10</sup>, who oversees all the divisions namely: Economic Affairs, Revenue Policy, Budget, Debt & Aid, Pensions, Central Internal Audit Unit, PFM Systems as well as Finance & Administration.

It is important to note that prior to the merger of the Ministry of Finance and that of Economic Planning and Development in June 2014, the Central Internal Audit Unit was under the Office of the President and Cabinet. The decision to rationalize government ministries resulted in the transfer of the department from the OPC to the MoFEPD.

**The Accountant General's Department (AGD)** is responsible for planning, developing and implementing the government accounting policy, systems and procedures including the integrated financial management information systems (IFMIS). The department derives its mandate under the PFMA. It is headed by the Accountant General who reports to the ST.

Other responsibilities include maintaining accounting records of all receipt and payments, timely provision of financial reports and ensuring proper accountability of public funds. AGD has a countrywide network of four regional branch offices.

**Department of Economic Planning and Development (EP&D)** is responsible for facilitating and coordinating the national development planning process, provide leadership in the implementation of economic policies as well as overseeing the implementation of the Malawi

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<sup>10</sup> The position of Principal Secretary Finance & Administration was abolished after the 2015 functional review.

Growth and Development Strategy (MGDS) used to operationalize Malawi's Vision 2020. However, this mandate is now transferred to the National Planning Commission which was established in 2017 through an Act of Parliament, but is not yet operational. EP&D is headed by the Chief Director for Economic Planning and Development, who reports to the ST and oversees the divisions within EP&D.

### *Local government*

**Sub-national government in Malawi comprises 35 local councils, as provided in the Local Government Act 1998, of which 4 city councils, 2 municipal councils, 1 town council and 28 district councils.**

Local authorities raise revenue own sources through local fees and charges, estimated at MK 20 billion in 2013/14<sup>11</sup> corresponding to about 5% central government domestic revenue. . Most of the local revenue is raised by the four city councils. Transfers from the central government budget constitute the bulk of resources available to the councils, which as per 2018/19 budget estimates come to MK 219 billion or 14% of total government expenditure excluding Development Part I. About MK 45 billion is transferred in cash for ORT and Development expenditure, whereas the remaining MK 174 billion constitutes staff compensation, which is paid directly by the central government and make up 44% of the total central government budget for staff compensation.

Section 146 of the Constitution of Malawi outlines the functions of local government authorities. Section 147 gives the composition of local government authorities, while Section 148 provides the jurisdiction of local government authorities. Section 149 provides for the establishment of a National Local Government Finance Committee (NLGFC) as a key institution overlooking fiscal decentralisation and outlines its powers and functions. Sections 150 and 151 provide the duties and functions of the NLGFC and the composition of the Committee respectively.

The Local Government Act (1998) develops the implementation modalities of the Constitution and provides the institutional details of the local government structure, including key structures, procedures (including elections), accountabilities and remedies

**NLGFC was established as a financial regulator, aiming to promote financial management, transparency and accountability in all local governments.** The Constitutional mandate of the NLGFC is to coordinate and consolidate local government budgets, allocate grants using agreed criteria and guide and assist local governments in financial management. NLGFC also hears submissions from local governments in respect of estimates of expenditure and requests for special disbursements.

Specifically, the NLGFC is mandated to:

- Receive all estimates of revenue and all projected budgets of all local government authorities;

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<sup>11</sup> Commonwealth Local Government Forum (CLGF): Malawi Country Profile 2017-18, the most recent figure available.

- Examine and supervise accounts of local government authorities, in accordance with any Act of Parliament, Assembly, subject to the recommendations of the Auditor General;
- Make recommendations relating to the distribution of funds allocated to local government authorities, and vary the amount payable from time to time and area according to, and with sole consideration of, economic, geographic and demographic variables;
- Prepare a consolidated budget for all local government authorities and prepare estimates after consultation with the Treasury, which shall be presented to the National Assembly by the Minister responsible for Local Government before the commencement of each financial year;
- Make applications to that Minister for supplementary funds where necessary.

### *Public Corporations*

**GoM has full or majority ownership of 28 public corporations, of which one - Reserve Bank of Malawi (RBM) – is a financial institution.** Total estimated income of these corporations were in the order of MK 310 billion in 2016/17 – of which MK 73 billion related to RBM. One of the current corporations (Umodzi) was not yet operational in 2016/17. For details, see Annex 7C. A few of the corporations are partly privatized, such as Malawi Airlines and Sunbird Tourism.

**There are no public social security funds,** as the mandatory pension scheme for all private employees (established 2011) is managed through individual accounts with private insurance companies. Government staff pensions have so far been managed as a defined benefit scheme charged to the annual recurrent budget, but is since 2017 gradually transitioning to the same system that applies to private sector employees.

**Oversight of statutory bodies is blurred by responsibilities fragmented across different entities.** The roles are split between the MoFEPD, the OPC and the line ministries. While the PFM Act provides the MoFEPD with a fiscal oversight role, the Department of Statutory Corporations has control over administrative and human resource issues; and the Public Sector Reform Department in the OPC deals with reforms in the statutory bodies including with proposals relating to their restructuring. In addition, the oversight of technical issues, compliance with sectoral policies, and tariff adjustments is exercised by the relevant line ministry.



**Table 2-6: Financial Structure of the Central Government – Budgeted 2018/19**

MK billion	Central Government			
	Budgetary Units	Extra-budgetary units	Social Security Funds	Total Aggregated
Revenue (excl domestic transfers)	1261	150	-	1411
Expenditure (excl domestic transfers)	1423	231	-	1654
Transfers to (-) and from (+) other units of central government	-81	+81	-	0
Liabilities	2752	n.a.	-	
Total assets	n.a.	n.a.	-	

Source: MoFEPD Financial Statement for 2018/19 and Mid Year Debt Report, April 2018

## 2.5 Other important features of PFM and its operating environment

### *The Internal Control Framework*

The internal control framework covers the overall structure of government managing public finances and resources. It entails the systems, procedures and methodologies used to ensure that government collects all revenues due. The revenues are then deployed to various MDAs for budget execution. The reporting systems act as feedback loops and aid control, monitoring and evaluation processes. In the set-up for GoM such functions are covered by MDAs responsible for revenues, procurement, budget execution, financial accounting and reporting and the oversight institutions provided by the internal and external audit functions. These evaluate and review the functioning of systems to deliver the required budget outcomes (for further details on the internal control framework see Annex 2).

The PFMA gives the **Minister of Finance** the overarching responsibility of instituting systems which enhance effective public financial management and control. He has the overall responsibility over the Consolidated Fund set up in terms of section 72 of the Constitution. Section 4 of PFMA explains that the Minister of Finance is responsible for the formulation of fiscal and economic policy, providing the budget estimates and proposing measures to raise revenues for the Consolidated Fund. He shall also provide an appropriation proposal for both development and other recurrent transactions (ORT). He performs oversight role on finances of parastatals and statutory bodies. Section 5 of PFMA explains circumstances where the Minister can delegate his functions and instances where he must not delegate. According to Section 7 of the Act the **Secretary to the Treasury** (ST) is responsible to the Minister for compliance by Treasury with its obligations. He is also the chief financial advisor to the GoM tasked with the collection of revenues and is the chief custodian of the PFMA. The ST gives direction to all MDAs as regards implementation of PFMA and all relevant enabling legislation.

**The Department of the Accountant General (AGD)** is not independently identified in the PFMA. It is one of the departments falling under the ST where the delegation of authority of the ST is done. Following the consolidation of the Ministry of Finance and Ministry of Economic Planning and Development into one unit, the ST has an increased span of control. The AGD reports directly to the Secretary to the Treasury. The AGD must ensure that financial controls exist within MDAs, and returns are done on time to allow reconciliation to be carried out.

**Public procurement** is regulated by the Public Procurement and Asset Disposals Act 2017 replacing the Public Procurement Act 2003, which did not cover disposal of assets. The Procurement Regulations 2004 are now out of alignment with the new Act.

**External audit** is defined by the Constitution through the oversight role of the Office of Auditor General as regards all public funds including accounts of public corporations. Although it explains that the overall responsibility of the appointment of the Auditor General shall be the prerogative of the President of the Republic, the Parliament must confirm such an appointment. The Public Accounts Committee must vet the competence and financial probity of the person so appointed. The Constitution is silent, however, on specific qualifications of the Auditor General apart from having the relevant qualifications. Amendments were made to the Public Audit Act and passed in 2018, but the effective date of implementation has not been gazetted.

**The Internal Audit function** is supposed to act as a custodian of the internal control systems' effectiveness. However, there is no National Internal Audit Policy or Internal Audit Act in place. An Internal Audit function exists within all the MDAs and there is a Central Internal Audit Unit (CIAU) which evaluates the effectiveness of the Internal Audit Units (IAU) within the MDAs. A Chief Internal Auditor heads the IAU in an MDA, reporting to the Controlling Officer or Principal Secretary.

#### *Financial Management Information Systems*

The AGD uses an IFMIS solution (based on EPICOR software) for data processing, control and reporting of government finance matters. This is replicated at the MDAs which have various access roles and rights in the system. On implementation of the budgets, the Budget Department releases the budget data into the IFMIS.

Other units of the government have their own software solutions to assist in data processing and validation. MRA uses a SAP based solution for data capture, processing, storage and retrieval of income tax information and ASYCUDA World as concerns international trade taxes. NLGFC uses the Microsoft Dynamics based solution known as Serenic Navigator for data processing. The Debt and Aid Management Division uses a debt management software system known as Commonwealth Secretariat - Debt Reporting and Management System (CS-DRMS) for processing all debt information and a separate Aid Management Platform for capturing aid data entered online by development partners. The Budget Department uses its own software known as the Active Planner to process budget information. DHRMD under OPC uses a separate human resources management information system (HRMIS) for managing approved staff positions, personnel records and payroll data. None of these systems are directly linked.

Where MDAs have separate systems, they send their information to AGD on a monthly basis in form of journal entries commonly known as the Cash Controls, which in turn are captured into the IFMIS/EPICOR accounting system in order to produce reports. IFMIS has been decentralized to MDAs which use it to capture their transaction and to carry out bank reconciliations. Whereas for the local government the system has been decentralized to various regional centres, most councils have not been fully utilizing the system to process transactions due to capacity and skills constraints. This has affected the timeliness of reports being made available to AGD. Overall the systems are not integrated hence the need to utilize cash controls when consolidating the data for processing.

## Chapter 3. Assessment of PFM Systems, Processes and Institutions

### Assessment Methodology

This chapter provides an assessment of the key elements of the PFM system as captured by the 31 PIs and, where applicable, reports on progress made in improving these. The performance for each of the PIs was assessed and assigned ratings of ‘A’ to ‘D’ as per the scoring criteria for each indicator. The criteria must be met in their entirety for the score to be assigned. The scores may be interpreted as follows in Table 3-1:

**Table 3-1 Generic Interpretation of PEFA Scores**

<b>A</b>	Represents performance that meets good international practice; the criteria for the indicator are met in a complete, orderly, accurate, timely, and coordinated way.
<b>B</b>	Typically represents a level of performance ranging from good to medium by international standards.
<b>C</b>	Represents the basic level of performance for each indicator and dimension, (i.e. the system/feature exists but there may be significant gaps in the way it is designed or implemented) even if the design is aligned with good international practices.
<b>D</b>	Indicates that the feature being measured is present at less than the basic level of performance or is absent altogether or that there is insufficient information to score the dimension.

The score of ‘D’ due to insufficient information is distinguished from ‘D’ scores for low-level performance by the use of an asterisk—that is, ‘D\*’. In some cases, an indicator or dimension may not be applicable to the government system being assessed. In such cases ‘NA’ is entered instead of a score.

Most indicators have a number of separate dimensions, each of which must be assessed separately. The overall score for an indicator is based on the scores for the individual dimensions. The scores for multiple dimensions are combined into the overall score for the indicator using either the Weakest Link (WL) method or the Averaging (AV) method. It is prescribed in the PEFA Framework which method to be used for each indicator. Under WL aggregation (also called method M1), the aggregate score for the indicator is the lowest score given for any dimension with a ‘+’ added if any of the other dimensions score higher. Under AV aggregation (also called method M2), the overall score is determined by the conversion table on page 19 of the PEFA Handbook Volume II.

### Pillar I. Budget reliability

#### *PI-1 Aggregate expenditure outturn*

This indicator measures the extent to which aggregate actual expenditure deviates from the originally approved aggregate expenditure budget over the last three (3) completed fiscal years for which data is available: 2014/15, 2015/16 and 2016/17. The scope of the indicator covers budgetary central government including planned expenditures as well as those incurred as a result of exceptional events - for example, armed conflicts or natural disasters.

Indicator/Dimension	Score	Brief Explanation
<b>PI-1 Aggregate expenditure outturn</b>	<b>A</b>	At 103.4%, 97.0%, and 97.9% for 2014/15, 2015/16, and 2016/17 respectively, aggregate expenditure outturn deviated less than 5% from the approved budget in all three fiscal years

*Background*

Data for the fiscal years 2014/15, 2015/16 and 2016/17 have been used for the assessment as outturn data for 2017/18 (the last completed year before the time of this assessment) was not – and could not be expected to be - available at the time of the assessment.

*Assessment*

**At 103.4%, 97.0%, and 97.9% for 2014/15, 2015/16, and 2016/17 respectively, aggregate expenditure outturn deviated less than 5% from the approved budget in all three fiscal years: Score A.** The data and resulting overall variances that were used to calculate the score achieved are shown in Table 3-2.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time. The indicator rating would not be affected in any case, since the three years for which data is available show a steady trend and the indicator criteria provide for exclusion of an outlier year.

It should be noted that the indicator does not include off-budget operations such as EBUs and many externally funded projects (ref. PI-6) and is based on cash accounting so that expenditure arrears are not reflected in the data (ref. PI-22). The same qualification applies to PI-2.

**Table 3-2: Calculation of Aggregate Expenditure Outturn**

Fiscal Year	Original Approved Budget (MK million)	Aggregate Expenditure Outturn (MK million)	Outturn as a % of Budget
2014/15	746,122	771,857	103.4%
2015/16	922,490	894,634	97.0%
2016/17	1,145,752	1,121,181	97.9%
2017/18	1,319,313	Comparable data not available	n.a.

*Source: 2016-17 Draft Financial Statement, 2017-18 Approved Financial Statement, 2018-19 Draft Financial Statement; 'net lending' has been deducted from the figures for 'Total Expenditure and Net Lending'. Figures for FY14/15 include MASAF expenditure which is shown separately, whereas no distinction is shown in the data for the following years. Note that the totals here and those in Annexes 6A, 6B and 6C differ slightly from each other as they are based on different sources due to the data breakdown required. The exact reason for all the differences could not be established.*

## ***PI-2 Expenditure composition outturn***

This indicator measures the extent to which reallocations between the main budget categories during budget execution have contributed toward the variance in expenditure composition. The scope of the indicator covers budgetary central government. The performance period assessed is the last three completed fiscal years for which data was available i.e. 2014/15, 2015/16 and 2016/17.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-2 Expenditure composition outturn</b>	<b>D+</b>	Dimension scores combined by Method M1 (weakest link)
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was 27.1%, 32.3% and 21.3% for the fiscal years 2014/15, 2015/16 and 2016/17 respectively i.e. above 15% in all three years for which data was available.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 16.3%, 11.8% and 9.3% respectively in the three years under consideration i.e. it was less than 15% in two of the years but less than 10% in only one year
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was in the order of 0.2% in each of the last three years for which data was available.

### *Background*

Data for the fiscal years 2014/15, 2015/16 and 2016/17 has been used for the assessment as complete outturn data by functional and economic classification for 2017/18 - the last completed year before the time of this assessment - was not available at the time of assessment.

#### *Dimension 2.1 - Expenditure composition outturn by function*

**Variance in expenditure composition by functional classification was 27.1%, 32.3% and 21.3% for the fiscal years 2014/15, 2015/16 and 2016/17 respectively i.e. above 15% in all three years: Score D.**

Details of the calculations are shown in Annex 6A.1. The variance is particularly high in 2015/16 which could be partly explained by some reclassification of expenditure under the function of 'R&D Economic Affairs'. However, adjusting for substantial reclassification to this heading would still result in variance above 15% for the year. This issue should be resolved when the transition to a new chart of accounts has been completed (ref. PI-4) so that the requisite information is generated directly by IFMIS rather than through use of bridge tables.

Variance according to administrative classification (excluding Development Expenditure Part 1) was undertaken for the purpose of tracking progress since the 2011 PEFA Assessment. It similarly

shows very high annual variance, including 22-23% for both 2014/15 and 2015/16, ref. Annex 6A.2.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time. The indicator rating would not be affected in any case, since the three years for which data is available show a steady trend and the indicator criteria require at least two years with variance below 15% for a higher rating than D to be justified.

**Table 3-3: Compositional Variance of Expenditure**

Year	Composition variance by Functional classification	Composition variance by Economic classification
2014/15	27.1%	16.3%
2015/16	32.3%	11.8%
2016/17	21.3%	9.3%
2017/18	Comparable data not available	Comparable data not available

Source: Functional Classification – Annual Economic Report 2015, 2016, 2017, 2018 tables 19.3-5  
Economic Classification - Draft/Approved Financial Statements for 2016/17, 2017/18 and 2018/19 (Table 1)

*Dimension 2.2 - Expenditure composition outturn by economic type*

**Variance in expenditure composition by economic classification was 16.3%, 11.8% and 9.3% respectively in the three years under consideration i.e. it was less than 15% in two of the years but less than 10% in only one year: Score C.**

In order to base the assessment as far as possible on GFS compliant classification, a number of adjustments were made to the categorization of expenditure budget estimates and outturns presented in table 1 of each of the relevant Financial Statements. Importantly, the data does not distinguish between capital investment and other development expenditure, the latter possibly including expenditure elements of a recurrent nature under various projects. The details of calculation are shown in Annex 6B.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time of assessment. The indicator rating could potentially be affected and result in a B rating if the variance for 2017/18 should prove to be below 10%.

*Dimension 2.3 - Expenditure from contingency reserves*

**Actual expenditure charged to the contingency vote was in the order of 0.2% in each of the last three years for which data was available: Score A.**

The FM Act article 24 provides for a Vote for Unforeseen Expenditure, with a proposed appropriation not exceeding two per centum of the total appropriation, and requires that any funds to be spent on unforeseen items shall be transferred to the relevant votes. In practice, Vote 278 for ‘Unforeseen Expenditure’ is budgeted at about 0.2% of the overall expenditure in each year and the actual expenditure charged to this vote is of the same magnitude.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time of assessment. It is highly unlikely that this would affect the A score, since the original budget for vote 278 for 2017/18 was 0.14% of overall expenditure and the mid-year forecast as well as the revised budget for vote 278 was 0.9%. A lower rating than A would only apply if the actual charge of expenditure to the vote exceeded 8.6% of overall expenditure (i.e. > MK 113 billion), which is inconceivable.

### ***PI-3 Revenue outturn***

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. The scope of the indicator covers the budgetary central government and focuses on both domestic and external revenue, which comprises taxes, social contributions, grants and other revenues including those from natural resources. The period assessed is last three completed fiscal years for which data was available i.e. 2014/15, 2015/16 and 2016/17. This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions: aggregate revenue outturn and revenue composition outturn.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-3 Revenue outturn (M2)</b>	<b>C+</b>	Dimension scores combined by Method M2 (average)
3.1 Aggregate revenue outturn	A	At 92.0%, 97.7% and 98.1% respectively, aggregate revenue outturn was between 97% and 106% of the originally approved revenue budget in two of the last three completed fiscal years for which data was available
3.2 Revenue composition outturn	D	At 7.9%, 15.2% and 16.5% respectively, revenue composition variance was above 15.0% in two of the last three completed fiscal years for which data was available

### ***Background***

Data for the fiscal years 2014/15, 2015/16 and 2016/17 have been used for the assessment as complete outturn data for 2017/18 - the last completed year before the time of this assessment - was not available at the time of assessment (data on external grants missing).

Data for the original approved budget was obtained from annexes to the Financial Statements of the subsequent year. Data on actual outturn was obtained from MRA's Revenue Performance Report for June of the relevant years supplemented by non-tax collection data from RPD.

It should be noted that the indicator does not include off-budget revenue such as revenue collected and retained by EBUs and disbursements to many externally funded projects (ref. PI-6.2) and is based on cash accounting so that revenue arrears are not reflected in the data (ref. PI-19.4).



*Dimension 3.1 - Aggregate revenue outturn*

**At 92.0%, 97.7% and 98.1% respectively, aggregate revenue outturn was between 97% and 106% of the originally approved revenue budget in two of the last three completed fiscal years for which data was available: Score A.**

Whilst in FY14/15 there was a significant deviation in total revenue collection from the original budget (including external grants), the outturns during the following two fiscal years have been quite close to the original budget estimates as shown in Table 3-4.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time. The indicator rating would not be affected in any case, since the three years for which data is available would two years' outturn in the 97-106% range irrespective of the outturn in 2017/18 (potentially an outlier year).

**Table 3-4: Total Revenue Outturn and Revenue Compositional Variance**

<b>Fiscal Year</b>	<b>Original Approved Budget MK mill.</b>	<b>Actual Aggregate Revenue MK mill.</b>	<b>Total Revenue Outturn %</b>	<b>Composition Variance</b>
2014/15	662,836	609,560	92.0%	7.9%
2015/16	783,620	765,529	97.7%	15.2%
2016/17	990,322	971,060	98.1%	16.5%
2017/18	1,127,743	Comparable data not available	n.a.	n.a.

*Source: MoFEPD Financial Statements, MRA Revenue Performance Reports,*

*Dimension 3.2 - Revenue composition outturn*

**At 7.9%, 15.2% and 16.5% respectively, revenue composition variance was above 15.0% in two of the last three completed fiscal years for which data was available: Score D.**

Compositional variance of revenue has gradually increased during the past three fiscal years. An important part of this variance originates from large deviations in actual receipt of on-budget external grants compared to budgeted grants under Development Expenditure Part 1 (both higher and lower outturn). Large deviations are also noted in tax refunds. For details see Annex 6C.1<sup>12</sup>.

Ideally the outturn for fiscal year 2017/18 should have been included, which was not possible at the time. The indicator rating would not be affected in any case, since the three years for which data is available would two years' variance in excess of 15% irrespective of the outturn in 2017/18.

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<sup>12</sup> Annex 6C.2 provides the tables excluding external grants for use in tracking progress since 2011, ref. Annex 4.

## Pillar II. Transparency of public finances

### *PI-4 Budget classification*

Effective linkages of budget allocations to underlying policies, programs, expenditure recording and transaction monitoring can only be attained with the aid of a comprehensive classification system aiding key line items for efficient and economical management of resources. Transactions will therefore need a robust classification system which can track them right from budget formulation, execution, reporting cycles according to the administrative units and/or votes, function/sub-function and even program/subprogram. This will be necessary in allocating expenditure to support aggregate fiscal discipline, the allocation of resources to strategic priorities and efficient service delivery.

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. It covers the budgetary central government. The period of assessment is the last completed fiscal year 2017/18.

Indicator/Dimension	Score	Brief Explanation
PI-4 Budget classification	A	The budget classification is based on administrative, economic (GFS 1986) and program classification. These classifications are also embedded in the chart of accounts.

**The budget classification is based on administrative, economic (GFS 1986) and program classification. These classifications are also embedded in the chart of accounts: Score A.**

The 2017/18 government budget was prepared using the following classifications:

- administrative (votes) including cost center – representing location of spending units;
- economic, using the GFS 1986 framework;
- program/subprogram classification.

All MDAs follow this classification. Whilst the economic classification in principle follows GFS 2001 headings, in practice the accounting system is in the process of transitioning from cash accounting i.e. GFS 1986 version, so that e.g. consumption of fixed capital in practice reflects expenditure on acquisition of fixed assets.

Though functional classification is not shown in the budget proposals and estimates, the annual budget execution report in the Annual Economic Report shows actual expenditure outturn by function rather than by vote/administrative classification. As budget classification and chart of accounts at present do not provide for functional classification, the functional reporting is done through bridge tables.

Budgets are prepared with the aid of Microsoft Excel spreadsheets. These are then transferred into the Active Planner Module which is interfaced to the IFMIS/EPICOR accounting system into which the final budget figures are uploaded. Budget preparation uses the same chart of accounts as is used by the Accountant General Department (AGD) for budget execution and reporting. The

program/subprogram classification by ministries has been used for the past three years and now has been cascaded down departments and sub-vented agencies.

*Recent or ongoing reform activities*

- Government is in the process of completing the mapping and configuration of the chart of accounts for economic and functional classification to GFS 2014 and COFOG standard, with roll-out of training to user MDAs. A new chart of accounts has been approved. Roll out to the MDAs is pending the acquisition of the accounting package.

**PI-5 Budget documentation**

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator – ‘Budget documentation’ – which is made up of 12 key elements of budget documentation as listed in table 3-5 below. The institutional coverage is Budgetary Central Government; the assessment covers the last budget submitted to the legislature i.e. the budget for FY18/19.

Indicator/Dimension	Score	Brief Explanation
<b>PI-5 Budget documentation</b>	<b>B</b>	Budget documentation for 2018/19 fulfilled 3 basic elements and 4 additional elements i.e. in total 7 of the 12 key elements.  Basic elements fulfilled are: <ul style="list-style-type: none"> <li>• Forecast of the fiscal deficit or surplus</li> <li>• Current fiscal year’s budget in the format of the budget proposal</li> <li>• Aggregated budget data by main heads of the classification</li> </ul> The additional elements fulfilled are: <ul style="list-style-type: none"> <li>• Deficit financing</li> <li>• Macroeconomic assumptions</li> <li>• Debt stock</li> <li>• Medium-term fiscal forecasts</li> </ul>

*Background*

The 2018/19 budget documentation package submitted to the legislature in May 2018 consisted of:

- Budget Statement, delivered in the National Assembly by the Minister of Finance [no.1],
- Annual Economic Report 2018 (budget document no.2)
- Draft Financial Statement 2018/19 (budget document no.3),
- Draft Estimates of Expenditure on Recurrent and Capital Budget for the Financial Year 2018/2019 [detailed estimates, No.4]

- Program Based Budget (budget document no.5) in two volumes, one for budget votes and one for Subvented Organizations.

Other budget documentation submitted to the legislature in separate submissions prior to the budget package includes:

- Economic and Fiscal Policy Statement 2018, presented to the National Assembly April 2018.

The above documents are considered the budget documentation for this indicator.

*Assessment*

**Budget documentation for 2018/19 fulfilled 3 basic elements and 4 additional elements i.e. in total 7 of the 12 key elements: Score B.**

Assessment of the 12 key elements of budget documentation is summarized in table 3-5 below, also stating the detailed criteria for assessment. Detailed description of each element is given below table 3-5.

**Table 3-5: Summary of Information included in Budget Documentation**

Basic Elements	Criterion Fulfilled
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes
2. Previous year's budget outturn, presented in the same format as the budget proposal.	No
3. Current fiscal year's budget presented in the same format as the budget proposal. This can be either the revised budget or the estimated outturn.	Yes
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates.	Yes
Additional Elements	
5. Deficit financing, describing its anticipated composition.	Yes
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	No

9. Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No
10 Explanation of budget implications of new policy initiatives and major new public investments, with estimate of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs.	No
11. Documentation on the medium-term fiscal forecasts	Yes
12. Quantification of tax expenditures	No

Element 1 – fulfilled: The Draft Financial Statement (doc. No. 3) shows in Annex 1 the overall budget balance before financing.

Element 2 – not fulfilled: The detailed budget estimates for 2018/19 (budget documents 4 and 5) include the original approved budget and revised budget figures for 2017/18 for each expenditure line, but no information on 2016/17 outturn. The AER 2018 (budget document 2) includes the actual budget outturns for 2016/17, but not in the same format as the budget estimates for 2018/19. The AER reports revenue and expenditure at aggregate level of economic classification, and expenditure by functional classification. The Draft Financial Statement presents the budget estimates by administrative classification (vote), detailed economic classification and program classification.

Element 3 – fulfilled: Ref. element 2.

Element 4 - fulfilled: Annexes 1-9 of the Draft Financial Statement provides summary tables by vote, economic classification and program classification, including the approved and revised budget figures for 2017/18 (current year) in each case. Likely outturn for 2017/18 and original budget, revised budget and actual outturn for 2016/17 are shown in tables 2 and 1 respectively in a summary format corresponding to Annex 1. The Annual Economic Report (doc. No. 2) provides further information on 2016/17 outturn and 2017/18 likely outturn in tables 19.4 and 19.5 (recurrent and development expenditure separately).

Element 5 - fulfilled: The Draft Financial Statement (doc. No. 3) shows in Annex 1 the anticipated composition of financing of the budget deficit.

Element 6 - fulfilled: GDP growth rates with breakdown by sector for each of the years 2015-2019 were presented in the Annual Economic Review 2018 (document no.2) Table 2.3 page 10. Inflation rates with projection to 2019 were shown in table 2 on page 16. Though the exchange rate (to US dollars) is not explicitly stated there are several references in the document to assumptions of a stable exchange rate. Interest rate assumptions are indirectly shown in the Draft Financial Statement section 5 (table 7) in terms of the projected debt service/revenue ratio.

Element 7 - fulfilled: Debt stock as at end of December 2017 was presented in the Draft Financial Statement, which includes a section 5 dedicated to the Public Debt Portfolio. Debt stock is

presented according to debt instrument and holders of debt. It includes findings of an external debt sustainability analysis as well as a cost and risk analysis for both external and domestic debt.

Element 8 – not fulfilled: No information on the government’s holdings of financial assets is provided in the budget documents.

Element 9 – not fulfilled: The last section of the Draft Financial Statement discusses domestic contingent liabilities and mentions the amount of a bailout of ADMARC during the period under review. However, no information is provided on guarantees issued, public-private partnerships which may incorporate indirect guarantees, or any other contingent liabilities,

Element 10 – not fulfilled: Paragraphs 91-108 of the Budget Statement (doc no. 1) includes an outline of all proposed new revenue measures but no estimates of the impact on revenue is presented for any of them.

Element 11 - fulfilled: All of the summary tables in Annexes to the Draft Financial Statement (doc. No.3) include medium term projections of revenue and expenditure, budget balance and financing i.e. estimates for 2018/19 and projections for 2019/20 and 2020/21 with breakdown by vote, by revenue items and details of development projects. In addition, the detailed estimates by vote and economic classification (doc. No 4) and the Program Based Budget (doc. No. 5) include the forward estimates for 2019/20 and 2020/21 for all estimates.

Element 12 – not fulfilled: Tax expenditures are not presented in the budget documentation, neither in details nor in aggregate format.

*Recent or ongoing reform activities*

- None identified.

***PI-6 Central government operations outside financial reports***

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. This is needed to provide a complete picture of government revenue, expenditures across all categories, and financing. The institutional coverage is all entities of central government. The assessment is based on the last completed fiscal year for which financial reports were due i.e. 2016/17.

Indicator/Dimension	Score	Brief Explanation
<b>PI-6 Central Government operations outside financial reports</b>	<b>D</b>	Dimension scores combined by Method M2 (average)
6.1 Expenditure outside financial reports	D*	Government financial reports concerning off-budget development expenditure financed by Development Partners have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary expenditure remains unreported for 2016/17.
6.2 Revenue outside financial reports	D*	Government financial reports concerning receipts of grants and loans from Development Partners for off-budget development expenditure have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary revenue remains unreported for 2016/17.
6.3 Financial reports of extra budgetary unit	D	Six out of 39 EBUs, representing 19% of EBUs' combined annual expenditure, had submitted their audited accounts for 2016/17 to MoFEPD within 9 months of end of the financial year.

*Background*

Extra-budgetary operations of the central government include subvented and non-subvented EBUs, Treasury Funds managed by MDAs and off-budget development funding provided by Development Partners (DPs). Extra-budgetary operations undertaken by public corporations (i.e. quasi-fiscal operations) are not covered by this indicator, and the reporting to the government by public corporations are covered by indicator PI-10.1.

*Dimension 6.1 - Expenditure outside financial reports*

**Government financial reports concerning off-budget development expenditure financed by Development Partners have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary expenditure remains unreported for 2016/17: Score D\*.**

All subvented and non-subvented EBUs have submitted financial reports on their operations, to MoFEPD, although in many cases this was done in summary format through the PMPB reports and with substantial delays (up to 12 months) ref. further under PI-6.3 below. The total operations of EBUs come to about MK 230 billion (corresponding to about 14% of total CG expenditure) of which about a third is funded by transfers from the central government budget.

All Treasury Funds submit reports on their revenue collections and expenditure and are covered by the IFMIS accounting system.

Development expenditure funded by Development Partners (DP) is only partly covered in government financial reports. DP funded expenditure which is channeled through the government's Development Account is covered by government reports as Development Expenditure Part 1. However, significant amounts of DP funded expenditure are not incorporated into the government budget, but kept off-budget. The exact amounts are not known. The Draft

Financial Statements (budget document no.3) includes budget estimates for such off-budget funding and expenditure, but do not give any actuals and may not be complete. The total amount shown for 2018/19 is MK 61.8 billion (USD 85 million) or about 4% of overall CG expenditure estimates. Project management reports to the supervising MDA in various formats, but there is no central focal point for collection of such information and no consolidation of the financial information.

DAD has established an Aid Management Platform (AMP) which is used to collect and track data on development cooperation in Malawi. DPs report their aid operations to the Government through the AMP. The most recent report from this Platform (Malawi Development Cooperation Atlas) covers the three fiscal years to 2014/15 and indicates that DPs disbursed USD 910 million to Malawi in 2014/15 (equivalent of MK 400 billion<sup>13</sup>) of which 3% as general budget support. Total DP funding through the budget (grants and loans) in the same year came to MK 205 billion<sup>14</sup> i.e. about MK 200 billion were off-budget corresponding to 25% of total government budget expenditure. The largest recipient sector was health, accounting for 42% of earmarked support. However, no similar reports have been produced for 2015/16 and 2016/17. DAD indicated that there are concerns about the quality of the data uploaded to AMP (some double counting identified which would result in a lower level of off-budget expenditure) and that a report covering the three years to 2017/18 will be produced once the data issues have been addressed.

#### *Dimension 6.2 - Revenue outside financial reports*

**Government financial reports concerning receipts of grants and loans from Development Partners for off-budget development expenditure have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary revenue remains unreported for 2016/17: Score D\*.**

The situation regarding reporting of extra-budgetary revenue mirrors the situation concerning expenditure under PI-6.1 above. The main difference would be that the AMP report does not distinguish between DP disbursements to government projects and SWAps and the actual expenditure incurred by the projects and SWAps. The difference is not likely to be of major importance and would in principle balance if calculated as a rolling average over a few years.

#### *Dimension 6.3 - Financial reports of extra budgetary units*

**Six out of 39 EBUs, representing 19% of EBUs' combined annual expenditure, had submitted their audited accounts for 2016/17 MoFEPD within 9 months of end of the financial year: Score D.**

MoFEPD's oversight and monitoring role of the statutory bodies is derived from sections 67-82 of the PFM Act. The Act provides for the annual submission of the performance management plan and budget (PMPB), periodic reporting against these plans, oversight of their financial

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<sup>13</sup> MK/USD exchange rates for June of the respective fiscal years used; obtained from RBM website.

<sup>14</sup> Ref. IMF: ECF Review July 2017 Table 2a



performance, control over their borrowing, issuance of guarantees and investment activities; and payment of dividends and surplus.

A statutory body shall prepare and submit to the Minister of Finance and the responsible (line) Minister, within four months of the end of the financial year of the statutory body, a performance and management report of its operations for that financial year, together with its financial statements. The financial statements have to be audited by the NAO or a private auditor approved by the NAO. Subsequently the reports with the audited financial statements have to be submitted to the National Assembly.

These provisions have however, not been effectively implemented. This is partly because the supporting instructions, guidelines and policies have not been issued by the MoFEPD. These have been at a draft stage for a long time and are in the process of being finalized.

Data obtained on submission of audited financial statements were requested from PERMU, according to which only 5 of the 39 EBUs had submitted the audited financial statements for 2016/17 to MoFEPD on time. Another one EBU had submitted 9 months after end of the financial year. These six EBUs represent 19% of total EBU income. However, practically all EBUs submitted summary financial information for 2016/17 as part of their respective Performance Management and Program Budget (PMPB) submissions to MoFEPD before the start of 2018/19. As the financial extracts cannot be considered as full financial statements and the timing of the PMPB submissions is not clear, they have not been counted as reporting under the requirements of this indicator<sup>15</sup>. A list of when each EBU has submitted the draft financial statements to the NAO for audit could not be obtained.

#### *Recent or ongoing reform activities*

- MoFEPD is in the process of finalizing and issuing regulations on ownership of Statutory Bodies and thus the basis for designating a single department or unit as the owner's representative to which all information should be forwarded by the statutory body.
- Data issues in the AMP are being addressed by DAD so that aid management data and up to date reports may be issued with higher data quality.

#### ***PI-7 Transfers to subnational governments***

This indicator assesses the transparency and timelines of transfers from central government to subnational governments (local councils). It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. The period assessed is last completed fiscal year i.e. 2017/18.

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<sup>15</sup> E.g. the 2016/17 Annual Financial Statements for corporate operations of MRA could not be obtained by the assessors.

Indicator/Dimension	Score	Brief Explanation
<b>PI-7 Transfers to subnational governments</b>	<b>C</b>	Dimension scores combined by M2 (average)
7.1 System for allocating transfers	C	The horizontal allocation of transfers to local councils from central government is determined by rules based formulas approved by Parliament for 62% of total cash transfers.
7.2 Timeliness of information on transfers	C	Final ceilings on annual transfers to local councils are issued before the start of the local councils' fiscal year, but after budget plans are decided and approved by the councils

*Background*

Local councils are elected directly and considered legally independent of central government. Nevertheless, their finances are part of the national budget planning and execution process with each council having its own vote for transfers and accounting records in IFMIS. They are regulated by the PFMA. However, it should be appreciated that the devolution process in Malawi is still in its early stages.

Local Councils comprise of 7 Urban Councils (city, municipal and town councils) and 28 District Councils. Their mandate is to provide services in a broad range of policy areas, such as housing and land management, local road networks, public lighting, solid waste disposal, water supply and sanitation systems, as well as health and education. Local Councils are financed by own revenue from various user fees, and proceeds from the sale of local assets such as real estate, in principle supplemented by central government transfers. In practice, however, transfers from central government constitutes the bulk of resources, with a few exceptions such as Blantyre City Council. Local revenue constitutes in average about 30% of total cash resources managed by the Assemblies, excluding sector staff directly paid from the central government payroll (such as teachers) and projects funded directly by donors. However, revenues are often insufficient to meet their service delivery mandates and financial obligations.

*Dimension 7.1 – System for allocating transfers*

**The horizontal allocation of transfers to local councils from central government is determined by rules based formulas approved by Parliament for 62% of total cash transfers: Score C.**

In March 2001, the Government of Malawi concluded a study on Malawi Intergovernmental Fiscal Transfer System (IGFTS) whose principal objective was to assist the Government in setting an objective mechanism for the allocation of fiscal resources from central government to local councils. The study made recommendations regarding vertical and horizontal fiscal transfers including formulas for conditional and unconditional grants to local governments. Using the framework provided by the Study, NLGFC developed a set of formulas and recommendations for Parliament. Thus, in 2002 Parliament approved that 5% of national net revenue should be set aside annually for a General Resource Fund (GRF) to councils. It was stated that the GRF "...is to be

used for the development of the districts ...and also seeks to provide relief on recurrent expenditure of assemblies”. It was also agreed that 9% of net national revenue should be “allocated for the health fund for functions to be devolved” and that 15% of the national revenue basis should be dedicated for education services to be devolved. Thus in total, 29% of net national revenue was foreseen to be devolved to councils.

Table 3-6 shows the factors which were agreed to be used in the formulas for distribution among councils as well as the importance of each type of transfer among the total transfers. Transparent and rules based formulas approved by the National Assembly are used for horizontal distribution of 62% of total cash transfers from central government.

**Table 3-6 Horizontal allocation of cash transfers to local government councils**

<b>Transfer type</b>	<b>Allocation formula</b>	<b>Share of total cash transfers</b>
GRF	Population 80% and poverty indicators 20%	7%
Education	population of school age going children 100%	19%
Health	population and poverty - no specific percentages were agreed upon for each	22%
Other sector funds <sup>16</sup>	No approved formulas	16%
Capital/District/Infrastructure Development Funds	population 50%, poverty indicators 50%	36%
<b>All transfers</b>		<b>100%</b>
<i>Transfers subject to transparent and rules-based allocation</i>	<i>GRF, Education and Capital/District/Infrastructure Development Funds</i>	<i>62%</i>

Source: NLGFC reports

The above formulas are being complied with by NLGFC although councils are not aware of their application and they are also seen as being out-of-date. Funding for additional sectors have recently been added to the transfers and, in line with the provisions of the Local Government Act, NLGFC developed allocation formulas for the different sectors, including revised formulas for education and health. These formulas are yet to be approved by Parliament and hence not being used.

There are still other sectors whose allocation formulas have not yet been formulated. The allocation of transfers to such sectors is based on past allocations without proper basis.

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<sup>16</sup> Agriculture, water, gender and environment etc

*Dimension 7.2 – Timeliness of information on transfers*

**Final ceilings on annual transfers to local councils are issued before the start of the local councils’ fiscal year, but after budget plans are decided and approved by the councils:  
Score C.**

Councils prepare their own budgets with input from CG in terms of ceilings issued for each type of funding, ref the budget calendar in table 3-7 below. Initial ceilings were given in January/February 2018, then revised in March. Council secretariats finalized their budget proposals which were approved by their respective councils in April 2018. Approved budgets were then sent to NLGFC for information and consolidation in May 2018. However, a new set of revised ceilings were issued by CG in late April 2018 after the councils had already approved their respective budgets, thereby necessitating the councils to revise their budgets before the start of the fiscal year. Council executives explained that the situation was similar in previous years.

**Table 3-7 Work Plan for Budget Preparation (Local Authorities)**

<b>Activity</b>	<b>Date</b>
Budget Briefing Workshops and Circulation of Budget Guidelines	5 <sup>th</sup> – 7 <sup>th</sup> February, 2018
Circulation of Indicative MTEF ceilings	16 <sup>th</sup> February, 2018
Budget Submissions from Councils	9 <sup>th</sup> March, 2018
Budget Hearing Meetings	19 <sup>th</sup> to 23 <sup>rd</sup> March 2018
Final Budget Submissions from Councils	29 <sup>th</sup> March, 2018
Budget Consolidation by NLGFC	9 <sup>th</sup> to 20 <sup>th</sup> April, 2018

*Source: MoFEPD/NLGFC Budget Guidelines for 2018/19*

The amounts actually received by councils are not in accordance with the approved budgets due to CG resource constraints. While there are variations in funding among councils, sector funds received range between 80% and 90% of budgeted amounts, while development funding ranges between 50% and 60%. Councils also expressed concerns on delayed disbursement and this coupled with reduced funding makes financial planning and service delivery difficult.

*Recent or ongoing reform activities*

- The IGFTS allocation formulas have been under review since 2016 and new proposals are awaiting approval.

***PI-8 Performance information for service delivery***

Promoting operational efficiency in public service delivery is a core objective of the PFM system. The inclusion of performance information within budgetary documentation is considered to be international good practice. It strengthens the accountability of the executive for the planned and

achieved outputs and outcomes of government programs and services. Increasingly, legislatures demand to see such performance information as part of their consideration of the executive's budget proposal, although the legislature may not be required to approve planned performance. This indicator examines the service delivery performance information in the executive's budget proposal or its supporting documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. The institutional coverage is Central Government including services provided by Local Authorities to the extent they are directly financed by Central Government. The period assessed is the last complete fiscal year, i.e. the developments during 2017/18.

Indicator/Dimension	Score	Brief Explanation
<b>PI-8 Performance information for service delivery</b>	<b>C</b>	Dimension scores combined by Method M2 (average)
8.1 Performance plans for service delivery	B	Annual published budget documentation includes - for all ministries, departments and subvented organizations i.e. more than 75% of total CG operations - objectives by program with performance indicators for expected outputs and activities.
8.2 Performance achieved for service delivery	B	Annual information was published in the PBB budget documentation on the quantity of outputs achieved for all ministries and departments i.e. more than 75% of total CG operations.
8.3 Resources received by service delivery units	D	Budget classification and chart of accounts include cost centre codes for all central government service delivery units and budget information by cost centre is presented in annual budget documents. Ad hoc reports are produced on actual expenditure by cost centre, but do not include the substantial off-budget funding of service delivery in major service functions such as health and education
8.4 Performance evaluation for service delivery units	D	A system for routine evaluation of performance contracts across MDAs and EBUs is in place, but performance evaluations are not published and do not include evaluation of efficiency. Evaluations of effectiveness and efficiency have been carried out for a few programs during the past 3 years in terms of performance audits and published, but covering significantly less than 25% of total operations of central government.

### *Background*

GoM introduced Program Based Budgeting (PBB) for all MDAs in 2016/17, following pilots during the previous year. Subvented organizations (28) and local government councils were added in 2017/18. During 2018/19 Treasury Funds and Trust Funds are being added to this approach.

The most recent documentation on PBB is the budget documentation for 2018/19 which includes a separate set of PBB budgets (budget document no.5), but program headers are also included in

the detailed breakdown by vote and economic classification in budget document no.4. The documents were issued on May 2018.

The main PBB document is posted on [www.finance.gov.mw](http://www.finance.gov.mw) and includes earmarked transfers to local government councils by sector and funding facility. The PBB volume for subvented organizations is not posted on the website but is available in hard copy on request.

#### *Dimension 8.1 - Performance plans for service delivery*

**Annual published budget documentation includes - for all ministries, departments and subvented organizations i.e. more than 75% of total CG operations - objectives by program with performance indicators for expected outputs and activities: Score B**

PBB information covering 2017/18 was provided for all BCG vote and all subvented EBUs. Non-subvented EBUs and Treasury Funds were not yet covered during that year.

Expected program outcome is stated for most programs but not quantified. There are related quantitative indicators classified as ‘outcome’ but they appear to be mostly of an ‘output’ nature. Each subprogram has a separate set of ‘output’ indicators which mostly appear to reflect an activity.. The Budget Division reported that the PBB approach is still in its early days. Therefore, the process of identifying SMART<sup>17</sup> indicators that adequately reflect the objectives of each program is continuing.

The 2018/19 PBB document shows for each indicator 2016/17 actual value, 2017/18 target value and preliminary estimate, as well as target values for 2018/19 and the following two years.

Whilst PBB information for the 28 subvented EBUs is not uploaded on the MoFEPD website, but hard copies may be obtained from MoFEPD. The operations of these entities constitute only about 9% of overall CG financial operations. Performance information on the non-subvented EBUs is not published. These EBUs constitute about 5% of total CG operations. Treasury Funds constitute about 3% of total CG operations. Altogether, performance information is presented and published on the website for about 83% of CG operations (weighted by expenditure).

#### *Gender disaggregation of data*

The PBB document makes frequent reference to gender mainstreaming but little specific information is gender disaggregated. Apart from program 69: Gender Equality and Women Empowerment under vote 320 (which specifically concerns the subject) and some health sector targets specifically relevant to women, there is a very limited range of performance indicators which reflect gender issues. In the Education sector, PBB performance indicators include gender parity ratios for each of primary, secondary, higher education and teacher training. The same is the

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<sup>17</sup> Specific, Measurable, Achievable, Relevant and Time-bound

case for ICT training under vote 30, but these are exceptions. As regards government staffing, data is split according to gender for all votes.

*Dimension 8.2 - Performance achieved for service delivery*

**Annual information was published in the PBB budget documentation on the quantity of outputs achieved for all ministries and departments i.e. more than 75% of total CG operations: Score B.**

The PBB documents include for each performance indicator the actual, achieved value for the previous year (e.g. 2016/17 in the 2018/19 PBB budget documents) as well as the target and preliminary estimated achievement for the current year. All the performance indicator information is quantified. In addition a qualitative statement of main achievements is inserted in the introduction/overview for each MDA/vote and subvented organization. Publication of the document is explained above. The quality of data on the performance indicators is not known. MoFEPD's Budget Division indicated that a lot of work is still going into identifying and refining indicators as the PBB approach is a recent development. At the same time the National Statistical Office (NSO) has recently embarked on an initiative to monitor the quality of data collected on actual performance for the indicators, but no findings were available yet from that exercise.

*Dimension 8.3 - Resources received by service delivery units*

**Budget classification and chart of accounts include cost centre codes for all central government service delivery units and budget information by cost centre is presented in annual budget documents. Ad hoc reports are produced on actual expenditure by cost centre, but do not include the substantial off-budget funding of service delivery in major service functions such as health and education: Score D.**

The budget classification and chart of accounts include a code for 'cost centre'. The code allows for financial information to be reported for each service delivery unit as well as to each administration location (such as MDA Headquarters). Information for each cost centre is included in budget documents no. 4 and 5 and shows budget information for the budget year (estimates) and the current year (approved budget and revised estimates). The cost centre code is detailed e.g. Table 8.1 on page 248 of the main PBB document gives a breakdown for 236 cost centres for MoEST, mainly secondary schools and teacher training colleges. Primary schools are in principle the responsibility of local government councils and therefore shown in the cost centre breakdown for the councils. Such service delivery units are heavily subsidized by the central government budget through earmarked sector grants and direct payment of most staff salaries (e.g. all primary teachers) due to the limited resources available in most local government councils.

No information is shown on the actual expenditure for each cost centre in the budget books as the format of the budget books does not provide for such information to be included. No other systematic, routine reporting giving actual expenditure by cost centre was been identified. However, the actual expenditure is available from the accounting system and is easy to generate. MDAs are generating such reports as and when desired at their own initiative, e.g. MoHP presented two reports generated for all of 2017/18 and for July 2018 respectively. The reports itemized

expenditure and commitments compared to budget for each cost centre (such as Headquarters, hospitals and commissions) and included both recurrent and development expenditure. Such reports may be generated by any MDA.

A major issue is, however, that the reports only include resources which are channeled through the central government budget. As explained under PI-6 significant resources are provided through extra-budgetary means, mainly by DPs. In the case of the health sector mentioned above, 75% of the resources to finance the sector in 2017/18 were provided off-budget by 189 agencies as documented through periodic resource mapping surveys. The surveys include only funding projections (no actual expenditure figures) and do not provide breakdown by service delivery unit. Other sectors have even less information on off-budget funding.

#### *Dimension 8.4 - Performance Evaluation for service delivery*

**A system for routine evaluation of performance contracts across MDAs and EBUs is in place, but performance evaluations are not published and do not include evaluation of efficiency. Evaluations of effectiveness and efficiency have been carried out for a few programs during the past 3 years in terms of performance audits and published, but covering significantly less than 25% of total operations of central government: Score D.**

Evaluation of MDA and EBU performance is fragmented. The Head of each MDA and EBU has signed a performance contract which is prepared in agreement with the Performance Enhancement Unit under OPC, which also tracks performance and reports to the Chief Secretary.

Monitoring of compliance with performance contracts is also undertaken by the Monitoring and Evaluation (M&E) Unit of EP&D, which annually reviews achievement on the program performance indicators reflected in the budget. Each MDA and EBU has its own M&E Unit, which collects information and reports on performance to the Controlling Officer of the organization. Whilst each of these mechanisms contributes to monitoring effective delivery of outputs and activities, none of them include evaluation of efficiency and none of the evaluation reports are published.

The Budget Division of MoFEPD is supposed to maintain a routine system for review and evaluation of actual performance outturn reported under PBB in relation to budget execution but the system has not yet been established.

A few performance audits have been carried out by the NAO during the past three years. The assess relevance, effectiveness and efficiency. The reports for audit of the Youth Economic Empowerment Programmes (2017), Local Development Fund Projects (2017) are available on [www.nao.gov.mw](http://www.nao.gov.mw). In addition a performance audit of the 'Cash Transfer Program' has been undertaken but is still in draft. These reports jointly cover significantly less than 25% of central government operations.

#### *Recent or ongoing reform activities*

- Refinement of PBB performance indicators is ongoing.



- The National Statistical Office has initiated a quality assurance framework with the aim of improving the quality of administrative data for performance evaluation.
- The NAO is enhancing the capacity to increase the coverage of performance audits and was at the time of assessment finalizing performance audit reports on Extractive Industry; Malawi Police Services; Immigration; Malawi Revenue Authority; Essential Health Services (Infrastructure Programs); Plant vehicle Hire and Engineering Services (PVHES); Electricity Supply Commission of Malawi (ESCOM) and Ministry of Industry Trade and Tourism.

***PI-9 Public access to fiscal information***

Fiscal transparency depends on whether information on government fiscal plans, positions, and performance is easily accessible to the public. This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. Public access is defined as availability of information without restriction, within a reasonable time, without a requirement to register, and free of charge, unless otherwise justified in relation to specific country circumstances. The assessment includes five basic elements of fiscal information that are considered the most important to enable the public to understand fiscal position and four additional elements that are considered to be good practice. The scope of the indicator covers the budgetary central government and the period assessed is the last completed fiscal year i.e. 2017/18.

Indicator/Dimension	Score	Brief Explanation
<b>PI-9 Public access to fiscal information</b>	<b>D</b>	<p>The government made available - in a complete and timely manner - only one of the five basic elements and one of the four additional elements listed. The documents published were</p> <ul style="list-style-type: none"> <li>• (basic) Annual executive budget proposal (and The Auditor General’s Annual Report but without the actual financial statements).</li> <li>• (additional) a summary of the budget proposal (citizen budget)</li> </ul>

**The government made available - in a complete and timely manner - only two of the five basic elements and one of the four additional elements listed: Score D.**

Table 3-8 shows the nine elements determining the assessment of public access to key fiscal information, with the assessment of each key element.

**Table 3-8: Public Access to Key Fiscal Information**

Elements of Information for Public Access	Public Availability	Assessment
<b>Basic elements</b>		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents is available to the public within one week of the executive's submission of them to the legislature.	Yes	A complete set of budget documents nos. 1, 2, 3 and 5 for 2018/19 was posted on the MoFEPD website within 10-11 days of the budget presentation to the National Assembly (document no. 2 on the same day). Document no. 4 (details of the estimates) was not posted given the size of the file (45MB) which in Malawi would cause download problems in most circumstances. This document was available on request from MoFEPD during the same period.
2. Enacted budget. The annual budget law approved by the legislature is publicized within 2 weeks of passage of the law.	No	Whilst the Appropriations Bill is publicized in the Government Gazette (issued by the Government Printer) this happens in hard copy only and with longer delay than 2 weeks. It is not posted on any website. The Approved Financial Statement 2017/18, which provides a more comprehensive summary of the approved budget was posted on MoFEPD's website on 7 September 2017 i.e. more than 2 months after the budget was approved.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance.	No	The regular quarterly financial statements produced by MoFEPD are not publicly available. Quarterly budget performance reports for 2017/18 3 <sup>rd</sup> quarter was uploaded on the website 12-06-18 i.e. more than one month after end of its issue; for both Q2 and Q1 on 7-03-18 i.e. more than one and four months respectively after date of issue. No report for 2016/17 Q4 published. Monthly expenditure reports 2017/18: Only 6 out of 12 were posted, with delays up to 3 months if production is assumed to be max. one month.
4 Annual budget execution report. The report is made available to the public within 6 months of the fiscal year's end.	No	The Annual Economic Review 2018 is the only complete report on 2016/17 budget execution. It was posted on MoFEPD's website on 28 May 2018 i.e. almost 11 months after the end of the completed fiscal year.
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within 12 months of the fiscal year's end.	No	The Annual Financial Statements are not posted on any website. The Auditor General's Report for 2016/17 was issued 4 May 2018 and posted on the NAO website 28 May.

Elements of Information for Public Access	Public Availability	Assessment
<b>Additional elements</b>		
6. Pre-budget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt are made available to the public at least 4 months before the start of the fiscal year.	No	The Economic and Fiscal Policy Statement 2018 was posted on the website 5 April 2018 i.e. less than 3 months before the start of the year.
7. Other external audit reports. All non-confidential reports on central government-consolidated operations are made available to the public within 6 months of submission.	No	All non-confidential reports produced by the National Audit Office are posted on the NAO website <a href="http://www.nao.gov.mw">www.nao.gov.mw</a> , but the reports posted there during 2017/18 were all completed 8 or more months before posting.
8. Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a ‘citizens’ budget,” and where appropriate translated into the most commonly spoken local language, is publicly available within 2 weeks of the executive budget proposal’s submission to the legislature and within one month of the budget’s approval.	Yes	A citizen budget – called ‘2018/19 Fiscal Year Budget In Summary’ was posted on the MoFEPD website 28 May 2018 i.e. 10 days after the budget proposal was presented to the National Assembly.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	No	Macroeconomic forecasts are presented in the Annual Economic Report Chapter 2 which is uploaded on the MoFEPD’s website at the time of presentation of the budget proposal to Parliament in May. However, this is about 2 months after the semi-annual update of the forecasts have been completed in March.

*Recent or ongoing reform activities*

- Following publication of the Open Budget Survey 2017 results in January 2018 (showing drastic deterioration of transparency since OBS 2015) MoFEPD has prepared an action plan for transparency of budget information. Whilst some progress was made on improvement in the last quarter of 2017/18 further improvements are expected in 2018/19, particularly on timely publication of budget execution reports.

### Pillar III. Management of assets and liabilities

#### *PI-10 Fiscal risk reporting*

This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extra budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The coverage is the last completed fiscal year for which financial reports would be expected to be available i.e. 2016/17.

Indicator/Dimension	Score	Brief Explanation
<b>PI-10 Monitoring of public corporations</b>	<b>D</b>	Dimension scores combined by Method M2 (average)
10.1 Monitoring of public corporations	D	Audited annual financial statements for 2016/17 were submitted to Government within 9 months of end of the financial year by 13 of the 27 operational public corporations, accounting for 68% of total income of this sector. Only one corporation had published its audited financial statements within six month of the end of financial year.
10.2 Monitoring of subnational governments	D	NLGFC produces quarterly monitoring reports on a consolidated basis, but they are substantially incomplete due to long delays in receiving reports from many of the councils. There is no evidence that any local council has published its annual financial statements for any recent year.
10.3 Contingent liabilities and other fiscal risks	D	Hardly any reporting takes place on contingent liabilities and other fiscal risks from central government's operations

#### *Dimension 10.1 - Monitoring of public corporations*

**Audited annual financial statements for 2016/17 were submitted to Government within 9 months of end of the financial year by 13 of the 27 operational public corporations, accounting for 68% of total income of this sector. Only one corporation had published its audited financial statements within six month of the end of financial year: Score D.**

Data on public corporations is presented in Annex 7C. Of the 27 corporations operational in 2016/17 only one (RBM) submitted its financial report within 6 months of the end of its financial year, whereas 13 corporations submitted their audited financial reports within 9 months. These 13 corporations represent 68% of total turnover of the public corporations.

Only two public corporations had published their financial reports for 2016/17 at the time of the assessment, namely RBM (within 6 months of end of its financial year) and ADMARC (within 12 months of the end of its financial year).

The Annual Economic Report (AER) presents a summary of key information from a number of public corporations in a standard format with analysis of trends. The AER 2018 covered 16 of the corporations (representing 53% of total turnover of the public corporations). However, the analysis does not highlight fiscal risks as it does not link trends to loan guarantees issued by the government, payment arrears etc.

The Draft Financial Statement (budget document no.3) includes every year a section called ‘domestic contingent liabilities’. Hardly any specific information on risks is provided there. The Statement for 2018/19 mentions the government bail-out of ADMARC during the past year to the tune of MK 45 billion (4% of total annual expenditure), but this is an event that had already taken place. The same section of the Statement for 2017/18 did not mention any such risk.

MRA reported that substantial amounts of taxes are outstanding with public corporations. Thus tax revenue loss from public corporations is a fiscal risk that could be – but is not – highlighted in these key fiscal documents.

Whilst budget documents and dedicated debt reports cover debt sustainability, hardly any consideration is given to government guarantees issued – including content letters to facilitate bank overdrafts.

#### *Dimension 10.2 - Monitoring of subnational governments*

**NLGFC produces quarterly monitoring reports on a consolidated basis, but they are substantially incomplete due to long delays in receiving reports from many of the councils. There is no evidence that any local council has published its annual financial statements for any recent year: Score D.**

The monitoring function is the responsibility of NLGFC. Section 53 (1) of the Local Government Act of 1998 (LGA) requires all the Councils to keep proper books of accounts and other records in relation thereto and to balance their accounts for each year and produce statements of final accounts within six months from the end of each financial year<sup>18</sup>. The Councils are required to submit the final accounts to the NLGFC which is required to forward a copy to the Auditor General.

Section 48 of the LGA (1998) allows local governments, subject to the PFM Act, to raise loans within Malawi, but only with the endorsement of the Ministry of Local Government and Rural Development and approval from the MoFEPD. Section 48 allows local governments to obtain a bank overdraft subject to defined conditions. A major risk area is payment arrears to suppliers of goods and services, typically emerging where councils have entered contracts based on the amounts of transfers communicated by central government prior to or at the beginning of the year but then not forthcoming in full.

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<sup>18</sup> The PFM Act 2003 also covers local councils and requires the annual accounts to be submitted within 4 months.

Most councils submit monthly and quarterly financial reports to NLGFC, which consolidates the quarterly revenue and expenditure data into reports on a cash basis. The reports do not specifically highlight fiscal risks. The 4<sup>th</sup> quarter reports are forwarded to the NAO for audit. As at 30 June 2018, only 18 of the 35 local councils had submitted their annual/4<sup>th</sup> quarter reports for 2016/17.

An audit of the financial statements of the Local Councils was completed in December, 2017 and as at that time, not all local councils submitted their financial statements for audit, ref. the Auditor General's report of June 2018 which covered 2014/15 and 2015/16. For both years, the Auditor General issued a disclaimer of opinion as he was unable to express an opinion on the Financial Statements due to material differences between Financial Statements and the underlying records. For some councils the Auditor General failed to express an opinion on the financial statements because they could not be produced during the time of audit. The financial statements for 2016/17 were in the process of audit at the time of the assessment.

When audit is completed, the Auditor General's report is submitted to the Minister of Finance and National Assembly. Central government does not prepare a consolidated report on the financial statements of local councils, though NLGFC is supposed to prepare such a consolidation.

There is no evidence that any local council has published its annual financial statements – whether audited or unaudited – for any recent year. The local councils visited had not published their accounts, and there was no suggestion that any other councils had done so.

#### *Dimension 10.3 - Contingent liabilities and other fiscal risks*

### **Hardly any reporting takes place on contingent liabilities and other fiscal risks from central government's operations: Score D.**

The AER includes a few extra-budgetary government units in its financial trend analysis of statutory bodies. The AER 2018 included five such bodies representing about 8% of total turnover of EBUs, of which one subvented entities and four non-subvented entities. As mentioned above, these units are the subject of financial trend analysis with no specific identification of fiscal risks to the government.

Sections 57–59 of the Public Private Partnerships Act 2011 allow the Public Private Partnership Commission to raise funds for PPP arrangements, subject to the conditions of the PFMA, and the PPP Commission is obliged to disclose any post-transaction costs, including contingent liabilities, arising from a PPP transaction. Several PPPs have operated for a number of years<sup>19</sup>, but no such disclosures of risks have been found in MoFEPD reports or on the PPP Commission's website despite information from relevant sector ministries that some contracts do not meet the fiscal objectives.

Given that MDAs submit financial reports on the basis of cash accounting - i.e. with no reporting of actual liabilities and even less in terms of contingent liabilities - that most EBUs report to

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<sup>19</sup> E.g. in railway operation, ports management, lake shipping services and national park management.

MoFEPD with substantial delays (ref. PI-6.3), and that those reports do not specify *contingent* liabilities (to the extent that the assessors have been able to view the reports), the conclusion is that very little analysis of fiscal risk from government operations take place.

*Recent or ongoing reform activities*

- The ongoing merger of NLGFC and LDF aim (amongst others) to enhance the capacity to monitor the financial performance of Urban and District Councils.
- The PFMA is being reviewed with a view to including an annual fiscal risk assessment report as part of legal requirements. Such a fiscal risk assessment report has been prepared in draft for the first time and has been submitted to MoFEPD management for feedback on format and content.

***PI-11 Public investment management***

Public investment serves as a key driver for economic growth. However, the effectiveness and efficiency of public investment is also a key determinant in maximizing its impact and helping to support government’s social and economic development objectives. Efficient management of public investment resources requires careful analysis to prioritize investments within sustainable fiscal limits to ensure that approved projects are implemented as planned. This can be achieved through rigorous economic analysis, effective management of investment expenditure, and monitoring of timely completion. Thus, this indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The scope of the indicator covers the central government including EBU. The period assessed is the last completed fiscal year i.e. 2017/18.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-11 Public investment management</b>	<b>D+</b>	Dimension scores combined by Method M2 (average)
11.1 Economic analysis of investment proposals	C	Economic analyses are conducted for most major investment projects especially those that are funded by DP loans and grants and through PPP/Joint Ventures, Study findings are not reviewed by an independent entity, nor are the studies published.
11.2 Investment project selection	C	Some major investment projects are prioritized by the PSIP Department, recommended to Cabinet and included in the budgets for approval by the Parliament prior to their inclusion in the budget.
11.3 Investment project costing	D	Total estimated capital cost of major investment projects, including the capital costs for the forthcoming budget years are not included in the budget documents which show only budget year expenditure estimates
11.4 Investment project monitoring	C	Information on project expenditure and physical progress is collected during the year from the implementing MDAs and obtained through onsite visits, but monitoring is not

Indicator/Dimension	Score	Brief Explanation
		systematic. Reporting to Cabinet is annual and up to date, but the report is not published.

*Background*

The major investment projects in Malawi<sup>20</sup> cover the six major sectors, Energy, Transport & Communication, Education, Housing & Sanitation, and Agriculture & Water Development, as presented in Annex 6D.

Even if several of the projects are implemented and managed by public corporations, these projects are largely financed through central government by means of CG contracted loans – on-lent to the state enterprise - or by CG issuing guarantees for the related public corporation’s loan.

GoM operates a Public Sector Investment Program (PSIP) process for all development activities with a total estimated cost of not less than an equivalent of USD 1,000,000 for infrastructure projects and USD 500,000 for service projects. The PSIP is managed by a unit within EP&D which is tasked at coordinating national developmental projects for MDAs on behalf of the GoM in line with MGDS III. It has issued PSIP guidelines to help MDAs in prioritizing projects to be included in the national budget based on set criteria.

*Dimension 11.1 - Economic analysis of investment proposals*

**Economic analyses are conducted for most major investment projects especially those that are funded by DP loans and grants and through PPP/Joint Ventures. Study findings are not reviewed by an independent entity, nor are the studies published: Score C**

Economic analysis which include cost benefit analysis and net-present value for is not being done for investment projects funded from domestic resources. Moreover cost estimation has not been done in a consistent manner to establish the costs that will result in the project being selected. This has been attributed to the fact that given the thin resource envelope, to carry out feasibility studies will in fact increase the costs and making the whole exercise very expensive. However, major projects are rarely funded from domestic resources.

The projects which receive external financing from donors have had economic analysis and feasibility studies done consistently (ref. PIMA report). In the National Transport Master Plan (NTMP) which covers periods from 2019 to 2036, economic analyses were carried out for

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<sup>20</sup> According to the PEFA framework, a major investment project is defined as one by which the total project investment will account for 1% or more of the total budget expenditure for a particular year. Taking the 2017/18 budget, the major projects by this definition will be all projects in excess of MWK 15 billion. Also it should be among the top 10 projects in each of the main sectors of investment. 13 projects fit this definition with total investment costs at MK 1,870 billion i.e. 137% of total budgeted expenditure for 2017/18



appraisal of the major investment projects (ref. table 9.8), but given the investment cost of those projects they are unlikely to go ahead without external funding. Six of the 13 projects listed as major in Annex 6D (total cost 1106 billion) are at the implementation stage, of which two (cost MK 145 billion) are being implemented with domestic funding only already have – or are seeking – external funding. Whereas the externally funded ones have had feasibility studies done (also the case for one additional project which is not yet in implementation) this is not the case for the two domestically funded projects.

The findings of the feasibility studies are generally not reviewed by an independent body, and the studies are usually not published. Selected DPs may occasionally do so, but it is not done by GoM.

### *Dimension 11.2 - Investment project selection*

**Some major investment projects are prioritized by the PSIP Department, recommended to Cabinet and included in the budgets for approval by the Parliament prior to their inclusion in the budget: Score C.**

A defined system is in place for project identification, screening and selection. All projects identified by the MDAs are supposed to fit in the context of Malawi Growth and Development Strategy (MGDS III) framework as well as the Economic Recovery Plan (ERP), failure of which they do not qualify to be included in the stock of projects which are supposed to be undertaken by the government. The objective of project prioritization is to provide a balance between the resource envelope and the national requirements.

The MGDS III has five key priority areas (KPA) which are: agriculture and climate change management; education and skills development; energy, industry and tourism development; transport, infrastructure and ICT and finally health and populations services. Of these KPA investment projects which are at the top of the priority list (the so called ‘flagship’ projects) are those focused on sustainable economic growth and infrastructure development as growth in these areas will positively improve the other three KPA. MDAs are supposed to prioritize their projects according to MGDS key priority areas. These projects are captured on the template provided by the PSIP Unit as part of Budget Guidelines. The project must fit into the context of the MGDS and at the same time the financial estimates of the project resource requirements must be provided. The template is then submitted to PSIP Unit. Ongoing projects are given priority over new projects for the MDAs<sup>21</sup>. These must be given priority in terms of funding request and inclusion in the budget. Secondly they also need to include such projects which are new and need to be carried out as second priority. Lastly the MDAs are supposed to document pipeline projects.

The PSIP Unit will at the same time estimate project ceilings to those submissions which come from the MDAs. These ceilings may not in actual sense consider many parameters which may be necessary but will consider the resource envelope available and whether the project fit into the priority list. Some projects are included in the project database but due to limited resource

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<sup>21</sup> ‘New’ projects will be funded by inclusion in PSIP for the following year; ‘Pipeline’ projects are those with eligibility confirmed but exceeding the limited budget ceiling, so external funding will be sought.

envelope, they may not be included in the current year budgets. Moreover upon presentation to the Cabinet, the Cabinet will also take into consideration the political importance of a project in terms of prioritization. Budget ceiling letters communicated to the MDAs have ceilings for the selected projects which MDAs need to adhere to in their planning. Consequently, MDAs responsible for project initiation will have little say on which projects they will be embarking on in the coming budget year.

#### *Dimension 11.3 - Investment project costing*

**Total estimated capital cost for major projects including the capital costs for the forthcoming budget years are not included in the budget documents which show only budget year expenditure estimates: Score D**

Project cost estimates for donor and externally funded projects are done showing the total project costs for the entire project life cycle. Such costs include the cost of carrying out feasibility studies covering up to the end of the project life cycle.

For government sponsored projects, even though the total costs are done, the estimates are at times not reliable, as these projects are embarked upon without clear feasibility studies being carried out. As a result the project estimated costs will not be accurate during the implementation stage of the project. This has seen some of the projects taking longer than the anticipated time in terms of project implementation. Though MDAs are supposed to give their input on total project costs, these are further reviewed by the PSIP to be within the ceilings communicated for them to be included in the budgets.

However, the system which is used to capture projects also includes their total costs. The capital costs for the next budget period of the major projects are not included in the budget documents under their votes indicating whether they are funded development part I or development part II. The only figures included in the budget relate to the estimated expenditures for the budgetary time frame and not the total capital costs of the major projects. This information is however available under the PSIP databases on estimated total project capital costs.

#### *Dimension 11.4 - Investment project monitoring*

**Information on project expenditure and physical progress is collected during the year from the implementing MDAs and obtained through onsite visits but monitoring is not systematic. Reporting to Cabinet is annual and up to date, but the report is not published: Score C**

The total cost of a project as well as financial and physical implementation progress is monitored during the project life cycle. On the project cost to date, the MDAs on a monthly basis are to produce information on templates provided by the PSIP Department on the total costs of resources that have been utilized on the project as at the end of every month. Often, however, this does not happen as most of the MDAs will provide the information when they are requesting funding from the budgets. Mostly the information is received as part of MDAs' budget submissions.

On physical monitoring, the implementing MDAs, the PSIP unit, the Monitoring and Evaluation section of EP&D as well as the Government Contracting Unit under OPC carry out onsite visits to

the projects to evaluate the physical progress on the ground, either jointly or individually. However, given the number of projects that are concurrently being carried out, physical verification is carried out on a sample basis. Coverage during the year has been estimated to be between 70 to 80% of the projects under implementation.

A report is prepared detailing all the progress on site, the existence on the contractor on site and challenges and recommendations on the best way to take the project forward. There is a standard template used to collect data and photographs on project status are also annexed to the report produced on monitoring and evaluation. This report covers all of the major projects identified which are under implementation, and is submitted to a Special Cabinet Committee on project implementation but is not published. The last comprehensive such report is dated June 2018, and is supposed to be done annually.

*Recent or ongoing reform activities*

- None identified.

***PI-12 Public asset management***

The effective management of assets supports aggregate fiscal discipline by ensuring that resources owned and controlled by government are used efficiently and effectively in the implementation of policy objectives. If governments do not have sufficient knowledge of the existence and application of assets, it is possible that the assets are not being used effectively and may not be properly applied. Governments also need to be aware of assets that are not needed, or not fully utilized, so that they can make timely decisions on whether the assets should be transferred to other users or exchanged for different assets of greater value for service delivery or other policy implementation. This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. The institutional coverage is central government (including EBUs) for financial assets, and budgetary central government for non-financial assets. The assessment is based on the last completed fiscal year i.e. FY2017/18.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-12 Public asset management</b>	<b>D</b>	Dimension scores combined by Method M2
12.1 Financial asset monitoring	D	There is no central system for managing, monitoring and reporting on the financial assets as a total portfolio despite the existence of the financial assets.
12.2 Nonfinancial asset monitoring	D	A central register of Government land and buildings is kept by the Land Registry under Ministry of Lands, whereas other records of non-financial assets are fragmented and incomplete. Comprehensive information on holdings of any type of non-financial assets is not publicized.
12.3 Transparency of asset disposal	D	Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but no consolidated

		information is available on such disposals, including the information of both acquisition and disposal values.
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*Dimension 12.1 - Financial asset monitoring*

**There is no central system for managing, monitoring and reporting on the financial assets as a total portfolio despite these assets representing sizeable amounts: Score D.**

The government has diverse financial assets including; cash, securities in listed and non-listed corporations, loans, receivables.

Records of all financial assets are to be kept with the Secretary to the Treasury (ST) for holdings of government investments in various public entities. Only cash balances are complete and regularly monitored, ref. PI-21.1.

Physical documents of securities in public corporations and other entities are kept in the ST's office. The government uses cash basis of accounting, which means that all investment securities acquisitions are expensed in the year in which they are bought/invested. Complete registers for such financial assets are not in place. There is a system to deal with the monitoring of some of those assets, but records are incomplete. The reporting on public corporations in the Annual Economic Report 2018 covered only 16 of the 27 operational public corporations. A financial oversight tool has been developed to track financial performance of most investments public corporations, including key financial ratios such as the debt to equity and solvency of the enterprises. The tool also has its shortcomings, as it omits key investments such as Malawi Airlines and Sunbird Tourism which are joint ventures between the GoM and other economic players. The tool does not indicate the government's shareholdings in these investments.

No registers are available on loans granted by the Government. Receivables in form of advances to junior staff are kept by MDAs in memoranda form and sent monthly to the AGD. Other Government receivables include tax payment arrears, ref. PI-19.4.

Overall, the information in the annual financial reports is fragmented and does not cover all the financial assets held by the government. As such the government may not be able to monitor, fully utilize and benefit from its financial assets portfolio. The financial assets are not subjected to periodic evaluation as to whether they still qualify to fit to the definition of an asset.

*Dimension 12.2 – Non-financial assets monitoring*

**The Land Registry under Ministry of Lands maintains the central register of Government land and buildings in hard-copy format, whereas other records of non-financial assets are fragmented and incomplete. There is no publication of comprehensive information on holdings of any type of non-financial assets: Score D.**

The monitoring of non-financial assets involves maintaining and updating records on acquisitions, movements, changes in use and disposals of such assets. This can be done using sophisticated systems or in Excel based spreadsheets solutions which have proper controls and segregation of duties.

The government land and buildings records are up to date in detailing the holdings of all government land and buildings and these are regularly updated. The register details the description of the land and buildings and the economic use to which it is being made including whether it is being used for government operations or it is leased to a third party. The Land Registry under the Ministry of Lands is responsible for maintaining the records for all government land and buildings.

The records for other non-financial (movable) assets are disaggregated. Financial value of stores and other inventories of consumables are not kept as all items are expensed as and when acquisitions are made. There are some MDAs which keep memoranda asset registers for such non-financial assets. These include the Ministry of Health which has a Physical Asset Monitoring Unit (PAMU) which keeps track of hospital equipment items which are bought for hospitals and other health institution by the Ministry. Record keeping in many other MDAs is non-existent. In the event that the said assets are destroyed or go missing, it will be difficult if not impossible to know.

### *Dimension 12.3 - Transparency of asset disposals*

**Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but no consolidated information is available on such disposals, including the information of both acquisition and disposal values: Score D.**

The disposal of assets is governed by the Public Procurement and Disposal of Public Assets Act Number 27 of 2017. This was promulgated in 2016 and brought into operation in December 2017. The Act is fairly new and was enacted after discovering that there is a gap in terms of dealing with public procurement and disposal of public assets.

Given the fact that no registers are in existence for most of the non-financial assets, except for land and buildings, the operationalization of this law will have its own challenges. The Act is effective on the date on which it was published in the Government Gazette or on such a date as the Minister can cause the Act to be published in the Government Gazette. This was published on the 22<sup>nd</sup> of August 2018 in the Extraordinary Government Gazette.

Section 4 of the Act defines the establishment of an authority which shall be responsible for implementation of the Act. Section 6 explains the functions of the authority in terms handling the procurement and disposal of public assets. Section 7 deals with the membership composition of the authority shall be responsible for the mandate of handling with Public Procurement and Disposal of Public Assets Act. The Act also clarifies the qualifications of the members who shall serve in the authority and their tenure which shall be limited to three years.

There is no information on transfers and disposals included in budget documents, financial reports or other reports.

Prior to the new Act becoming law, the disposal of assets within the MDAs was done by a Committee which reported directly to the Secretary to the Treasury. This committee had representative which were picked from the AGD and the Revenue Policy Division. No documentation was in place to explicitly explain the functionality of this committee and also to give mandate to its existence. When disposing assets, the committee would seek the services of private

independent auctioneer to assist in soliciting for bids and conducting sales of public assets under the guidance of the committee. Net revenue proceeds were then deposited with the Revenue Policy Division finance department and latter records sent to the Accountant General departments for incorporation into the income and expenditure reports. This committee was disbanded following the new Act becoming operational.

*Recent or ongoing reform activities*

- Operationalization of the new Public Procurement and Disposals of Assets Act through Institutional set-up establishing the Secretariat as per requirements of the Act.

***PI-13 Debt management***

The contracting, management and administration of public debt and guarantees can have a substantial impact on a country’s capacity to maintain fiscal discipline. The existence of effective debt management system will help the country in the medium to long term to minimize the cost of such obligations. Lack of effective debt strategies may result in high debt servicing costs and penalties which will draw resources from the fiscus. It will result in increase in reputational risk which would also increase the cost of raising new debt when providers take such risk factors into account.

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. For the purpose of this indicator, debt refers to central government debt—both domestic and external. Monitoring of debt contracted by local authorities and state enterprises is considered under PI-10: Fiscal risk reporting. The period assessed is for 13.1 at the time of assessment (August 2018), for 13.2 the last completed fiscal year (2017/18) and for 13.3 at the time of assessment with reference to the last three completed fiscal years (2015/16, 2016/16 and 2017/18).

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-13 Debt Management</b>	<b>B</b>	Dimensions combined by Method M2
13.1 Recording and reporting of debt and guarantees	B	Domestic and foreign debt records and guarantees are complete, accurate and updated at least quarterly. Comprehensive management and statistical reports are produced at least annually and presented before the Parliament.
13.2 Approval of debt and guarantees	A	The Constitution of Malawi and the PFM Act No. 7 of 2003 authorizes the Minister responsible for Finance to contract debt and guarantees on behalf of the government subject to the approval of Parliament.
13.3 Debt management strategy	D	As at August 2018, a debt management strategy had been officially established but had yet not been made publicly available.

## *Background*

The Constitution of Malawi of 1994 empowers the government under an enabling Act and with approval from the Parliament to contract debt as per Section 180 which specifically deals with Government loans and borrowings. The PFMA Part IV deals with borrowings, loans and guarantees by the Government. Section 54 to 61 of this Act deals with who is authorized to borrow on behalf of the government, and the fact that all borrowings must be proven to be in the public interest. The Minister of Finance, who is authorized to borrow on behalf of the government, is requested to seek guidance and legal advice on borrowings from the Attorney General in terms of contents and legal interpretation of the borrowing arrangements and agreements. Upon satisfaction, he is authorized and requested to seek Parliament approval before appending the signature on the borrowing by the State. Borrowings include guarantees as per section 63 of the PFMA.

The Debt Management Technical Committee meets every month to deliberate on public debt for both external and local debt. It prepares a debt issuance calendar scheduling debt issuance required for the purpose of cash flow management.

### *Dimension 13.1 - Recording and reporting of debt and guarantees*

**Domestic and foreign debt and records are updated continuously and reconciled at least quarterly. Comprehensive management and statistical reports on debt stock and debt service and guarantees are prepared annually and presented to Parliament: Score B.**

The Debt and Aid Management Division (DAD) of MoFEPD is responsible for maintaining the records of all public debt contracted by the state for both local and foreign borrowing. Reconciliation on the public debt is done on a monthly basis taking into account new debt that has been raised during the month, debt that has been retired and the principal and interest payments which would have been made or sinking fund payment arrangement directed toward clearing debt. The government also keeps track of contingent liabilities as government issues consent letters and guarantees to public enterprises.

The back office of the DAD records debt information using the Commonwealth Secretariat - Debt Recording and Management System (CS-DRMS). Quarterly debt reports are produced which covers information on composition of domestic and external debt, interest rates, and actual foreign exchange rates. At the end of the fiscal year a comprehensive annual debt report is prepared which is also presented before the Parliament showing the debt status. The opening balances were taken from RBM records and transferred into CS-DRMS after DAD had experienced an irrecoverable breakdown of CS-DRMS in May 2016<sup>22</sup>.

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<sup>22</sup> Ref. IMF TA report cr17332

The back office performs reconciliations on a transaction by transaction basis monthly and quarterly covering both external and domestic debt. The reconciliations are now being done with the debt holders and this has enhanced the accuracy of reported data.

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

**The Constitution and the PFMA require contracting and reporting on all government debt and guarantees through the Minister for Finance subject to approval by Parliament: Score A.**

The Constitution of Malawi section 176 requires an Act of Parliament to grant authority to the Minister responsible for Finance to borrow and issue guarantees on behalf of the government. Section 175 of the Constitution allows for the repayments of loans from the Consolidated Revenue Fund in the form of interest payments, principal repayment, or to a sinking fund created for the purposes of debt repayments which can collectively be termed debt charges. The PFMA section 54 grants the government the authority to borrow money. The Minister of Finance is recognized as the sole authority to contract borrowing on behalf of the Government and issuing guarantees subject to the approval of Parliament. Section 55 of the PFMA grants the Minister, or any other person authorized by the Minister, the authority to sign the loan agreements and guarantees, including to PPPs and joint ventures.

The Third Schedule of the PFM Act provides detailed and further guidance in the processes by which the Minister shall contract debt from domestic and external sources subject to consultation with the Cabinet.

Some of the domestic debt, which has been contracted by the government up to 2016, was a result of arrears accumulating in MDAs. The government converted those arrears into Zero Coupon Promissory Notes (ZCPN) which had up to two years' maturity. This has resulted in the ballooning of the domestic debt to levels of MK 1.3 trillion as at 30 June 2017. No ZCPN have been issued since then. The total guarantees were at the same time of an approximate value of MK 29 billion being guarantees given to ADMARC and Salima Sugar Company<sup>23</sup> by the government.

### *Dimension 13.3 - Debt management strategy*

**As of August 2018, a debt management strategy is available in draft form as an internal document but had not yet been made publicly available: Score D.**

The country has prepared a draft debt management strategy which covers four years (Medium Term Debt Management Strategy 2017-2020). It has a set of assumption on risks that can impact on the government debt. Such risks include the real sector, balance of payments, fiscal and monetary risks. The draft document shows quantitative direction of risk indicators of the risk

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<sup>23</sup> GoM is a minority shareholder in company which is 60% owned by the Government of India.



factors on how they are forecasted to evolve. However, a final approved version of the strategy has not yet been issued.

A country report on Debt Sustainability Analysis (DSA)<sup>24</sup> has also been prepared by the IMF assessing the impact of government borrowing on the general economic environment. It also looked into factors that have caused the drivers which have made the governed to contract debt for the period up to 2015. The DSA noted that Malawi's external public debt remains at moderate risk of debt distress with heightened overall risk of debt distress reflecting significant vulnerabilities related to domestic debt. Similar findings are reported to the National Assembly in the Annual Economic Report.

The country is under an IMF Extended Credit Facility (ECF) arrangement which sets conditions for the country's contracting of debt in the short to medium term. Under the ECF arrangement, the government is not allowed to raise debt on commercial terms but may borrow on concessionary terms where the loan proceeds are directed towards developmental projects.

The current debt management strategy document available is only for internal use within the departments which handle and monitor external and domestic public debt. It is not publicly available. No reporting has been made to the National Assembly on implementation of the strategy.

*Recent or ongoing reform activities*

- Finalization and issue of the Medium Term Debt Management Strategy 2017-2020.

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<sup>24</sup> DSA cr1583 – IMF Country Report on MTDS (Malawi)

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

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

This indicator measures the ability of a country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The institutional coverage is the entire economy for the first dimension, and central government including EBUs for the second and third dimension. The time period assessed covers the last three completed fiscal years i.e. forecasting undertaken during the years 2015/16, 2016/17 and FY2017/18.

Indicator/Dimension	Score	Brief Explanation
<b>PI-14 Macroeconomic and fiscal forecasting</b>	<b>D+</b>	Dimensions combined by Method M2 (average)
14.1 Macroeconomic forecasts	D	Macro-economic forecasts are prepared and updated twice annually but cover only the forthcoming budget year and the following fiscal year.
14.2 Fiscal forecasts	C	The government prepares forecasts of the aggregate revenue, expenditure, budget balance and financing for the budget year and the following two years and presents the forecasts in the budget documentation submitted to the National Assembly. Explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts
14.3 Macro-fiscal sensitivity analysis	D	There is no evidence of macro-fiscal sensitivity analysis having taken place during the past three fiscal years.

#### *Dimension 14.1 - Macroeconomic forecasts*

**Macro-economic forecasts are prepared and updated twice annually but cover only the forthcoming budget year and the following fiscal year: Score D.**

A National Accounts and Balance of Payments Forecasting Committee (NABOP) comprises representatives from EAD, EP&D, RBM, Ministry of Agriculture Irrigation and Water Development, Ministry of Trade and Industry and NSO. It prepares forecasts for GDP which are updated twice a year on the basis of annual surveys (e.g. Agricultural Production Estimates Survey) and consultations with various business sectors. The forecasts are presented in the AER and broken down by economic sector, with a detailed description of developments in each economic sector. The forecasts are based on calendar years and cover two years i.e. the forecasts done for the 2018/19 budgeting process cover calendar years 2018 and 2019, as reported in the AER May 2018. Calendar year forecasts and then converted to estimates for year fiscal year.

Inflation expectations are broadly set out in the EFPS for up to four years (para. 17 in 2018).

Assumptions regarding the MK exchange rate and domestic interest rates are that they will remain unchanged. No explicit forecasts are made as they may influence the behavior of market actors and the ability of RBM to manage these parameters.

MGDS III includes forecasts of GDP and inflation for the period 2018-2022<sup>25</sup>, but those forecast appear to have been outdated shortly after the completion and issue of the document in November 2017 as, they substantially deviate from the forecasts for 2018 and 2019 presented in the EFPS and AER mentioned above.

There is no independent review of the forecasts. Civil society expressed concern that macro-economic forecasts used for the budget preparation are too optimistic, leading to overestimation of revenue.

#### *Dimension 14.2 - Fiscal forecasts*

**The government prepares forecasts of the aggregate revenue, expenditure, budget balance and financing for the budget year and the following two years and presents the forecasts in the budget documentation submitted to the National Assembly. Explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts: Score C.**

Multi-year fiscal aggregates (revenues, financing, recurrent expenditures, and development expenditures) covering the forthcoming budget year and the two following years were presented together with the budget proposals in more detail in the Draft Financial Statement. Draft Financial Statement is part of the budget documentation package and published on the MoFEPD website shortly after submission to the National Assembly in May of each year (ref. PI-5 and PI-9). This has been the case for last three fiscal years i.e. the Financial Statements for 2018/19, 2017/18 and 2016/17.

The underlying macro-economic assumptions for these forecasts are based on the forecasts explained under PI-14.1 above with no additional explanation, i.e. the GDP assumptions for the last 1.5 years of the fiscal forecasts are not stated. As for other assumptions (e.g. tax policy and expenditure policy changes) only a general reference to the MGDS III is made.

An explanation of the differences between this annual update and the corresponding forecasts for the previous year is not presented. The fiscal forecasts cover only budgetary central government including subventions to EBUs, whereas EBU own revenue collections, their expenditure and corresponding budget balances are excluded from the forecasts.

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<sup>25</sup> On page 28 of the document, finalized in November 2017

### *Dimension 14.3 - Macro-fiscal sensitivity analysis*

**There is no evidence of macro-fiscal sensitivity analysis having taken place during the past three fiscal years: Score D.**

It has been indicated that alternative forecasts on the basis of different assumptions concerning the economic and financial parameters are produced and presented to the Minister for Finance for consideration and selection of the scenario on which to base the forthcoming budget. However, no evidence has been presented to support this position and to show the range of, basis for and comprehensiveness of such scenarios.

#### *Recent or ongoing reform activities*

- Work has commenced on collecting data from EBUs which will allow the fiscal forecast to include these entities for the future.
- Alternative macro-economic forecast scenarios are being prepared for the preparation of the 2019/20 budget.

### ***PI-15 Fiscal strategy***

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The institutional coverage is central government including EBUs. The time period assessed covers the last three completed fiscal years i.e. performance of the relevant functions during the years 2015/16, 2016/17 and FY2017/18 for the first dimension but only the last completed year i.e. FY2017/18 for the second and third dimensions.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-15 Fiscal Strategy</b>	<b>D+</b>	Dimensions combined by Method M2
15.1 Fiscal impact of policy proposals	D	Fiscal impact is estimated for only a few of the proposed revenue measures and only for the budget year, whereas multi-year estimates are available for many expenditure policy proposals
15.2 Fiscal strategy adoption	C	The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly in the EFPS, but quantitative fiscal targets or rules for the main fiscal parameters are neither set in law nor adopted by the government and submitted to the National Assembly
15.3 Reporting on fiscal outcomes	C	The government prepares an internal report on progress towards fiscal targets and implementation of fiscal policies

		under the ECF Arrangement but only for submission to the IMF
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*Dimension 15.1 - Fiscal impact of policy proposals*

**Fiscal impact is estimated for only a few of the proposed revenue measures and only for the budget year, whereas multi-year estimates are available for many expenditure policy proposals: Score D.**

The Revenue Policy Division (RPD) of MoFEPD is responsible for preparing revenue policy proposals and for budget estimates of tax and non-tax revenue. RPD prepares a list of proposed tax and non-tax measures for adoption in the forthcoming budget, for each measure showing justification, type of measure (policy change, policy clarification, administrative change) and – in principle – quantified revenue impact. When adopted the measures are then converted into amendment bills to the Income Tax Act, Customs and Excise Act and VAT Act etc. In practice, revenue impact is rarely estimated. The list of measures for budget year 2018/19 included 19 measures. Quantification of revenue impact was estimated for only one measure out of about eight measures which were likely to have revenue impact, and only for the budget year. For 2017/18 revenue impact was calculated for 3 out of 10 revenue measures with likely implications for amounts collected.

The Economic Affairs Division (EAD) of MoFEPD is responsible for reviewing the fiscal impact of expenditure policy proposals in collaboration with the Budget Division. A comprehensive review of expenditure in selected sectors takes place occasionally, but with long intervals. The most recent example was a Public Expenditure Review of the environment and natural resource management sector from 2014. However, sector development plans/strategies typically include multi-year costing for each proposed program and sub-program<sup>26</sup>. Since budget estimates draw on the proposals presented in the sector plans and strategies (ref. PI-16.3), estimates of the budget impact of expenditure policy proposals are readily available.

*Dimension 15.2 - Fiscal strategy adoption*

**The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly in the EFPS. Quantitative fiscal targets are adopted by the government internally as part of the ECF arrangement with IMF but are neither set in law nor submitted to the National Assembly: Score C.**

Fiscal policy is guided by several principles set out in the PFM Act, but these are too general to serve as an effective anchor for fiscal policy. The PFM Act requires inter alia, that the government shall: i) manage public debt at prudent levels to provide buffers against factors that may impact adversely the total public debt; ii) ensure that total expenditures are consistent with a prudent level

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<sup>26</sup> Whilst costing and annual budget details are explicitly shown for each proposed intervention in e.g. HSSP II and NAIP, the NTMP only shows aggregates and economic returns for its investment project proposals, so annual budget estimates will have to be extracted from the underlying data tables.

of borrowing and the attainment of fiscal sustainability; and iii) manage fiscal risks prudently. No numerical rule is provided in the legislation and regulations. The PFM Act also requires that MoFEPD presents its fiscal policies in the Economic and Fiscal Policy Statement (EFPS) to the National Assembly ahead of the budget (by April 1 each year).

There is a restriction on domestic debt, which serves as an anchor to fiscal policy in Malawi, but is not always complied with. According to the Treasury Instructions Article 7.8.2, domestic Treasury-bill issuances are capped at 25 percent of total budgeted revenues for the current fiscal year. This restriction concerns only central government debt, and the limit does not apply to domestic debt issued through any other means (promissory notes, or ways and means advances by the Reserve Bank of Malawi<sup>27</sup>, for example).

The level of public debt is not limited in the medium-term. The EFPS contains no medium-term fiscal targets that would guide fiscal decision making or help take corrective measures. While the Treasury-bill issuance target is guiding fiscal policy, there are no multi-year projections on the debt limit, nor does the government provide any explanation of how this limit is used in making the projections of expenditure and revenue that are presented in the AER and Financial Statement. The Draft Financial Statement includes a section on external debt sustainability but is based only on the existing debt stock and does not include domestic debt.

While there is no published fiscal target supporting fiscal policy, the Extended Credit Facility (ECF) arrangement with IMF – in operation since July 2012 - includes performance criteria and indicative targets that serve as anchors to fiscal policy and thus have been adopted by the government. Yet, the ECF is not embedded in law and is temporary by nature, underscoring the lack of a more permanent mechanism to ensure fiscal sustainability.

### *Dimension 15.3 - Reporting on fiscal outcomes*

**The government prepares an internal report on progress towards fiscal targets and implementation of fiscal policies under the ECF Arrangement but only for submission to the IMF: Score C.**

Several reports issued by MoFEPD during 2017/18 discuss fiscal policy issues and underlying macro-economic developments, including the Mid-Year Report (January 2018), the Economic and Fiscal Policy Statement (April 2018) and the Annual Economic Report (May 2018), which are all submitted to the National Assembly. Since no clear fiscal policy targets have been defined, however, no reporting on their achievement is made. The reports discuss developments but do not make direct comparison to the qualitative objectives stated during the previous year's budget policy cycle. Reporting on achievement of the fiscal policy targets under ECF is done internally by MoFEPD and submitted to the IMF<sup>28</sup>. This information is not included in documentation

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<sup>27</sup> This restriction does not currently apply in practice, since the government converts outstanding ways and means advances into T-bills whenever the ways and means limit is reached

<sup>28</sup> In terms of a Letter of Intent with an attached Memorandum of Economic and Financial Policies.

submitted to the National Assembly, though it is eventually included in the IMF report on ECG review which is a public document.

*Recent or ongoing reform activities*

- The PFMA is undergoing a review and it is being considered to incorporate measures to help ensure long term fiscal sustainability.
- The capacity to undertake fiscal impact analysis of revenue and expenditure policy changes is gradually being enhanced.

***PI-16 Medium-term perspective in expenditure budgeting***

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. The institutional coverage is budgetary central government excluding EBUs. The time period assessed covers the last budget submitted to the legislature for dimensions i.e. the budget for 2018/19, while including a comparison of this budget submission to the budget submission from the previous year 2017/18.

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	<b>B</b>	Dimensions combined by Method M2 (average)
16.1 Medium-term expenditure estimates	B	The annual budget proposal and final estimates present estimates of expenditure for the budget year and the two following years by administrative, economic and program classification, though with a high degree of aggregation as concerns breakdown by economic item
16.2 Medium-term expenditure ceilings	A	Expenditure ceilings at MDA level - and in aggregate – cover the budget year and the two following years and are approved by the Cabinet before each set of ceilings letters are issued
16.3 Alignment of strategic plans and medium-term budgeting	A	Medium-term strategic plans are prepared and costed for all major sectors, representing most MDA expenditure, and expenditure policy proposals included in the annual update of the MTEF draw heavily on the sector plans.
16.4 Consistency of budgets with previous estimates	D	Budget documents do not provide any explanations of changes to the updated medium-term expenditure estimates compared to the previous year’s estimates.

*Dimension 16.1 - Medium-term expenditure estimates*

**The annual budget proposal and final estimates present estimates of expenditure for the budget year and the two following years by administrative, economic and program**

**classification, though with a high degree of aggregation as concerns breakdown by economic item: Score B.**

Malawi has over the past decade gradually introduced a medium term approach to budgeting. The proposed MTEF for 2018/19 was presented in the Draft Financial Statement, submitted to the National Assembly at the presentation of the budget in May 2018. The Draft Financial Statement presented the MTEF in terms of budget estimates for 2018/19 plus projections for 2019/20 and 2020/21 by vote (administrative classification), sub-divided into four main economic categories (personal emoluments, ORT, transfers to subvented entities and development expenditure by project name and financial source). The MTEF estimates for outer years were re-introduced in 2018/19 after been omitted for the previous three years. Thus, the outer year projections by economic classification are provided at some degree of aggregation and not at detailed item level and does not include outer year estimates for Development Expenditure by vote (however, such outer year estimates are produced in accordance with outeryear budget ceilings issued by MoFEPD); the detailed estimates (budget document no.4) only shows estimates for the budget year. The PBB documents show budget estimates by program and sub-program for the two outer years (including outputs and activities for each program ref. PI-8.1), whereas the breakdown by economic item for each program and sub-program only shows the budget year.

#### *Dimension 16.2 - Medium-term expenditure ceilings*

**Expenditure ceilings at MDA level - and in aggregate – cover the budget year and the two following years and are approved by the Cabinet before each set of ceilings letters are issued: Score A.**

Expenditure ceilings are issued to MDAs in accordance with budget calendar (ref. PI-17.1). Each MDA receives an individual letter from the ST which includes ceilings for the budget year and the two following years, broken down by main economic categories for recurrent expenditure and by project name under each of Part 1 and Part 2 of development expenditure. For major MDAs a breakdown of the ceilings by cost center is also included. The ceilings are issued by MoFEPD after presentation by the Minister for Finance to and discussion in the Cabinet Committee on Budget for both stages of ceilings and, at the stage of the final ceilings, after approval of a related Cabinet Paper.

#### *Dimension 16.3 - Alignment of strategic plans and medium-term budgeting*

**Medium-term strategic plans are prepared and costed for all major sectors, representing most MDA expenditure, and expenditure policy proposals included in the annual update of the MTEF draw heavily on the sector plans: Score A.**

The MoFEPD provides overall strategic guidance on national development planning under the Malawi Vision 2020 Strategic Plan. The National Planning Commission (NPC) has been legally constituted with a mandate to ensure that all MDAs align their sectoral plans, activities, and budgets. The Commission is still in the process of being formally established as an operational entity. Nonetheless, the strategic planning process is well-structured into series of medium-term national development plans - the Malawi Growth and Development Strategy (MGDS) - which



include broad estimates of the implementation costs, covering five years. The third of these plans, MGDS III, covering the period 2017-2022, was completed in November 2017. The sector strategies that underpin the MGDS cover all the major economic, social and strategic sectors, and identify objectives, milestones, activities, outputs and outcome targets. Despite this well-structured process, there are significant capacity constraints that adversely affect the execution of the planning process at MDA level.

Sector Working Groups (SWGs) develop medium-term investment plans and annual work-plans that are integrated into the national planning, budgeting and monitoring system through the Public Sector Investment Program (PSIP) process. These groups include representatives of the relevant MDAs, public corporations, and extra-budgetary units. The SWGs consult with relevant stakeholders, a process which includes a review of sub-national government plans that reflect local development priorities, to formulate refined five-year investment plans. The priorities reflected in the sector plans are distilled into annual work plans, which inform the budget and PSIP processes. These plans contain various performance indicators, ref. PI-8.1. Despite the comprehensiveness of the planning system, not all capital projects can be found in the budget because some development partners continue to fund capital projects outside the PSIP process<sup>29</sup>.

The MGDS contains data on the aggregate costs of flagship projects and most sector strategies include detailed costs of main categories of recurrent costs and major investments. While information on costs is provided in both the MGDS and sector plans, they bear little resemblance to Malawi's fiscal constraints or the overall budget envelope available, in particular as concerns development projects. Sector strategies and sub-national plans are typically broadly defined, overly ambitious, and aspirational in nature, with actual funding ultimately being defined by the availability of resources and prevailing political priorities. Nevertheless, MTEF estimates at the time of preparing the sector strategies have been used as one source of estimating resource availability for financing the sector strategies<sup>30</sup> and expenditure proposals made for the MTEF submissions in subsequent years draw extensively on the sector plans.

For some of the major sectors - such as health, education, transport, energy and agriculture – the funding of sectors plans depend heavily of DP funding (and other non-government funding) – much of which is off-budget - with GoM contributions playing a relatively minor role (say 20-30% of the total). Even so, the sectors' inputs to the MTEF process remain aligned with the sector plans and strategies, but of course exclude the off-budget element.

#### *Dimension 16.4 - Consistency of budgets with previous estimates*

**Budget documents do not provide any explanations of changes to the updated medium-term expenditure estimates compared to the previous year's estimates: Score D.**

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<sup>29</sup> The PIMA report on page 26 mentions several such projects.

<sup>30</sup> E.g. the National Agricultural Investment Plan 2017/18-2022/23 (NAIP) shows in detail how this is done. The Health Sector Strategic Plan 2017-2022 states that the same method has been applied without showing the details.

An important concern regarding the benefits of the MTEF process is that the outer year estimates are unstable<sup>31</sup>. This issue was mentioned by all the main spending MDAs consulted during the assessment. Reasons for changes to the expenditure projections include frequent emergencies (e.g. caused by natural disasters), major project cost overruns, accommodation of unpaid claims from previous years, bail-out of public corporations and changes to project priorities within the MTEF horizon.

Unstable outer year estimates are exacerbated by the poor predictability of the annual budget planning and execution. The first year budget estimates (ceilings) often change significantly during the budgeting process, and budget outturns are routinely very different from the approved estimates (ref. PI-2).

Budget documents do not explain the differences between approved estimates on the one hand and actual outturns for the previous year or likely outturn for the current year on the other hand (say 2016/17 and 2017/18 respectively in the 2018/19 budget documentation) except for a few deviations at highly aggregated level. Consequently, no explanations are given for changes to the MTEF projections compared to the previous year's estimates. Whilst some MDAs find the MTEF projections for the second and third year useful as a starting point for the subsequent annual budgeting process (in the absence of early ceilings information), others find the MTEF to be a theoretical exercise of little practical value.

#### *Recent or ongoing reform activities*

- None identified.

#### ***PI-17 Budget preparation process***

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The institutional coverage is budgetary central government excluding EBFs. The time period assessed covers the last budget submitted to the legislature for dimensions 17.1 and 17.2 i.e. the budget for 2018/19, but the last three fiscal years for dimension 17.3 i.e. the budgets for 2016/17, 2017/18 and 2018/19.

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<sup>31</sup> E.g. the 2017/18 MTEF outer year estimate for MoHP for ORT in 2018/19 had been reduced by 60%, when the initial ceilings letter was issued to MoHP in February 2018. For PE the amount had been increased by 14%. The corresponding changes for the Department of Asset Declaration were an increase in ORT of 9% and a reduction in PE by 33%.

Indicator/Dimension	Score	Brief Explanation
<b>PI-17 Budget preparation process</b>	<b>B</b>	Dimensions combined by Method M2 (average).
17.1 Budget calendar	C	A clear and comprehensive budget calendar exists, but is implemented with significant delays which leave MDAs with only about three weeks combined to prepare their budget proposals and estimates after receipt of the respective ceilings
17.2 Guidance on budget preparation	A	A comprehensive, generic Budget Preparation Guidelines document is circulated to all MDAs and covers the entire budget for the full year. Subsequently, two sets of individual letters are sent to MDAs with initial and final ceilings respectively, as approved by the Cabinet
17.3 Budget submission to the legislature	C	The Minister of Finance has – in each of the last three years - presented the annual budget proposals to the National Assembly 5-6 weeks before the start of the fiscal year.

#### *Dimension 17.1 - Budget calendar*

**A clear and comprehensive budget calendar exists, but is implemented with significant delays which leave MDAs with only about three weeks combined to prepare their budget proposals and estimates after receipt of the respective ceilings: Score C.**

A detailed, generic budget calendar exists with activities and deadlines as summarized in table 3-9 below. For the preparation of the 2018/19 budget, however, the Budget Guidelines issued in late January 2018 included a revised calendar for the remaining stages of budget preparation, also shown in table 3-9. Actual dates for those remaining stages are also shown in the table.

Table 3-9 shows that there were substantial delays in implementing the generic calendar and even the updated calendar for the last four months of the process suffered from significant delays. In particular MDAs were given only two weeks to prepare and submit their budget proposals after issue of the first set of ceilings, and only one week to submit the final estimates after issue of the second set of ceilings i.e. three weeks combined.

MDAs consulted explained that the short deadlines made it very difficult to complete the submission on time, and while they by and large met the deadlines large ministries only managed this by centralizing preparation of the submissions to their budget departments and skipping consultations with the technical departments which eventually become responsible for implementing the budget in their respective areas.

**Table 3-9 Budget calendar for the preparation of the 2018/19 budget**

	Activity	As per Generic calendar	Budget Guidelines for 2018/19	Actual*) dates for 2018/19
	EAD: Policy document outlining the underlying macro and fiscal factors that guide the expenditure ceilings, revenue and debt projections in the context of the medium term fiscal strategy (budget strategy paper).	End October	Not stated	Not issued prior to Budget Guidelines and ceilings
	BD: Circular with instructions to MDAs communicating expenditure ceilings	End October	Guidelines: Early Jan. Ceilings: 9 February	Guidelines: January Ceilings: 16-22 Febr
	MDAs: Undertake and submit a baseline budget review	Mid November	23 February	2-6 March
	BD with MDAs: Discussions on routine activities that are not captured in the baseline	Mid December	26 Febr – 20 March	
	MoFEPD: A high-level decision making process to reconcile baseline with fiscal sustainability indicators and prepare MDA expenditure ceilings.	End February	Not stated	
	BD: Issue circular with updated expenditure ceilings and revenue targets	Mid March	20 March	20 April
	MDAs: Submit detailed budgets and spending plans	End March	1 April	27 April
	BD with MDAs: Detailed Budget Hearings 2	Early-Mid April	Not included	
	MDAs: Update Detailed MDA submissions and provide cash flow projections	End April	Not included	
	BD: Consolidate all detailed budget submissions	Mid May	4 May	
	Minister: Presentation of the Budget to Parliament	Not stated	Not stated	18 May

Source: Budget Division, \*) as per sample ceilings letters and date of budget statement.

### *Dimension 17.2 - Guidance on budget preparation*

**A comprehensive, generic Budget Preparation Guidelines document is circulated to all MDAs and covers the entire budget for the full year. Subsequently, two sets of individual letters are sent to MDAs with initial and final ceilings respectively, as approved by the Cabinet: Score A.**

The Budget Preparation Guidelines for 2018/19 are quite comprehensive and cover all MDAs including subvented entities, Treasury Funds and functions being decentralized to local government level.

It explains the linkages between MGDS III, sector strategies/plans and MTEF submission, in terms of policy and project priorities, including the PSIP process for development expenditure.

There is a general description of the macro-economic context but the Guidelines do not specify the macro-economic assumptions which MDAs should consider when making their estimates, such as GDP growth (by sector) and inflation (other than an expected 3% wage creep). The relevant projections for national GDP growth and inflation are stated in the MGDS III but need to be updated for each annual budget cycle, as mentioned under PI-14.1 above.

The Budget Preparation Guidelines are generic as they contain no information specific to any sector or MDA. Subsequently – about three weeks later - each MDA receives an individual letter from the ST which includes indicative ceilings to guide completion of budget proposals. The ceilings are specified by main economic categories for recurrent expenditure and by project name under each of Part 1 and Part 2 of development expenditure. For major MDAs a breakdown of the ceilings by cost centre is also included. A further set of letters with final ceilings – in the same format – is issued after completion of the budget hearings with MDAs. The ceilings are issued by MoFEPD after presentation by the Minister for Finance to and discussion in the Cabinet Committee on Budget for both stages of ceilings and, at the stage of the final ceilings, after approval of a related Cabinet Paper.

### *Dimension 17.3 - Budget submission to the legislature*

**The Minister of Finance has – in each of the last three years - presented the annual budget proposals to the National Assembly 5-6 weeks before the start of the fiscal year: Score C.**

The exact dates of the submission of the budget proposals are shown in table 3-10.

**Table 3-10 Timeline for budget submission to and approval by Parliament**

Budget Year	Budget Submission to Parliament	Appropriations Bill passed by the National Assembly
2015/16	22 May 2015	25 June 2015
2016/17	22 May 2016	30 June 2016
2017/18	19 May 2017	22 June 2017
2018/19	18 May 2018	22 June 2018

*Source: Budget Statements by the Minister of Finance and dates provided by the Budget and Finance Committee of the National Assembly.*

### *Recent or ongoing reform activities*

- None identified

### ***PI-18 Legislative scrutiny of budgets***

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature’s procedures for scrutiny are well established and

adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The institutional coverage is budgetary central government excluding EBUs. The time period assessed covers the performance during last completed fiscal year for dimensions 18.1, 18.2 and 18.4 i.e. approval of the budget for 2018/19, whereas it covers performance during the last three years for dimension 18.3 i.e. the budget approval processes for 2016/17, 2017/18 and 2018/19.

Indicator/Dimension	Score	Brief Explanation
<b>PI-18 Legislative scrutiny of budgets</b>	<b>C+</b>	Dimensions combined by Method M1 (weakest link)
18.1 Scope of budget scrutiny	C	The National Assembly reviews the details of revenue and expenditure, but not fiscal policies and aggregate fiscal forecasts
18.2 Legislative procedures for budget scrutiny	B	The National Assembly has well established procedures for scrutiny of the budget, which are adhered to. The procedures include (limited) negotiation procedures, some technical support to committees, consultations with civil society and access for the media to attend consultations.
18.3 Timing of budget approval	A	The National Assembly has – in each of the last three years - approved the annual budget before the start of the fiscal year
18.4 Rules for budget adjustments by the executive	B	Clear rules for in-year budget reallocations by the executive are set out in the PFM Act and adhered to. The rules provide the executive with substantial powers of reallocation within the overall aggregate of original appropriations.

#### *Dimension 18.1 - Scope of budget scrutiny*

**The National Assembly reviews the details of revenue and expenditure, but not fiscal policies and aggregate fiscal forecasts: Score C.**

During January-March the Minister of Finance usually holds consultations with various stakeholders – including the Budget and Finance Committee (BFC) of the National Assembly - before budget proposal hearings with MDAs. However, this process did not take place in 2018. In April the EFPS is submitted to the National Assembly, but this is for information only. No debate takes place on economic and fiscal policies. The Assembly receives the complete package of budget documents (nos. 1-5, ref. PI-5) in May of each year for scrutiny, debate and approval. This includes the GDP forecasts, aggregate fiscal forecasts, MTEF, Program Based Budget, proposed revenue measures and the detailed estimates. The debate in the Assembly mainly focuses on the detailed estimates of revenue and expenditure, including those presented in the PBB document.

#### *Dimension 18.2 - Legislative procedures for budget scrutiny*

**The National Assembly has well established procedures for scrutiny of the budget, which are adhered to. The procedures include (limited) negotiation procedures, some technical support to committees, consultations with civil society and access for the media to attend consultations: Score B.**

The Assembly has well established procedures for the budget scrutiny process, set out in the Constitution and its Standing Orders, which are followed every year. Nine cluster committees debate the proposals, of which the committee on finance comprises representatives from BFC and the Public Accounts Committee (PAC), as well as MoFEPD to explain and defend its proposals. The eight sector committees similarly include the relevant sector MDAs to explain and defend their proposals. The nine cluster committees report their findings and proposals to BFC, which consolidates the reports into one report being sent to the plenary for final discussion and approval.

Negotiation procedures are clear but give limited powers to the Assembly. According to the Standing Orders, only the Minister of Finance can make a motion to increase a vote's appropriation, whereas any member of the Assembly can propose a motion to reduce a vote allocation. The Assembly makes proposals to the Minister, but cannot impose any changes to the submitted budget estimates. If there is a major concern the Minister of Finance usually tries to accommodate this in an adjustment to the estimates, but at this late stage of the budget formulation cycle it is difficult to make any major changes, such as adding or replacing sizable projects.

The work of the cluster committees is supported by the respective committee clerks, plus a small pooled Research Department of the Assembly. The Research Department currently has five researchers to support the Assembly's 16 committees, which is considered inadequate. The BFC hires a consultant to assist during the budget scrutiny process, in particular to consolidate the reports from the clusters.

Apart from the usual pre-budget stakeholder consultations by the Minister of Finance, civil society participates in the review of budget proposals. Malawi Economic Justice Network (MEJN) is invited to present its analysis of the budget proposals to the cluster committee on finance. Similarly, various sector specific civil society organizations are invited to consultations in the other cluster committees. Journalists are invited to attend consultations in all cluster committees.

#### *Dimension 18.3 - Timing of budget approval*

**The National Assembly has – in each of the last three years - approved the annual budget before the start of the fiscal year: Score A.**

The actual dates of passing the Appropriations Bills in each year are shown in table 3-10 and range from 22<sup>nd</sup> to 30<sup>th</sup> June.

#### *Dimension 18.4 - Rules for budget adjustments by the executive*

**Clear rules for in-year budget reallocations by the executive are set out in the PFM Act and adhered to. The rules provide the executive with substantial powers of reallocation within the overall aggregate of original appropriations: Score B.**

According to the PFM Act article 24, the Minister of Finance (with approval by Cabinet) may transfer any surplus from a vote that - during any review of budget performance - appears to become under-spent during the financial year, to the Unforeseen Expenditure Vote from where it may be transferred for unforeseen expenses for any nominated vote. Such transfers shall subsequently be explained in notes to the annual financial statements.

This provision gives the executive significant powers to change the budget allocations in-year without prior approval of the National Assembly, as long as the overall amount of expenditure stays within the aggregate of approved appropriations.

In practice, substantial budget reallocations have taken place every year with retroactive consent by the National Assembly which has never refused the approval, whilst in a few cases asking for clarification of the justification. During 2017/18, however, a Mid-Year Report was submitted to the Assembly in January (an earlier practice which has been reinstated) with a proposal for a revised budget which was formally approved by the Assembly.

*Recent or ongoing reform activities*

- The National Assembly is planning an expansion of the Research Department to 10 researchers, including the establishment of a proper Budget Office to undertake the initial, technical analysis of the budget proposals.



## Pillar V. Predictability and control in budget execution

### *PI-19 Revenue administration*

The indicator assesses the procedures in place to collect and monitor central government revenue. It focuses on those entities and government agencies which perform the receivership function of all central government revenues which include tax administration, customs administration and at times including social security contributions. Agencies administering revenues from significant sources such as natural resource extraction are also covered in the event that such revenues are of material significance to the fiscus. These may include public enterprises that operate as regulators and holding companies for government interests. In such cases the assessment will require information to be collected from entities outside the government sector. The indicator covers the Central Government. The assessment period for dimensions 19.1 and 19.2 is as at the time of assessment (August 2018) and for dimensions 19.3 and 19.4 the assessment period covered FY2017/18 (last completed fiscal year.)

Indicator/Dimension	Score	Brief Explanation
<b>PI-19 Revenue Administration</b>	<b>B</b>	Dimensions combined by Method M2 (average)
19.1 Rights and obligation for revenue measures	A	Updated information is freely available for users online and supplemented by print and broadcast media and taxpayer education meetings, with a concise and comprehensive charter covering taxpayer rights and obligation.
19.2 Revenue risk management	B	MRA – collecting more than 90% of revenues - prioritize and assesses compliance risks for the majority of revenue categories by using structured and systematic approaches by entities.
19.3 Revenue Audit investigation	C	The majority of planned audits and investigations are completed during the year using documented compliance control procedures.
19.4 Revenue arrears monitoring	C	The stock of revenue arrears as at 30 June 2016 was 12% of the total revenue collection, two thirds of which had been outstanding for more than 12 months.

### *Background*

Central government revenues are mostly collected by Malawi Revenue Authority (MRA). MRA has been formed as a statutory corporate body under Section 3 of the Revenue Authority Act Chapter 39:03 to administer collection of revenues on behalf of the government. MRA is headed by the Commissioner-General, who reports directly to the Board of Directors responsible for the oversight role of the institution. The Board of Directors has various committees which are responsible in assisting in the discharge of its mandate. The membership of the Board has representations covering the various interest groups and organs of the government, among them are RBM, AGD, the Secretary to the Treasury, the Institute of Chartered Accountants in Malawi, and the Malawi Chamber of Commerce and Industry. It has two operating divisions, one for domestic taxes and one for Customs and Excise. Domestic taxes division administers all local taxes

which include Pay-As-You-Earn (PAYE) tax, corporate taxes, fringe benefit taxes, excise duties levied on prescribed local goods and services as well as value added taxes (VAT) on taxable supplies. The Customs and Excise division handles import duties, import excise, import value added tax on goods and services. Customs and excises division accounts for about thirty-two percent (32%) of annual revenues collected by the authority.

**Table 3-11: Revenue breakdown for the full fiscal years 2016/17 and 2017/18**

Revenue type	Value (MK mill)	% of Total	Value (MK mill)	% of Total
	2016/17	2016/17	2017/18	2017/18
Pay As You Earn	199,315	25%	228,697	25%
Company Assessment	21,124	3%	28,858	3%
Provisional tax	64,455	8%	64,987	7%
Withholding taxes on contracts	64,042	8%	72,839	8%
Import duty	69,773	8%	76,179	8%
Import VAT	129,668	16%	139,080	15%
Domestic VAT	108,063	13%	132,750	15%
Import excise	41,714	5%	48,454	5%
Domestic Excise	28,388	4%	32,207	3%
Other taxes*	22,600	3%	18,102	2%
Non tax revenue**	56,826	7%	88,347	9%
<b>Total</b>	<b>806,204</b>	<b>100%</b>	<b>930,678</b>	<b>100%</b>

*Source: Consolidated Annual report for the year ended 30 June 2017 (MoFEPD). Note: Excludes external grants to government.*

The tax administration function is administered by following Acts; Taxation Act Chapter 41:01, Customs and Excise Act Chapter 42:01 (as amended) and the Value Added Tax Act Chapter 42:02 (as amended in 2015) under the direction of the Commissioner General. Most of the government revenues are collected in the form of taxes as guided by the Income Tax Act [CAP 41:01] withholding taxes on dividends and contracts. The institution is currently working towards ensuring that the tax payers are on self-assessment in line with the regional trends where tax authorities have moved a step towards ensuring that all taxpayers are on self-assessment to improve on tax compliance. Users have been entering their biodata into the system in preparation for the launch of the online platform for self-assessment as preparatory work.

Overall, MRA collected MK 749 billion in 2016/17 (93% of total revenue), and MK 842 billion (91%) in 2017/18, which includes all government taxes and a few non-tax revenue items<sup>32</sup>. As more than 90% of the government revenue is being collected by MRA, only MRA will be considered for assessment of indicators PI-19 and PI-20. Table 3-11 gives an overview of central government revenue collection.

*Dimension 19.1 - Rights and obligation for revenue measures*

**Updated information is freely available for users online and supplemented by print and broadcast media and taxpayer education meetings, targeted outreach programs and a concise and comprehensive charter dealing with taxpayer rights and obligations: Score “A”**

MRA has a website which is continually updated for tax payer information. Users can log-on freely [www.mra.mw](http://www.mra.mw) and find a lot of information which is classified according to various tax matters and covering both domestic and external taxes. The governing legislation on tax matters are uploaded on the website for easy reach by the tax payers. This includes information on carrying out the registration process and filing and submitting revenue returns for all the tax heads. The tax updates and changes in legislation as a result of promulgation of new tax laws and tax measures are also uploaded on the website and the same information is disseminated via broadcast media such as national radio stations and television. Press releases published by the authority in various newspapers are also uploaded on the website to help taxpayers and would-be taxpayers with tax information. The website contains some explanations of how each of the tax-heads are computed and the definitions, putting in place the circumstances by which such taxes become levied to the tax-payers. There is also updated information on current tax tables to aid taxpayers on their computations and verify accuracy of their returns before they are submitted to MRA for filing and discharge of obligations.

A Taxpayer Charter has been prepared and offers comprehensive information on taxpayer rights and obligations. It helps taxpayers on the redress mechanism which they can pursue in case of grievances on their tax issues. The Charter is easily accessible online on the Authority’s website. The document is an organic document which is continually reviewed with the changes in tax administration. It explains possible circumstances which the members of the public may be caught up in during conducting their tax affairs and step by step processes they need to follow the reach a resolve in dealing with MRA. In the event that they are not satisfied they can also appeal to the provisions espoused in the key tax legislation<sup>33</sup>.

Outreach is undertaken by MRA, even targeting schools and universities, educating the would-be taxpayers of their obligations in future including their rights as responsible citizens and taxpayers. MRA maintains a tip-off anonymous hotline which is meant for the public to report instances

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<sup>32</sup> Some user fees and charges are collected by MRA including road toll for foreign vehicles entering the country (to Road Fund), and training levy for TEVETA. The amounts involved are minor.

<sup>33</sup> To the Revenue Division of the High Court

which can include misconduct by MRA officials or by taxpayers. There are also suggestion boxes which members of public can use with regards to tax issues and matters.

There are district offices where taxpayers can also visit within their nearest localities and get information and assistance under the Corporate Services department of Malawi Revenue Authority division.

#### *Dimension 19.2 - Revenue Risk Management*

**MRA – collecting more than 90% of revenues - prioritize and assesses compliance risks for the majority of revenue categories by using structured and systematic approaches by entities: Score B.**

MRA has an Enterprise Risk Management unit and a framework for dealing with compliance risks faced by both domestic and tax customs and excise divisions. The risk coding uses colors to depict the severity and magnitude of risk also known as robot system. The color codes used to depict risks are as follows; red (high impact and high severity), amber (medium impact and moderately severe) and green (low impact and low severity)<sup>34</sup>. Prioritization of risks focuses on those risks which are classified as high impact and high severity, and also those which are color coded amber. Risk evaluation takes place on an ongoing basis; some risks can change color codes over a time period due to changing business and economic environment.

Domestic taxes have categories for small, medium and large customers in terms of segmentation. In order to understand risks the authority considers the particular industry of the taxpayer which is segmented by attitude of the industry. Not all domestic revenue types, however, may be subject to rigorous risk-based assessment of compliance risk.

The Customs and Excise Division accounts for 30-35% of total revenue collection. The division has implemented a risk management system, using UNCTAD's Automated System for Customs Data (ASYCUDA) World.

#### *Dimension 19.3 - Revenue Audit and investigation*

**A majority of the planned audits and investigations are completed during the year using documented compliance control procedures: Score C.**

The Internal Audit Unit of MRA carries out its risk based approach of auditing based on an approved annual audit plan. The internal audit unit functionally reports to the Board Risk and Audit Committee and administratively to the Commissioner General. Investigations are also carried throughout the year and most of the investigations are completed in the year they are carried out.

The internal audit department completed much of the planned audits during the year. Audits are carried out in two parts. The internal audit unit carries out audits designed at strengthening

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<sup>34</sup> Enterprise Risk Management Framework (MRA Report April 2016)

institutional controls; whereas the investigations department carries out compliance audits. In 2017/18 fiscal year, the department managed to cover 79% of the planned post-clearance audits compared to 84% covered in 2016/17, ref. table 3-12. The data suggests over-optimism in the plan for 2015/16. Internal audit cases concluded during 2017/18 were at 88%. Whilst the numbers are the same for 2016/17 and 2017/18, the latter showed an improvement from prior year.

**Table 3-12: MRA Revenue Post-Clearance Audits**

Audit type	Post clearance		Internal Audits	
	2016/17	2017/18	2016/17	2017/18
Planned audits	94	104	16	16
Completed audits	79	82	10	14
Postponed audits	-	19	-	-
Audits not completed	15	3	6	2
Percentage completed	84%	79%	63%	88%

*Source- MRA Annual Report 2017*

*Dimension 19.4 - Revenue arrears monitoring*

**The total stock of revenue arrears as at 30 June 2018 was 12% of the total revenue collection, two thirds of which had been outstanding for more than 12 months: Score C.**

Most of tax arrears were a result of taxpayers paying by cheques and post-dated cheques, when their accounts had insufficient funds. This resulted in the accumulation of arrears as these cheques were referred to drawer (R/D) by financial institutions, when the MRA was supposed to have received value upon clearance of the cheques by the banks.

Measures have been put in place with enabling legislation which also gives the Commissioner General power to allocate payments received from the taxpayers to certain tax heads which the tax payer are owing MRA for a long period of time. MRA has also instituted measures whereby all suppliers to the government must have a clean tax record, failure of which would result in the withholding a portion of the contract payments should the contractor or supplier still have outstanding tax obligations.

The total arrears stock as at 30 June 2018 stood at MK 114 billion against at total revenue collection of MK 931 billion for the year, corresponding to 12% of total revenue collections. The annual report contained comments on the success of the debt recovery strategy which has been followed by MRA. Inter-alia, it included appointment of collection agents, agreeing to amicable and viable payment plans from taxpayers and migration to electronic funds transfer (EFT) as a mode of payment instead of cheques. In the case of cheques being used, they now have to be bank certified. The stock of arrears which are more than 12 months old and still outstanding as at 30 June 2018 was 65% [MK 73/114 billion] of total arrears. About half of those arrears were for the fiscal year

2016/2017 and the balance being for other two previous fiscal years. Since MRA has insisted on bank certified cheques and electronic funds transfer, the arrears outstanding have gone down.

**Table 3-13: Revenue arrears as at 30 June 2018**

Description	Total Arrears 30 June 2018	Arrears over 12 months old
	MK mill	MK mill
Domestic taxes arrears for FY 2015/2016	16,593	16,593
Trade taxes arrears for FY 2015/2016	508	508
Domestic taxes arrears for FY 2016/2017	54,608	54,608
Trade taxes arrears for FY 2016/2017	1,176	1,176
Domestic taxes arrears for FY 2017/2018	38,633	-
Trade taxes arrears for FY 2017/2018	2,632	-
<b>Total arrears (Domestic and trade)</b>	<b>114,210</b>	<b>72,945</b>
<b>Total revenue FY2017/18</b>	<b>930,678</b>	<b>930,678</b>
<b>Arrears as a percentage of total revenue collected</b>	<b>12%</b>	<b>8%</b>

Source: MRA Arrears report FY2017/18

#### *Recent or ongoing reform activities*

- Taxation of the informal sector. A scoping study was undertaken to measure and assess the feasibility of incorporating the informal sector into the tax net.
- Launching of the electronic payment system. The system has been rolled out the taxpayers are capturing their credentials and identity and MRA is monitoring and addressing the challenges in order to finally roll out the system.
- Enhancing knowledge management through partnering with Institute of Tax Administration for taxation, related upgrading skills of staff members through seminars and training.
- MRA is working on automation of domestic tax administration through an internally developed software package known as SAS II.

#### ***PI-20 Accounting for revenues***

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by central government. The assessment period is at the time of assessment (August 2018).

Indicator/Dimension	Score	Brief Explanation
<b>PI-20 Accounting for revenues</b>	<b>A</b>	Dimensions combined by Method M1 (weakest link).
20.1 Information on revenue collections	A	Monthly consolidated reports on all of the Central Government revenues are prepared by MRA showing revenue breakdown by type, and submitted to MoFEPD.
20.2 Transfer of revenue collections	A	Revenue collections by MRA (more than 75% of total revenue) are transferred daily into Treasury Accounts.
20.3 Revenue accounts reconciliation	A	Complete reconciliation of assessment is done for assessments, collections, arrears and transfers to Treasury by MRA on a monthly basis and quarterly reports are also prepared.

### *Background*

Refer to PI-19 Revenue Administration for background information.

#### *Dimension 20.1 - Information on revenue collections*

**Monthly consolidated reports on all of the central government revenues are prepared by MRA showing revenue breakdown by type, and submitted to MoFEPD: Score A.**

MRA prepares reports which consolidate all the revenue on a monthly basis. Journal entries are submitted in a report commonly known as ‘cash controls’ which is sent to AGD for capturing, as the system on revenue collections (SAP) and IFMIS are not integrated. The reports produced are used by AGD to capture the revenue items into the consolidated monthly reports. Daily collection reports which are not reconciled are also prepared.

The revenue information is broken down into revenue type and the reports are produced on a monthly basis, which forms part of the reports submitted to the Accountant General. In addition to MRA’s revenue reporting, RPD issues a monthly report on non-tax revenue. Non-tax revenue, however, constitutes only 9% of overall government revenue collections.

An annual report on MRA’s revenue collection is prepared and audited by the Auditor General<sup>35</sup>

#### *Dimension 20.2 - Transfer of revenue collections*

**Revenue collections by MRA (more than 75% of total revenue) are transferred daily into Treasury Accounts: Score A.**

MRA maintains an account with the RBM into which internal transfers of collections are made. On a daily basis, revenue is paid by taxpayers into collection accounts with commercial banks, which were given the mandate to receive revenues on behalf of MRA. The commercial banks transfer daily revenues received on behalf of MRA to MRA’s account held at RBM. These funds

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<sup>35</sup> Malawi Revenue Authority Statement of Tax Revenue For The Year Ended 30th June, 2017, NAO April 14, 2018

are included in MoFEPD's cash flow forecast and are transferred on a daily basis into the MG Number 1 from the MRA account with RBM.

#### *Dimension 20.3 - Revenue accounts reconciliation*

**Complete reconciliation is done for assessments, collections, arrears and transfers to the Treasury by MRA on a monthly basis, and corresponding monthly reports are prepared: Score A**

At the end of the month reconciliation is carried out with the RBM on actual collections, which have been collected by the MRA. The reconciliation of actual revenue collections is done for the month to facilitate – amongst others - the payment of MRA's collection commission which ordinarily is pegged at 3% of the total revenue collection. A report is compiled covering the various types of revenue heads, which have been collected for the month.

Reconciliation of assessment is done for the month under review covering all the tax heads. Reports are produced for arrears outstanding, indicating the period the arrears have been outstanding. Reconciliation is carried out by revenue line items of all revenues which are collected by MRA. This information is also consolidated into a report. RBM is also involved in the revenue reconciliation as it maintains the collection account for MRA.

In ASYCUDA traders exchange data electronically and prepay their customs duty while awaiting assessment to be carried out on their consignment. Shortfalls and overpayments are reconciled on actual billing and settled accordingly.

#### *Recent or ongoing reform activities*

- An Integrated Tax Administration System has been procured from Crown Agents, but has not yet been installed.

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

Effective service delivery and execution of the budget in accordance with work plans requires that budgetary units receive reliable information on the availability of funds so that they can control commitments and make payments for nonfinancial assets, goods and services. This indicator assesses the extent to which the central Ministry of Finance, Economic Planning and Development (MoFEPD) is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and covers Budgetary Central Government. The period of assessment for dimension 21.1 is as at the time of assessment (August 2018) and for 27.2; 27.3 and 27.4 the last completed financial year i.e. 2017/18.



Indicator/Dimension	Score	Brief Explanation
<b>PI-21 Predictability of in-year resource allocation</b>	<b>C+</b>	Dimensions combined by Method M2 (average).
21.1 Consolidation of cash balances	D	All cash balances are consolidated on an annual.
21.2 Cash flow forecasting and monitoring	A	A comprehensive cash flow forecast is produced for the fiscal year and updated monthly on the basis of actual revenue collections which take into consideration expenditure commitments and actual payments.
21.3 Information on commitment ceilings	C	Reliable information on funds available for commitment is provided to budgetary units for only one month in advance
21.4 Significance of in-year budget adjustments	B	Significant in-year budget adjustments to allocations took place twice in 2017/18 and were fairly transparent.

*Dimension 21.1 – Consolidation of cash balances*

**All bank and cash balances are consolidated on an annual basis: Score D.**

Budgetary central government cash operations are managed through 50 bank accounts. Collectively these accounts are known as “Ways and Means”. MoFEPD through the AGD operates Government’s Main Account no.1 with RBM. MRA holds its main collection account with RBM. Spending MDAs also have operating accounts with RBM into which they receive transfers for their other recurrent transactions (ORT) budget allocations and also the developmental budget part II which is funded by the government. AGD releases cash into the IFMIS system (EPICOR) and funds the bank accounts for MDAs. For the MDAs to utilize the funds allocated to them, they will need to submit the expenditure return, the bank reconciliation statements and also proof that the amount has been budgeted for and budget release has been made from the budget department. Then the AGD will authorize the payment by the user MDA to utilize its funds.

On an annual basis Treasury bank accounts are consolidated by a desk officer within the AGD responsible for all Treasury Accounts which are kept at RBM and other financial institutions. The consolidated cash balances are then included in the annual financial reports of the central government. During the year no consolidation of the accounts is done by AGD. RBM will however communicate balances to the AGD desk officer. On an annual basis the cash position is known at the close of the year, as reconciliations are carried out before the preparation of the final reports.

Government pays interest on any overdraft with RBM on these accounts. The interest is calculated on a daily basis on the consolidated overdraft position i.e. the Government’s net overall overdraft position with RBM. This also takes into account government funds held in the MRA collection account with RBM.

### *Dimension 21.2 – Cash flow forecasting and monitoring*

**A comprehensive cash flow forecast is produced for the fiscal year and updated monthly on the basis of actual revenue collections which take into consideration expenditure commitments and actual payments: Score A.**

A cash flow forecast is produced for a given fiscal year. The forecast is adjusted with collections received during the year to make it a rolling forecast. Once the forecast has been produced it is adjusted with the actual receipts as the year progresses. Cash budgeting meetings are held on a weekly basis, determining how much is targeted for collection on a weekly and monthly basis.

The revenue month-on-month cash flow forecasts for 2017/18 were done by the Revenue and Tax Policy department. They show the revenue breakdown by revenue type for all the revenues which are included in the revenue budget for the 2017/18 budget. These revenue forecasts are updated monthly with actual cash inflows as the year progresses.

Similarly, expenditure forecasts are updated on the basis of actual spending under each vote on a monthly basis. The template used for cash flow forecast is contained and explained in the Cash Management Manual (Page 55).

### *Dimension 21.3 – Information on commitment ceilings*

**Reliable information on funds available for commitment is provided to budgetary units for only one month in advance: Score C.**

After the budget has been prepared on a monthly basis, the MDAs will receive information on their commitment ceilings i.e. on the amount of funds available to them the following month. The Budget Department releases the amount for commitment communicated to the MDAs into the IFMIS, so that MDAs will be able to use the funds availed. MDAs cannot spend beyond what has been availed to them in IFMIS as commitment ceilings.

The desire has been to have quarterly commitment ceilings communicated to MDAs but due resource scarcity and cash rationing, this has not been possible. Given the cash rationing which has been operational and the budget variations in the past two years, MDAs have been bringing forward most of their requests so that they will have surpluses in their accounts during the beginning of the year so that they can cover themselves in the following budget months when resources will be coming with strict rationalization.

MDAs indicated that payments to deal with payroll and other related benefits commitments have been coming through typically during the month they are required. The Other Recurrent Transactions (ORT) commitments were being met, in most MDAs ranging between 70% to 80% of the budgeted amounts, and it is mostly the development part 2 expenditure for government funded development projects, which was not being released as per the original budget.

Ideally, firm commitment ceilings should be communicated during the budget preparation period and coordinated with procurement plans. However, when it comes to spending against set targets, funds are not always readily available throughout the year as and when they are required. The

result is that funds are released based on cash availability, and it has been difficult for MDAs to plan on which service items to embark until they get funds released from Treasury. In practice MDAs have planned and committed expenditure based on annual budget estimates without knowing if and when funds to pay for them would be available.

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

### **Significant in-year budget adjustments to allocations took place twice in 2017/18 and were fairly transparent: Score B.**

Fiscal review was carried out during the middle of 2017/18<sup>36</sup> where the initial budget was revised in light of the mid-year revenue and expenditure outturn which are indicative of full year budget performance. This resulted in MDAs receiving revised expenditure ceilings which would take into account the commitments that they had made during the year.

The Minister of Finance is responsible for making the in-year revised budget adjustments which are communicated to the Parliament for approval. Not much input is made by the Parliament as most of the changes are guided by the size of the resource envelope. However, even when the in-year budget revisions have been done, there are still amendments which are presented to Parliament for approval in retrospect during the presentation of the following fiscal year's appropriation bill by the Minister.

Given that budget revisions are sent to Parliament for approval, the role of Parliament is only to ensure that there is compliance with the standing rules that all budgets are supposed to pass through Parliament before they are considered final. Not much input is received from the Parliament, where they would have sought clarification and explanations with regards to the proposed amendments to the original budget. This makes the whole process less transparent to many of the key stakeholders such as members of parliament and the MDAs.

Although MDAs are at times informed by the Minister of Finance regarding proposed budget adjustments, they do not influence the changes, but will have to realign their plans with the new position. For example, significant reductions were made to the votes for NLGFC, and the Land Commissions, whereas vote 278 for Unforeseen Expenditure reserve was increased (from 1.8 to 11.8 billion) and allocations to local councils were also significantly increased.

#### *Recent or ongoing reform activities*

- None identified

### ***PI-22 Expenditure arrears***

Arrears are overdue debts, liabilities and obligations and constitute a form of non-transparent

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<sup>36</sup> Mid-Year Budget Review 2017/18 – Malawi (MoFEPD)

financing. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It covers the Budgetary Central Government. The period assessed is for dimension 22.1 the last completed three fiscal years (2015/16, 2016/17 and 2017/18) whereas dimension 22.2 covers the situation as at the time of assessment (August 2018).

Indicator/Dimension	Score	Brief Explanation
<b>PI-22 Expenditure arrears</b>	<b>D</b>	Dimensions combined by Method M1 (weakest link).
22.1 Stock of expenditure arrears	D*	Stock of expenditure arrears was more than 10% of total expenditure as at end of 2016/17. The stock of arrears for 2017/18 was not available
22.2 Expenditure arrears monitoring	D	Data on stock and composition of expenditure arrears is not timely generated. There is no systematic mechanism for monitoring expenditure arrears in place at both Treasury and MDA levels resulting in Treasury being unable to report arrears at the aggregate level

*Dimension 22.1 – Stock of expenditure arrears*

**Stock of expenditure arrears was more than 10% of total expenditure as at end of 2016/17. The stock of arrears for 2017/18 was not available: Score D\***

No evidence of debt service arrears was found. As regards arrears on personal emoluments, no quantitative data could be obtained. However, there was some anecdotal evidence of delayed pension payments (particularly the initial lump sum payment at retirement) and salary arrears (particularly for staff at remote postings on their initial recruitment). These are not being tracked systematically.

Stock of expenditure arrears to suppliers of goods and services for the last two completed fiscal years was as presented in the Consolidated Report on the Verification of Arrears for the Five Years' period to 31<sup>st</sup> December 2017. This report was prepared by the Auditor General in February 2018. The stock of arrears for 2017/18 was not provided at the time of assessment. The ST has provided to the Auditor General a list of arrears accumulated by Ministries, Departments and Agencies (MDAs). Some of the MDAs also submitted some arrears data directly to the Auditor General. Table 3-14 shows a summary of stock of arrears submitted for verification

**Table 3-14 Summary of Expenditure Arrears to Suppliers of Goods and Services (MK bill)**

Goods or services	Amount on Treasury list	Amount Direct to NAO	Total Arrears	Amount Verified & Certified	Amount Not Certified
Goods	118.5	4.6	123.2	95.5	27.7
Services	33.0	2.8	35.8	20.4	15.4
Civil Works	115.3	26.2	141.5	73.2	68.3
Pharmaceuticals	16.0	-	16.0	10.4	5.6
<b>Total</b>	<b>282.9</b>	<b>33.7</b>	<b>316.5</b>	<b>199.5</b>	<b>117.0</b>

Source: Auditor General

Total amount submitted was MK 316 billion, corresponding to 28% of total budgetary expenditure for 2016/17. The amount verified and certified for payment totaled MK 199.5 billion and this amount is very significant (18% of total expenditure). The unverified amount of MK 117 billion represents 37% total stock arrears and is largely due to failure by controlling officers to maintain and keep proper records of all arrears that were submitted to the ST for settlement. The accumulation of arrears is largely due to failure by controlling officers to exercise sound financial management and abiding to the approved budget. Further, most of the related procurement did not follow proper procedures. Of the MK 117 billion not certified, MK 112.7 billion was more than 2.5 years old at the time of audit and was hence recommended to be written off from the stock of arrears. The stock of arrears for 2017/18 was not provided at the time of assessment. Table 3-15 shows a summary of aged stock of arrears.

**Table 3-15 Aged Arrears Stock**

Year	Amount MK bill
2012/13	7.4
2013/14	247.1
2014/15	28.4
2015/16	10.3
2016/17	23.3
<b>Cumulative</b>	<b>316.5</b>

Source: Auditor General

Settlement of the arrears verified and certified was through conversion of arrears to zero coupon promissory notes (ZCPN) with maturity up to two years. The ZCPNs are tradeable and many creditors have reportedly sold them to commercial banks at substantial discounts. The unverified balance of arrears corresponds to 10.4% of total expenditure, but it is unclear if they have been written off. No information on developments in the stock during 2017/18 was available.

*Dimension 22.2 – Expenditure arrears monitoring*

**Data on stock and composition of expenditure arrears is not timely generated. There was no data provided at the time of assessment: Score D.**

MDAs are supposed to submit monthly reports of expenditure and outstanding commitments to Treasury as part of monitoring mechanism as well as compliance with controls set by Treasury. However, the submission of monthly commitment reports to Treasury by MDAs is not strictly enforced as not all MDAs comply with this requirement. This therefore makes the process of monitoring commitments and later expenditure arrears difficult for Treasury. The bulk of arrears in MDAs are not fully reported to Treasury largely because MDAs do not see a reason for complying when the MDAs would not get extra funding to clear the arrears. There is hence no systematic mechanism for monitoring expenditure arrears in place at Treasury and MDA levels. Consequently, Treasury cannot report arrears at the aggregate level, hence the non-provision of data on stock arrears as at 30<sup>th</sup> June 2018.

*Recent or ongoing reform activities*

- MoFEPD informed that as of July 1, 2018 ZCPNs will no longer be issued.

***PI-23 Payroll controls***

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. The institutional coverage is the entire central government including EBUs. The period assessed is the time of assessment (i.e. August 2018) for first three dimensions and the last three completed years for the fourth dimension (2015/16, FY2016/17 and 2017/18).

Indicator/Dimension	Score	Brief Explanation
<b>PI-23 Payroll</b>	<b>C+</b>	Dimensions combined by Method M1 (weakest link).
23.1 Integration of payroll and personnel records	C	Appointments and promotions are controlled against approved staff establishment; and approved staff positions, personnel database and payroll generation are directly linked within the HRMIS; but reconciliation of payroll data is not yet monthly and HRMIS is not directly linked to IFMIS which is used for budget control.
23.2 Management of payroll changes	A	Payroll data is updated monthly and concluded by 5 <sup>th</sup> of the month to facilitate salary processing by Treasury at the end of the month. Retroactive adjustments are rare.
23.3 Internal control of payroll	C	Payroll controls are well segregated and restricted by user defined access levels with strong password protection within HRMIS and IFMIS respectively. Changes to the payroll and HRMIS database are well documented, providing the audit trail, but a backlog of monthly data reconciliations as well as lack of integration between HRMIS and IFMIS create risks to data integrity.

23.4 Payroll audit	B	A payroll audit covering 99.5% of all entities (weighted by amounts of personal emoluments) has been completed in stages within the last three years
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*Background*

Human resource records and payroll system is managed by the Department of Human Resource Management and Development (DHRMD) under the Office of the President and Cabinet. DHRMD serves as an oversight body in GoM and is responsible for setting the establishment ceilings. The human resource management information system (HRMIS) is automated and accessible by all MDAs and Local Government Councils for update of personnel information and payroll information through geographically-distributed sites with access confined to classified levels of authority as a control mechanism. Information regarding new employees as well as transfer of employees across line ministries is processed by DHRMD and entered into HRMIS.

*Dimension 23.1 – Integration of payroll and personnel records*

**Appointments and promotions are controlled against approved staff establishment; and approved staff positions, personnel database and payroll generation are directly linked within the HRMIS; but reconciliation of payroll data is not yet monthly and HRMIS is not directly linked to IFMIS which is used for budget control: Score C.**

Government has a de-concentrated personnel management and payroll system through HRMIS which is operated by MDAs and Local Government Councils. Creation of new posts is the responsibility of the DHRMD. This is done only after MoFEPD has given its approval and provided a corresponding budget for the post. New appointments as well as promotions must be justified by the hiring MDA on the basis of the approved staff establishment. MDAs access the database, which is maintained centrally by DHRMD, for processing payroll.

However, the payroll system is not integrated with IFMIS from which payment instructions are made. The transfer of payroll data from HRMIS to IFMIS requires a manual process which affects budget control (and data integrity, ref. 23.3 below).

The process of generating and managing personnel records and payroll data is carried out by both the MDA and DHRMD by comparing/reconciling the GP5A report — summarizing the number of employees, payments, tax etc. — with the detailed report GP32. However, the payroll is not yet reconciled on monthly basis due to backlog of outstanding reconciliations, which are largely influenced by structural challenges coupled with outstanding settlement of loan deductions for third parties.

*Dimension 23.2 – Management of payroll changes*

**Payroll data is updated monthly and concluded by 5<sup>th</sup> of the month to facilitate salary processing by Treasury at the end of the month. Retroactive adjustments are rare: Score A.**

MDAs update personnel records on a daily basis and adequate documentation is maintained for

audit trail. Processing of the payroll, including changes, is done by MDAs by 5<sup>th</sup> of the month. Once the processing of payroll is done, a file is sent to Treasury for capture in IFMIS, enabling consolidation and for payment processing.

Changes relating to new appointments and introduction of new posts on the payroll are done by DHRMD which also undertakes entry of employees' birthdays and bank account details for control purposes. Retroactive adjustments for staff are rare for MDA headquarter staff, but more frequent for staff managed through deconcentrated structures, such as schools and health facilities, particularly in connection with new recruitments and promotions where update of the payroll may take 2-3 months. There were no statistics available on retroactive adjustments, but government estimates the overall frequency at less than 1% of payments.

### *Dimension 23.3 – Internal control of payroll*

**Payroll controls are well segregated and restricted by user defined access levels with strong password protection within HRMIS and IFMIS respectively. Changes to the payroll and HRMIS database are well documented, providing the audit trail, but a backlog of monthly data reconciliations as well as lack of integration between HRMIS and IFMIS create risks to data integrity: Score C**

DHRMD processes payroll through HRMIS to produce the GP5A report and other reports such as Deduction Analysis, GA01, ATS Report, etc. These reports - except ATS - are downloaded by MDAs for checking before submission to AGD for further checking and consolidation. Once this is done, AGD requests funding from Treasury. Treasury funding is based on GP5A. Once funded, individual MDAs are able to allocate funding to sub-item level according to pay centres. MDAs then prepare payment vouchers which are sent to AGD for cheque processing. ATS report is downloaded by DHRMD only and is reconciled to GA01 in order to balance the payroll. Transfer of payroll data to IFMIS is done through journals, since there is no direct link between the two systems. These journals are initiated by each MDA and posted to IFMIS. The manual intervention of initiating journals for posting in IFMIS creates a risk of data integrity.

Clear separation of duties exists between the DHRMD, MDAs and MoFEPD for the various payroll activities. Authorization for engaging new employees is the responsibility of DHRMD and MoFEPD. Payroll changes are done by MDAs, but DHRMD has access rights to validate the changes.

Whilst sufficient controls exist for the most important parts of the data, payroll reconciliations are not done on a monthly basis thereby affecting the accuracy and integrity of the reported payroll data. There is a backlog of monthly reconciliations for ATS transactions which were still being worked on at the time of assessment.

Responsible officers having access rights to the HRMIS are provided with unique individual passwords based on their defined level of access. The same is the case for IFMIS, but the lack of direct linkage between HRMIS and IFMIS creates a break in the audit trail and thus introduces a further risk to system and data integrity (see. also PI-27.4).



### *Dimension 23.4 Payroll audit*

#### **A payroll audit covering 99.5% of all entities (weighted by amounts of personal emoluments) has been completed in stages within the last three years: Score B**

Ad hoc payroll audits have been undertaken by inspectors from DHRMD since the last personnel audit in 2008, in principle every five years. However, NAO undertook a full headcount and payroll audit for the entire public service in 2015 except for the Malawi Defence Forces, State Residences and National Intelligence Bureau. The Auditor General conducted a payroll audit of Malawi Defence Forces and National Intelligence Bureau in December 2016. Head count and payroll audit of State Residences has not been done<sup>37</sup>. The Auditor General probed HRMIS to identify all employees on the government payroll and to assess whether data provided can be relied upon. This data was matched with the employees on site and related personnel records maintained in the MDAs. The results showed that the public service had 17,669 ghost workers. The bulk of these ghost workers have been reinstated on the payroll on account that the workers were really not ghost workers but were not at work at the time of the head count.

#### *Recent or ongoing reform activities*

- None identified

### ***PI-24 Procurement management***

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs for, and achieving value for money in, the delivery of programs and services by a government. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. The scope of the indicator covers central government including EBUs. The period of assessment is the last completed fiscal year 2017/18.

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<sup>37</sup> Vote 50 State Residences account for 0.5% of the overall personal emoluments

Indicator/Dimension	Score	Brief Explanation
<b>PI-24 Procurement</b>	<b>D+</b>	Dimension scores combined by method M2 (Average)
24.1 Procurement monitoring	D	There are no comprehensive databases available in procuring entities or at ODPP
24.2 Procurement methods	D*	No data is available on which to judge the extent to which various procurement methods are used for award of contracts
24.3 Public access to procurement information	D	Key procurement information is not made available to the public beyond legislation in the Government Gazette and bidding opportunities in newspapers.
24.4 Procurement complaints management	B	The procurement complaint system meets criterion 1 (independence of review committee) and three of the other criteria.

### *Background*

Public Procurement and Assets Disposal Act no. 27 of 2017 (PPDA 2017) was enacted with the intention to improve the Public Procurement Act (PPA) 2003 and became effective on 21 December 2017. The new law, among others, establishes the Public Procurement and Disposal of Public Assets Authority (PPDA), effectively replacing the ODPP. Procurement regulations, desk instructions and Standard Bidding Documents as available in August were still based on PPA 2003 and not updated/developed to be consistent with PPDA 2017. PPDA has issued instructions that until a revised version is ready, the existing regulations, instructions and documents are to be used to the extent that they are consistent with the new law. This however raises questions of compatibility between primary and secondary legislation. This lack of consistency may undermine the successful implementation of the PPDA 2017. As the PPA has been the main legislation in use during the period of assessment (2017/18) this is the legislation and its related institutions referred to in the assessment below.

### *Dimension 24.1 – Procurement monitoring*

#### **There are no comprehensive databases available in procuring entities or at ODPP: Score D.**

Databases or records are not comprehensively maintained for contracts in procuring entities including data on what has been procured, value of procurement and who has been awarded contracts. Procurement planning and record keeping are poor in many procuring entities. ODPP has only kept records of procurement operation which have been submitted for its approval.

The NAO by means of its mandate is responsible for procurement audits. However, NAO has not been exercising this function mostly because of lack of capacity and resources. On the other hand, ODPP has not undertaken extensive monitoring of procuring entities due to limited funding.

### *Dimension 24.2 – Procurement methods*

**No data is available on which to judge the extent to which various procurement methods are used for award of contracts: Score D\*.**

Procurement methods defined in the PPA include:

- International Competitive Bidding – where the operation exceeds a ceiling set in regulations
- Open national tendering – default method for procurement of goods, works, and routine services
- Restricted Tendering - minimum three bidders
- Two-stage tendering with prequalification
- Request for proposals for services or quotation for supplies, routine services and minor works – three quotations
- Single source procurement - in case of emergency procurement

There is no data available for publication since no databases on procurement operations are maintained (ref. 24.1). According to Methodology for Assessing Procurement Systems (MAPS), procurement methods are unfairly applied as 80% of total value of contracts in 2016/17 was awarded following “Restricted Tender” procedure even though Open Tender is the default method of procurement. However, adequate data for other methods was not available at the time of assessment.

### *Dimension 24.3 – Public access to procurement information*

**Key procurement information is not made available to the public, beyond legislation in the Government Gazette and bidding opportunities in newspapers: Score D**

The government does not have a functional system to generate substantial and reliable coverage of key procurement information and does not systematically make key procurement information available to the public. This is made worse by non-functional websites of PPDA and procuring entities. Procuring entities do not have resources to place advertisements relating to contracts awarded in the local daily newspapers. This has resulted in little information being publicized.

Public access to procurement information is defined as posting on official websites.

Element (1)-legal and regulatory framework for procurement: partially fulfilled: The Public Procurement and Disposal of Public Assets Act 2017, PPA 2003, (as well as PPDA 2017), Standard Bidding Documents and Circulars outlining procurement thresholds for 2016/17 are available on the PPDA website and the Acts were published in the Government Gazette at the time of promulgation. The Public Procurement Regulations and Desk Instructions are not accessible on any government website. The Government Gazette which published these is also not available on the internet.

Element (2)-government procurement plans: not fulfilled: Procurement plans are prepared by

procuring entities as part of budget proposals, but are not published as this is not required by the current legislation. According to PPDA Act section 25, procuring and disposing entities (i.e. MDAs) are required to submit annual procurement and disposal plans to the Authority by the last date of the first month of the financial year as well as quarterly reports on their implementation. However, most MDAs do not adhere to these requirements.

Element (3)-Bidding opportunities: not fulfilled: Procuring entities publicize all tenders themselves. Bidding opportunities are routinely published in the newspapers but not on procuring entities' websites and the Authority's website. The PPDA Act Article 40 states that an invitation to tender, or an invitation to prequalify, shall be published in two national widely circulated newspapers and, in the case of international tendering, shall also be published in internationally recognized papers in the English language, and in other media of wide international circulation, and the website of the Authority.

Element (4)-contract awards (purpose, contractor and value): partially fulfilled: Information on contract awards is selectively published by the procuring entities in the newspapers and not on ODPP/PPDA's website. There is lack of enforcement by ODPP on controlling officers of the public entities to act to publicize contract awards. Contract award data for 2017/18 is not available on ODPP/PPDA's website – now a mandatory requirement for intention to award. For earlier years, there are no adequate details of contract award data on the ODPP website for contracts above MK 50 million (about USD 70,000) which are subject to prior review/no-objection. There is lack of compliance by procuring entities in submitting this information to PPDA. This makes monitoring of procurements by PPDA difficult. PPDA Act 2017 Article 48 requires procuring entities to publish the intention to award a contract in two widely circulated newspapers and on the PPDA website for a period of 14 days for any contract above a specified threshold before signing the contract.

Element (5)-data on resolution of procurement complaints: not fulfilled: No information is published on complaints and their resolution.

Element (6)-annual procurement statistics: not fulfilled: No procurement statistics are available to the public, as none are being generated.

#### *Dimension 24.4 Procurement complaints management*

**The procurement complaint system meets criterion (1) and three of the other criteria: Score B.**

There is a well-structured legislation with a three-tier process through Procuring and Disposing Entity, then ODPP and finally High Court. Section 38 (4) of the Public Procurement Act 2003 provides that appeals against the decision of the head of procuring entity shall be made to the concerned Minister or, in the case of procurement whose value exceeds the threshold prescribed in the Regulations, to the Director of the Office of Public Procurement. Section 38 (6) of the Act provides for the establishment of a Review Committee by the Director of Public Procurement. The Review Committee is formed by the Director to whom it reports its findings. Section 38 (13) of the Act empowers the High Court to have jurisdiction over actions of both the procuring entity and

Review Committee, and over petitions for judicial review of decisions made by review bodies (the procuring entity and Review Committee) or of the failure of those bodies to make a decision within the prescribed time-limit.

Complaints Reviews are not effectively handled by either the procuring entity or ODPP, thereby leading to lack of trust in the system by the private sector. However, there have been no incidences where complaints have been handled by the High Court. There is lack of transparency as the outcome of the appeal proceeding is not being published.

Full adherence to the indicator requires that complaints are reviewed by a body that (Elements):

- (1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions;
- (2) does not charge fees that prohibit access by concerned parties;
- (3) follows processes for submission and resolution of complaints that are clearly defined and publicly available;
- (4) exercises the authority to suspend the procurement process;
- (5) issues decisions within the timeframe specified in the rules/regulations; and
- (6) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority).

Element (1) fulfilled: The Committee reports to the Director of Public Procurement and is entrusted with reviewing complaints. The Committee is made up of members of high integrity with experience in the different fields of procurement and procurement procedures but with no direct or indirect personal involvement in public procurement functions during the period of their service on the Review Committee.

Element (2) fulfilled: The Review Committee does not charge fees for submission of a complaint. However, appealing to the High Court will involve a lawyer to represent a complainant and this usually makes the complaint resolution a rather expensive process to both the complainant and the government.

Element (3) not fulfilled: While the Court follows processes for submission and resolution of complaints that are clearly defined and publicly available, the same is not true for the Review Committee. This is because there is lack of transparency as the outcome of the appeal proceeding is not being published.

Element (4) fulfilled: According to section 38 (8) of the Public Procurement Act 2003, the procurement proceedings concerned shall be suspended for a period of ten days from the date on which the appeal was noted; and the operation of the procurement contract concerned shall be suspended for a period of ten days from the date on which the appeal was noted, where the contract entered into force before or during that period. Section 38 (11) of the Public Procurement Act 2003 states that the period during which procurement proceedings or the operation of a procurement contract are suspended may be extended by the head of the procuring entity or the Director of the Office of Public Procurement for a period not exceeding thirty days.

Element (5) not applicable: There is no data available about appeals resolved within the time frame specified in the law because no complaints have been taken to the Court.

Element (6) fulfilled: The decisions of the Review Committee are binding on the parties but can be subjected to the judicial review by the High Court if appealed against. Further, once the High Court has issued a decision, it is binding on the parties but an appeal can be made to the Supreme Court.

*Recent or ongoing reform activities*

- Finalization of the MAPS assessment and implementation of its recommendations;
- Revision of the relevant regulations and desk instructions following replacement of the PPA 2003 with the Public Procurement and Assets Disposal Act no. 27 of 2017 and creation of the Public Procurement and Disposal of Assets Authority.

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

This indicator focuses on non-salary expenditure and covers expenditure commitments and payment for goods and services, casual labour wages, and discretionary staff allowances. It includes a wide range of processes and types of payment across central government including segregation of duties, commitment control and payment controls. Effective internal control system plays a vital role across every PI in addressing risks and providing reasonable assurance on operations of Government. The institutional coverage includes Central Government including EBUs. The period assessed is the situation as at the time of assessment (August 2018).

Indicator/Dimension	Score	Brief Explanation
<b>PI-25 Internal control on non-salary expenditure</b>	<b>C</b>	Dimension scores combined by method M2 (Average)
25.1 Segregation of duties	<b>B</b>	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid down for most key steps.
25.2 Effectiveness of expenditure commitment control	<b>C</b>	Expenditure commitment control procedures exist as part of IFMIS. The control system relates to ORT only and is limited to single-year commitments.
25.3 Compliance with payment rules and procedures	<b>D</b>	Payment processing is not fully compliant with the regular payment procedures, and exceptions are often insufficiently justified and authorized, as reported in internal and external audit reports

*Dimension 25.1 – Segregation of duties*

**Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid down for most key steps. : Score B.**

The PFMA, Accounting Manual and Desk Instructions outline a number of internal controls over management of funds within Government. Such controls include those for posting, release, pre-audit, cheque printing, and payment. These internal controls are supplemented by Treasury Circulars from time to time, based on need and clarity required. The IFMIS related segregation of responsibilities is outlined in the IFMIS End User Manual. Access rights to the system modules and applications are based on levels under the user control spectrum i.e. parking, posting, release and payment. Central Government transactions are processed through IFMIS, and Treasury has the right to view expenditure made at any given time in MDAs.

*Dimension 25.2 – Effectiveness of expenditure commitment control*

**Expenditure commitment control procedures exist as part of IFMIS. The control system relates to ORT only and is limited to single-year commitments: Score C.**

Expenditure commitments for ORT are done in IFMIS and tied to payment processing when funding is available in MDAs. IFMIS generates commitments based on Local Purchase Orders (LPO) produced by IFMIS. However, while these commitments are captured in IFMIS, there are other commitments which are created outside IFMIS by MDAs but are not correctly reported on anticipation of monthly funding releases from Treasury. Such commitments are normal ORT related transactions which ordinarily could be captured in IFMIS had monthly funding releases by Treasury been predictable. These are the commitments which end up as arrears following lapse of the financial year. Treasury does not provide extra funding for such arrears and MDAs have to use the current budget year fund releases to liquidate them. IFMIS enables the operation of a commitment/payment system and a funds control system that do not permit the creation of a local purchase order without approved estimates and available funds.

The other category relates to contracts spanning more than a year. Contracts appear to be more problematic than in-year commitments on recurrent expenditure. The commitments module in IFMIS does not handle multi-year contracts, and as a result these are handled outside IFMIS through manual ledgers which are not well maintained and up to date.

Much as no commitments can be created within IFMIS without budget availability, this control is largely undermined by procurement of goods/services outside IFMIS by MDAs. Such procurements are only captured in IFMIS when funds become available.

*Dimension 25.3 – Compliance with payment rules and procedures*

**Payment processing is not fully compliant with the regular payment procedures, and exceptions are often insufficiently justified and authorized, as reported in internal and external audit reports: Score D.**

The primary sources of assessment of whether payment rules and procedures are compliant are the internal audit and external audit reports. While basic controls relating to payments are usually complied with, some key steps are missed as outlined in the Auditor General's reports. For example, an audit observation made in the Auditor General's report for the year ended 30<sup>th</sup> June 2017 that a goods received register is not updated, while payment is made indicates potential partial

compliance as regards payments. Further, the Auditor General’s report for the year ended 30<sup>th</sup> June 2017 pointing to payments made without supporting documentation is an indication of partial compliance as regards payments.

Based on the Auditor General’s Report for the year ended 30<sup>th</sup> June 2017, of the 32 appropriation accounts (votes) audited, 19 had qualified audit opinions and 13 had unqualified opinion with material issues. Most of the findings relate to payment procedures being violated, without supporting documentation, goods/services not supplied or no justification given. Such incidences are evident that payment procedures are frequently non-compliant with Treasury guidelines/directives and provisions of the PFMA 2003.

*Recent or ongoing reform activities*

- None identified

***PI-26 Internal audit***

Internal audit provides assurance that systems are operating to achieve government objectives efficiently and effectively. They contribute to budgetary outcomes by providing oversight and assurance and by timely recommendations to management regarding corrective action necessary when weaknesses are identified. This indicator assesses the standards and procedures applied in internal audit. The institutional coverage is all of central government operations. The period of assessment for dimensions 26.1 and 26.2 is the situation as at the time of assessment (August 2018), dimension 26.3 assesses the last completed financial year (2017/18) whereas dimension 26.4 covers the last completed three years (2015/16, 2016/17 and 2017/18).

<b>Indicator/Dimension</b>	<b>Score</b>	<b>Brief Explanation</b>
<b>PI-26 Internal Audit</b>	<b>D+</b>	Dimension scores combined by Method M1 (weakest link)
26.1 Coverage of internal audit	D	Internal audit is fully operational in MRA collecting practically all government revenue, but is barely functioning in MDAs responsible for practically all government expenditure as the internal audit units in MDAs and most EBUs are constrained by high vacancy rates, inadequate funding and absence of audit committees
26.2 Nature of audits and standards applied	C	Internal audit activities largely focus on compliance. A quality assurance system is in place but most IA reports fail to meet the established standards
26.3 Implementation of internal audits and reporting	C	An annual work plan for internal audit is prepared and the majority of audit assignments implemented, with 55% of the planned audits undertaken in 2017/18.



26.4 Response to internal audits	D	Response to internal audit recommendations is weak as evidenced by recurring findings. Cumulatively, the resolution of audit findings stood at 11% over the past two years up to June 2017
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*Background*

In July 2003, the Malawi Government created the Internal Audit Common Service (IACS) which consists of the: Central Internal Audit Unit (CIAU); and Internal Audit Units (IAU) domiciled in the Ministries, Departments and Agencies (MDAs). In compliance with the provision of the Public Finance Management Act and an increase in demand for more accountability and transparency from stakeholders, the MG instituted audit committees in 2005. Under the initial arrangement, each MDA was required to establish an Audit Committee consisting of the Controlling Officer as chairperson; Heads of Departments as members; Accountant General, Auditor General and Director of Central Internal Audit Unit as ex-official members.

Over the years, this arrangement proved to be ineffective as evidenced by the non- establishment of Committees in some MDAs; erratic meetings in MDAs that established the Committees and accumulation of unresolved issues from both internal and external audit. The main cause of the ineffectiveness was that Controlling Officers and Heads of Departments were combining responsibilities of managing and overseeing the management of the MDAs which created conflict of interest. In addition, this arrangement was not in line with professional requirement for audit committee members to be non-executive and independent. This prompted the Government to start reorganizing the operations of the Audit Committees in December 2013.

In April 2014, the Malawi Government adopted the Government Audit Committee Charter (Charter) which governs the operations of MG Audit Committees (AC) to enable them assist the Chief Secretary to the Government (CSG) and Controlling Officers (CO) fulfil their oversight responsibilities in support of achieving MG short and long term goals in a more effective, efficient and economical manner.

The Government instituted sectoral audit committees to provide oversight on MDAs. The Government established 5 cluster audit committees providing oversight over 18 Ministries. The AC were expected to provide oversight on financial reporting, risk management, internal controls, compliance, ethical code-of-conduct, financial management, resource utilization, and assets safety on behalf of CSG and provide independent advice to the CO on the same.

The adoption of the Charter enhanced the then existing structure of the ACs to ensure they were more independent and objective compared to pre-April 2014 period where the AC members were also internal audit clients. The Charter provides for sectoral audit committees (where one committee provided oversight over a number of MDAs) whose members were appointed by the CSG. Members were not public servants hence providing independence and had knowledge and experience in government policy, corporate governance, financial management, risk management, controls and the operations of internal and external audit.

The ACs are no longer functional due to resource constraints as members were not public servants and hence mobilization of the ACs demanded resources for its members to discharge their mandate effectively. The current situation is that the ACs have reverted to the pre-April 2014 scenario and this has resulted in the ACs being ineffective. The situation is made worse by the weak legal and policy framework for the internal audit. Currently, there is no Act regulating the affairs of internal audit in Malawi as the final draft of the National Internal Audit Policy has not yet been approved. Once approved, it is expected that the Internal Audit Bill will be finalized for enactment.

An exception to the above description is MRA which has an operational internal audit unit and an audit committee, ref. PI-19.3. MRA collects more than 90% of government revenue.

#### *Dimension 26.1 Coverage of Internal Audit.*

**Internal audit is fully operational in MRA collecting practically all government revenue, but is barely functioning in MDAs responsible for practically all government expenditure as the internal audit units in MDAs and most EBU are constrained by high vacancy rates, inadequate funding and absence of audit committees: Score D**

In principle, most central government entities including extra-budgetary units have internal audit units and audit committees. However, the audit coverage is constrained by high vacancy rates and low funding levels thereby making the internal audit units within MDAs ineffective and inefficient. The vacancy rate in 2017/18 was 38% (reduced from 50% in 2016/17). In addition, the ACs are non-functional as explained under 'Background'. The exception is MRA.

#### *Dimension 26.2 Nature of audits and standards applied.*

**Internal audit activities largely focus on compliance; a quality assurance system is in place but most IA reports fail to meet the established standards: Score C**

The Internal Audit Charter outlines the Standards of Audit Practice and requires the CIAU and its units to meet or exceed the *International Standards for the Professional Practice of Internal Auditing* (ISPPA) and the *Code of Ethics of the Institute of Internal Auditors* and the *Malawi Government's Internal Audit Guidelines*.

However, in practice, the internal audit activities have primarily focused on financial compliance largely due to resource constraints. Little has been done by the internal audit units on evaluation of the adequacy and effectiveness of internal controls. Government has reinforced the internal control environment by introducing inspectors of finance in MDAs. While these inspectors are currently under the management of the CIAU, they report directly to the ST as government is working out the working modalities for them. These inspectors are tasked with pre-audit of financial transactions in MDAs.

CIAU reviews audit reports that are issued by IAUs in MDAs in order to assess their conformance to reporting requirements of the Internal Audit Manual, Internal Audit Guidelines as well as the ISPPA. Data for 2017/18 was not available at the time of assessment. However, during 2016/17, 25 internal audit reports from 15 ministries were reviewed of which 16 reports were rated 'Partially

Conform' while 9 were rated "Does Not Conform".<sup>38</sup>

*Dimension 26.3 Implementation of internal audits and reporting.*

**An annual work plan for internal audit is prepared and the majority of audit assignments implemented, with 55% of the planned audits undertaken in 2017/18: Score C**

Each internal audit unit in MDAs prepares an annual work plan which guides its work during the financial year. The work plan is approved by the Controlling Officer. These approved annual work plans are consolidated by the CIAU for monitoring and evaluation. In the absence of functional audit committees, the audit reports produced by internal auditors in various ministries are submitted to the Controlling Officers with a copy to the Auditor General and CIAU. The CIAU consolidates all the reports and submits to the Secretary to the Treasury. MDA audit teams produce audit reports which seem to be on a fairly regular basis depending on the audits undertaken.

However, actual implementation of the approved annual work plan is constrained as it is dependent on the availability of resources allocated to the internal audit units within MDAs and the related staffing levels.

The 2016/17 annual work plan had a total of 109 audit assignments to be undertaken. The IAS completed 51 out of the planned 109 audit assignments representing a completion rate of 47% (38% in 2015/16 and 32% in 2014/15). Table 3-16 provides a summary of planned and completed audits for 2016/17 disaggregated by audit areas. According to the consolidated plan for IAS, 19 IAUs planned to undertake a total of 102 audits and 22 audit follow-ups in 2017/18. IAS completed 57 out of the 102 planned audit assignments and this represented a completion rate of 55%. In addition, 12 ad hoc audits were also completed in 2017/18 thereby resulting in a total of 69 audits undertaken. Data for 2017/18 was not disaggregated as the 2016/17 data shown in Table 3-16 below.

**Table 3-16 Planned versus Actual Audits 2016/17**

<b>Audit Area</b>	<b>2016/17 Plan</b>	<b>Actual Audits Done</b>	<b>% Undertaken</b>
Financial Management	90	39	43%
Human Resource Management	4	3	75%
Asset Management	3	2	67%
Project Management	9	7	78%
Governance	1	0	0%
Development Planning	2	0	0%
<b>Total</b>	<b>109</b>	<b>51</b>	<b>47%</b>

*Source: Internal Audit Service Annual Report 2016/17*

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<sup>38</sup> IAS Annual Report 2016/17

*Dimension 26.4 Response to internal audits.*

**Response to internal audit recommendations is weak as evidenced by recurring findings. Cumulatively, the resolution of audit findings stood at 11% over the past two years up to June 2017: Score D**

The majority of internal audit recommendations are not wholly implemented. Management response to internal audit recommendations is therefore weak as evidenced by recurring findings. Reasons for lack of action vary among MDAs from lack of funding to implement recommendations with cost implications to mere laxity on taking action.

Data for 2017/18 was not available at the time of assessment. During 2016/17 43 out of 173 audit findings, that were raised in 33 audit reports, were either fully or partially resolved by MDAs<sup>39</sup>. This represented a resolution rate of 25%. Cumulatively, the resolution of audit findings stood at 11% over the past two years up to June 2017. The low resolution rate of the audit findings is largely attributed to the inactiveness of the Audit Committees which have not been functional since 2013/14 due to lack of funding.

*Recent and ongoing Reform*

- Finalization and approval of the National Internal Audit Policy; and enactment of the Internal Audit Bill to enhance the legal and policy framework for the national internal audit.

**Pillar VI. Accounting and reporting**

***PI-27 Financial data integrity***

Financial information requires constant checking and verification of the recording practices of accountants to ensure integrity and reliable reports to be produced which are useful in resource allocation and measuring performance against budgeted projections. This is an important part of internal control and a foundation for good information for management and for external reports that underpin aggregate fiscal discipline, strategic allocation of resources, and the efficiency of service delivery. This indicator assesses the extent to which central government bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. The assessment institutional coverage is the Budgetary Central Government (BCG) and the assessment period for dimensions 27.1, 27.2 and 27.3 are at the time of assessment (August 2018) covering the preceding twelve months and for dimension 27.4 the situation as at the time of assessment.

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<sup>39</sup> IAS Annual Report 2016/17

Indicator/Dimension	Score	Brief Explanation
<b>PI-27 Financial Data Integrity</b>	<b>C</b>	Dimension scores combined by Method M2 (average)
27.1 Bank account reconciliation	D	Bank accounts for key treasury accounts are reconciled monthly, but with three months' time lag. A number of unprocessed entries for the MDAs still appear on the bank reconciliation statements
27.2 Suspense accounts	D	No suspense accounts are utilized, instead there is a tendency to ignore their use and leave outstanding items within other bank reconciliation statements for quite a long time. Unprocessed bank credits and bank debits on Bank statements are left unattended to for a long period of time.
27.3 Advance accounts	A	Advance accounts are reconciled on a monthly basis for staff for educational and emergency advances. The report is part of the return sent to the Accountant General for capturing by MDAs.
27.4 Financial data integrity processes	C	Financial data is kept in electronic systems in which access and changes to records and data is restricted and recorded through segregation of access in line with duties through controlled passwords; whilst this creates an audit trail for users within each system the lack of system integration involve manual transfer processes without audit trail.

*Background*

The AGD uses IFMIS based solution locally known as EPICOR which was acquired as EPICOR Version 7.2 in 2005 and later upgraded to EPICOR Version 7.3.5 in 2008. This has been in use even until now. The technical support on the use of the system was received from Soft Tech Consultants Limited.

*Dimension 27.1 - Bank account reconciliation*

**Bank accounts for key treasury accounts are reconciled monthly, but with three months' time lag. A number of unprocessed entries for the MDAs still appear on the bank reconciliation statements: Score D.**

The PFMA 2003 details requirements that have to be submitted by MDAs as they request for monthly budgetary support commitment disbursement, which among others include the complete bank reconciliation statements for the relevant MDA.

A backlog of bank reconciliations have built up over the years since the beginning of IFMIS in 2005 due to a number of challenges in the auto reconciliation system and inadequate follow-up processes. The Government took steps to resolve these challenges from 2016 and developed strategies to clear the outstanding reconciling items since 2014, including zerorisation of the existing operating accounts and opening of positive pay accounts for ORT and Development Part II for each of the MDAs and assigning the responsibility for the reconciliation of these accounts to MDAs to ensure that errors and omissions are detected on a timely basis. AGD assigned a desk

officer to each of the MDAs to provide first hand support and monitor progress. MoFEPD also made release of monthly fund allocation contingent on the submission of acceptable reconciliation statements.

Cash controls are used as journals to itemize the entries to be submitted to AGD every month and be processed into IFMIS by AGD, and shall be accompanied by bank reconciliation statements. Failure to submit the bank reconciliation statements is supposed to result in sanctions imposed on the MDAs which are non-compliant.

With assistance from DPs there have been significant, observable improvements in bank reconciliations considering the size of the backlog that had accumulated.

On a monthly basis the RBM sends, bank statements for all MDAs to AGD. The dedicated desk officers for each MDA in AGD should forward the statements from RBM to the relevant MDAs. This is not happening in a timely manner necessary to meet deadlines of having monthly bank reconciliation carried out. The MDAs statements are received by the MDAs who in turn update entries into their cash book and thereafter process bank reconciliation.

Where there are reconciling items - or further information is required in order to fully process the transactions into the Cash book in IFMIS - the MDAs will communicate with desk officers who in turn will forward the communication to RBM account relationship personnel to resolve matters. Communication from the RBM account relationship personnel will follow the same channel as communication for release of statements. This current set-up has created bottlenecks and resulted in a number of reconciling items on bank reconciliation statement.

This whole process is lengthy and has proven to pose challenges given the number of long outstanding reconciling items on the bank reconciliation statements. Some of the reconciling items as at 31 May 2018 - for selected MDAs with large volumes of transactions - were relating to transactions back in 2015 and 2016. Moreover, the bank reconciliation statements actually exhibit incomplete processing of transactions in the cash book, as some items appearing on them should have been captured into the cash book to reflect correct cash book balances. Instead they are still appearing as reconciling items. Such items are deposits on statements not captured in the cash book and also some debits on bank statements which are not captured in the cash book. This makes the whole process incomplete even under cash basis of accounting.

Although notes on the bank reconciliation direct that these items should be updated into the system, the reviewers are signing the statements as evidence review and no further comments are made to help resolution of these reconciling items. In summary at the time of assessment in August 2018: Though bank reconciliations were done, they were incomplete and the reconciliations available were as at 31 May 2018. At the time of assessment, MDAs advised that they had not yet received bank statements for June 2018 from AGD, despite RBM confirming that all statements were being sent monthly to the Desk Officers within AGD<sup>40</sup>.

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<sup>40</sup> As at early November 2018, the Assessment Team was advised that reconciliation of the main expenditure accounts and Malawi Government Account number one had been done to June 2018 except for the salary bank account where

Some of them contain outstanding reconciling items which in principle should have been captured into the cash books. This has been caused by the back log which had existed in data processing and bank reconciliation. The AGD has received technical assistance to bring to date the Bank reconciliation. Some of the items outstanding have been caused by backlog where from a capturing perspective the cash book entries will have been captured in the prior year and the cheques cleared by the bank in the current year. Such items are under forensic audit with the National Audit office and their clearance will result in Bank reconciliation statements being current, relevant, correct and up-to date.

*Dimension 27.2 - Suspense accounts*

**Suspense accounts have items which are more than 12 months old. This is indicative of items not cleared from suspense in a timely manner: Score D.**

In essence suspense accounts are temporary holding accounts which should be cleared once all information with respect to items in the suspense is made available. During the clearance process entries are transferred to their correct classification and this enhances accuracy of financial reports as all entries will be fully accounted for the period under review.

It was explained that the MDAs do not have suspense account as their use was abolished some time back. However, examination of the bank reconciliation statements indicates that the absence of suspense account was a matter of convenience and not principle, as data processing is incomplete. This is evidenced by items which should have been removed from bank reconciliation statements so that correct cash book balances are obtained. The items are left on the bank reconciliation statement to comply with the directive issued, but they are suspense account items housed on Bank reconciliation statement. Moreover these reconciling items, which should have been temporarily managed in a suspense account, have not been cleared on time with some aged over two years.

*Dimension 27.3 - Advance accounts*

**Advance accounts and records are properly maintained, reconciliation done properly and cleared in a timely manner on a monthly basis: Score A.**

Advance accounts arise from some staff having emergencies which need intervention from their employer. The amounts involved are repaid by staff through deductions to their payroll payments. There are two types of personal advances given to staff, namely emergency advance and educational advance. These are managed by the respective MDA.

On a monthly basis an advance reconciliation - commonly known as the Advances Return - is prepared by the MDA and forwarded to AGD. This shows the opening balance of the advance and

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AGD is still working on 2016/2017. Salaries reconciliation is lacking behind due to the systematic issues such as net settlement in the bank statement; lack on common reference number; salary returns which are being addressed jointly by AGD and Reserve Bank of Malawi.

the movement during the month, in form of further advances that would have been made and collections that have been effected through the payroll and the closing balance. This return will detail all the staff members who have received an advance during the period. These advances are for certain lower level grades of employees who are not able to access emergency loans from financial institutions. Senior grades of staff do not access the advances but the government has an arrangement with selected financial institutions where senior staff members can easily borrow for their emergencies.

Other advances deal with work of the employee as they visit remote work stations on government business and are considered expenses as and when paid to employees and are not accounted for as part of the advance system. An Advances Return is also one of the conditions which MDA must satisfy as they request funding from the AGD as provided for their budget requirements.

Advances to suppliers on contracts to deliver goods and services are reported as expenditure under cash basis of accounting and no memoranda records are maintained for such.

#### *Dimension 27.4 - Financial data integrity processes*

**Financial data is kept in electronic systems in which access and changes to records and data is restricted and recorded through segregation of access in line with duties through controlled passwords; whilst this creates an audit trail within each system the lack of system integration involve manual transfer processes without audit trail: Score C.**

IFMIS has automated controls which help to ensure that there is multi-level access and changes to records are restricted. Appropriate user access levels are given. Upon setting up of users in the accounting system platform the authorization forms clearly defines the user roles which are to be given and the functions which the user is to perform in the accounting system. For decentralized processing, for those centers across the country, the data capturers have specific responsibilities and rights which enable them only to capture certain information. Other fields within the system are only referred to responsible people within the line Ministry and/ or the Accountant General's Department who have the mandate to update such data fields. A user authorization template is created which captures the user bio-data and also the specific roles to be assigned. The form is written by the user department requesting the user to be given access into the system. It also stipulates the user roles by which the users are to be accorded when accessing the system. The form is authorized at the appropriate level in the user department before it is sent to IFMIS center. IFMIS Centre will create the user with the specifications requested from the user department and will communicate the same to the user departments. Certain restricted entries in the system which are only done by authorized personnel in specified departments include input the budget releasing budget figures into the system, which can only be done by the Budget department.

The MRA uses SAP for its data processing, storage and information management. The system has enough controls to produce automated controls and users log on to the system using a multi-level password system. The first level grants the user access to the system and the next level grants the users access to the application needed to carry out their duties. Users can then update transactions, review transactions, update and post transactions into the system. Upon cessation of employment



of transfer, users are not deleted from the system but access rights are terminated. This is a process though and in case of remote locations there can be delays to these change.

There is no overall risk management framework or policy in place to assess and manage risk in Government financial operations, except for the MRA which has an Enterprise Risk Management plan in place with a responsible department. The Internal Audit Unit have trained personnel to carry out systems test and report on items in need of attention.

Accounting systems are not integrated across all MDAs and central finance agencies to allow direct data interchange between the systems (ref. section 2.5). Spreadsheets and manual cash control forms are used to assist in data transfer and this will negatively impact on data integrity as a result of manual processes despite each of the systems keeping an internal audit trail of transactions processed within them.

#### *Recent or ongoing reform activities*

- Reforms are underway with MDAs being trained to process their bank reconciliation and finalize them; a number bank account reconciliations have been brought to current status from previous back logs. Work is also underway to conclude the salaries bank account reconciliation to be current as other bank accounts.
- Work is underway to acquire a more robust software system for IFMIS. Automation of the reconciliation process will use a Treasury Management System to ensure that the reconciliations are done on a daily basis once the new IFMIS system is fully implemented
- Digitalization of the government payment platforms. Currently most the payments are made by cheques and the government is moving towards paying using Electronic Funds Transfers (EFT) system, which will simplify bank reconciliation.

#### *PI-28 In-year budget reports*

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This covers the budgetary central government (BCG) operations and assessed on the last completed financial year i.e. FY2017/18.

Indicator/Dimension	Score	Brief Explanation
<b>PI-28 In-year budget reports</b>	<b>C+</b>	Dimension scores combined by Method M1 (weakest link)
28.1 Coverage and comparability of reports	<b>B</b>	In-year budget execution reports are produced monthly for budgetary central government and data classification allows comparison to the original budget.
28.2 Timing of in-year budget reports	<b>C</b>	In year-budget execution reports are produced quarterly and issued internally within (in average) a period of two months after the end of the quarter.
28.3 Accuracy of in-year budget reports	<b>B</b>	Quarterly and monthly budget execution reports include expenditure at the payment stage with some data quality concerns. Separate commitment reports are produced. Narrative description of budget execution is provided in quarterly, mid-year and annual execution reports.

### *Background*

The PFMA section 84-85 provides for the preparation by the ST of consolidated quarterly financial statements within 30 days of the end of the quarter (except for the last quarter which results in the annual financial statement ref. PI-29). They shall be based on monthly reports from the MDAs, and shall be reviewed by the Auditor General and published in the *Gazette* and a newspaper.

### *Dimension 28.1 - Coverage and comparability of reports*

#### **In-year budget execution reports are produced on a quarterly basis for budgetary central government and shows comparison to the original budget with partial aggregation: Score B.**

The Consolidated Financial Statements are prepared on a quarterly basis<sup>41</sup> as required by the PFMA. The statements compare to the original approved budget with partial aggregation both by vote and by economic classification, as well as functional categories and, in the case where the budget has been revised, the budget revision numbers are also captured. The reports are prepared in a Microsoft Excel workbook format. The report for the 4<sup>th</sup> quarter is the basis for the draft Annual Financial Statements submitted for audit. There is no indication that any of those reports were publicized.

Tables called ‘Monthly Vote-wise Expenditures by Economic Classification’ are also produced on a monthly basis. Some of which have been publicized for 2017/18. They compare actual expenditure for the month (and cumulative) to the original and revised budget estimates with a high degree of aggregation on economic items. Revenue data is not included.

Furthermore, during 2017/18, MoFEPD produced Quarterly Budget Performance Reports for quarters 1 2 and 3, which include narrative explanation of outturns but only for the specific quarter i.e. with no cumulative actual compared to annual budget. They cover all revenue by type and

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<sup>41</sup> E.g. Consolidated Financial Statements as at 31-Dec-2017

expenditure by vote and economic categories, Expenditures made from transfers to de-concentrated units are covered as part of the budget execution reports on a monthly basis, these de-concentrated units submit to AGD reports in the approved cash control format for capturing of their expenditure and incorporation into the budget reports.

A Mid-Year Budget Review Report is produced which shows the outturns for the first six months by vote and main economic categories compared to the original approved budget. The report for 2017/18 included projections for the second half of the fiscal year and proposed reallocations for a revised budget.

Finally, the Annual Economic Report (AER) offers the full annual outturns of revenue and expenditure by economic and functional classification, but not by vote. The report does not directly compare to the original (or revised) budget estimates, which may be extracted from the previous year's AER for comparison. The AER is issued about 10 months after the end of the fiscal year.

#### *Dimension 28.2 – Timing of in-year budget reports*

**In year-budget execution reports are produced quarterly and issued internally within (in average) a period of two months after the end of the quarter: Score C.**

Production of reports in line with the legal framework has not been the norm as the reports are not being produced in time.

Quarterly Consolidated Financial Statements have been produced one to two months after the end of the respective quarter as regards quarter 1, 2 and 3. The full annual budget execution report is not available until 10 months after the end of the year. In the meantime, the draft Annual Financial Statements are submitted for audit, ref. PI-29, which internally serves as a full year budget execution report.

The monthly reports are produced in the month following the month under review as separate documents for revenue and also for expenditure. At times there are lapses and they may be available in the second month following the month end.

#### *Dimension 28.3 – Accuracy of in-year budget reports*

**Quarterly and monthly budget execution reports include expenditure at the payment stage with some data quality concerns. Separate commitment reports are produced. Narrative description of budget execution is provided in quarterly, mid-year and annual execution reports: Score B.**

All of the above mentioned budget execution reports show expenditures at the payment stage only. Expenditure commitment reports are also produced and issued as separate reports to indicate the consolidated commitments and unutilized balances by MDAs. The reports show actual expenditure against the original annual budgets. They are based on consolidation of submissions from MDAs.

The Budget Performance and Mid-Year Reports include analysis of budget performance. In particular, the mid-year review<sup>42</sup> was very comprehensive in narrating budget performance and key drivers in budget execution. An analysis or narrative is included in the quarterly and half-yearly consolidated financial statements but not in the monthly reports. Given the issues with long delays in bank reconciliation there are some concerns over data quality.

*Recent or ongoing reform activities*

- A New Chart of Accounts in line with GFS Manual 2014 is in the process of implementation and will help to improve the quality of reports.

***PI-29 Annual financial reports***

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. This covers Budget Central Government (BCG). The period assessed is for dimension 29.1 the last completed fiscal year which is 2016/17, whereas for dimension 29.2 it covers last annual financial report submitted for audit and for dimension 29.3 the last three years' financial reports (for 2014/15, 2015/16 and 2016/17).

Indicator/Dimension	Score	Brief Explanation
<b>PI-29 Annual Financial Reports</b>	<b>D+</b>	Dimensions combined by Method M1 (weakest link)
29.1 Completeness of annual financial reports	C	Annual financial reports are prepared covering items of income, expenditure and cash balances with some but incomplete information on financial assets and liabilities. They are comparable to the approved budget.
29.2 Submission of reports for external audit	B	The financial reports for 2016/17 were submitted for external audit within four months - but more than three months - after the fiscal year end.
29.3 Accounting standards	D	The accounting standards used in preparing the financial reports are disclosed in the financial reports and ensure consistency from year to year, but are not consistent with the country's legal framework.

*Background*

Part IX section 83 of the PFMA deals with financial reporting of public expenditure accounts and the preparation of financial statements. It requires the ST to submit financial statements to the Auditor General by 31 October of each year.

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<sup>42</sup> Mid-year review 2017/2018 Malawi (MoFEPD)

After the Auditor General has issued an opinion to the financial statements, he/she shall return both the audit opinion and the financial statements to Secretary to the Treasury, no later than 6 months after the fiscal year end. The Minister of Finance shall cause to these to be laid before the National Assembly.

*Dimension 29.1 - Completeness of annual financial reports*

**Annual financial reports are prepared covering items of income, expenditure and cash balances with some but incomplete information on financial assets and liabilities. They are comparable to the approved budget: Score C.**

The annual financial statements for BCG are produced with information such as expenditure, revenue and cash balances.

together with accompanying notes and basis of preparation of the financial statements. The commitments that have been made and not yet settled are also reported in the financial statements. These include all the MDAs which fall under the BCG.

The MDAs prepare the journal entries for data input into IFMIS, locally known as cash controls., which provides the basis for the statements. The financial statements are comparable to the approved budget for BCG for the year under reporting for both revenue and expenditure line items by vote (administrative classification) and economic classification, though with some aggregation.

The marketable securities listing is reported in the annual report. The listing is however not complete, given there are no comprehensive records maintained ref. PI-12.1, and they do not show the carrying amounts. Advances are also reported showing the overall movement and closing position of the advances but only with respect to staff.

The financial statements prepared based on IPSAS Cash basis stage 2 as a minimum include Financial Statement, Discussion and Analysis, Comparative Statement of Budget and Actual Expenditures and Statement of Cash receipts and payments. Supplementary information to the financial statements includes Statement of Balances on Consolidated Fund, Statement of Receipt and Payments on recurrent and Development budget. Other important explanatory notes are also provided within the financial statements.

*Dimension 29.2 - Submission of reports for external audit*

**The financial reports for 2016/17 were submitted for external audit within four months - but more than three months - after the fiscal year end: Score B.**

For the financial year ended 30 June 2017 the financial statements and supporting schedules and explanatory notes were submitted to the Auditor General on the 30 October 2017. This makes it a period of submission of within four months from the end of the fiscal year.

The National Audit Office uses a receipt date stamp to confirm receipt of the financial statements and the ST's covering letter. A copy of the financial statements is retained by the Accountant General showing the dates of submission as evidenced by the date stamp.

*Dimension 29.3 - Accounting standards*

**The accounting standards used in preparing the financial reports are disclosed in the financial reports and ensure consistency from year to year, but are not consistent with the country's legal framework: Score D.**

The notes to the financial statements explain the basis of preparation as well as the accounting standards used and how they have been applied in preparation of the financial statements under the Basis of Accounting section of the report. The standards and their application have ensured that the financial statements are consistently prepared from year to year.

In principle the annual financial statements are prepared according to IPSAS Stage 2 cash basis, which the government has adopted as per IPSAS-Compilation Guide for Developing Countries issued by International Consortium of Governmental Financial Management (ICGFM). This is covered under Basis of Preparation of the Annual Financial Statements (2016/17 Annual report, page 18).

The covering letter to the Auditor General stipulates the statement of compliance with the laws of the country.

However, the financial reports are in fact inconsistent with the legal framework in respect of the preparation of the Statement of Financial Position, which shall show the assets, liabilities and net financial position, as well as a Statement of Contingent Gains and Liabilities, which shall show where possible an indication of the gain or cost (ref. PFMA schedule IV items 1(b) and 1(k) respectively). These items (which assume the use of accrual basis of accounting) are not included in the annual financial statements and no explanation is given. This non-compliance issue is material as the legal framework stipulates that a Statement of Financial position must be included in the Annual Report. Other statements are however produced as required by Schedule IV of the PFM Act.

The dimension is scored D. Were it not for lack of compliance with the country's legal framework in term of the preparation and presentation of the financial statments the score would have been C.

*Recent or ongoing reform activities*

- The Government is moving toward reporting under IPSAS accruals basis of accounting under the GFS 2014 model.
- The Government is in the process of acquiring new IFMIS software, which has functionalities not found in the existing IFMIS/EPICOR system, including provisions for accrual accounting.

## Pillar VII. External scrutiny and audit

### PI-30 External Audit

This indicator examines the characteristics of external audit. Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds. It contains four dimensions – one focusing on independence of external audit function and three focusing on audit of government’s annual financial reports. The institutional coverage includes constitutional provisions, other legal provisions and audit reports on the financial reports of all Central Government entities including EBUs and is assessed on the last three fiscal years i.e. audit reports for the years 2014/15, 2015/16 and 2016/17, except for dimension 30.4 which is assessed at the time of assessment (August 2018).

Indicator/Dimension	Score	Brief Explanation
<b>PI-30 External Audit</b>	<b>D+</b>	Dimension scores combined by Method M1 (weakest link)
30.1 Audit coverage and standards	C	Financial reports of central government are audited by the Auditor General using ISSAIs and cover the majority of votes; material risks and internal control issues are highlighted for most of the government expenditures and revenues
30.2 Submission of audit reports to the legislature	D	Auditor General’s reports were submitted to the legislature within nine months from receipt of the financial reports by the Auditor General during only two of the last three completed fiscal years
30.3 External audit follow-up	C	Implementation of audit recommendations has not been effective despite having a system in place where formal responses were made by audited entities during 2014, 2015, 2016 and 2017 on the audit observations for which follow up is expected.
30.4 Supreme Audit Institution (SAI) independence	D	The NAO has unrestricted and timely access to the majority of the requested records, documentation and information, but NAO does not operate independently from the executive with respect to the procedures for appointment of the Auditor General and other NAO staff as well as execution of NAO’s budget.

### Background

Section 184 of the Constitution of Malawi provides for the creation of the office of the Auditor General who shall audit and report on the public accounts of Malawi, and shall exercise such other powers in relation to the public accounts and the accounts of public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of that office. The duties of the Auditor General are further elaborated in Part II of the Public Audit

Act 2003. The office of the Auditor General is affiliated to international and regional organizations such as INTOSAI and AFROSAI-E.

*Dimension 30.1 Audit coverage and standards*

**Financial reports of central government are audited by the Auditor General using ISSAIs and cover the majority of votes; material risks and internal control issues are highlighted for most of the government expenditures and revenues: Score C**

The Auditor General is mandated under the Malawi Constitution and Public Audit Act to audit and report on the public accounts of central government, local councils, statutory corporations, and constitutional bodies in line with international audit standards such as ISSAIs. In order to comply with GAAP, the audit of public accounts is performed in accordance with International Standards of Supreme Audit Institutions (ISSAIs)<sup>43</sup>.

NAO prepared the Regularity Audit Manual which is aligned with the International Standards for Supreme Auditing Institutions issued by INTOSAI. Audits are conducted using the procedures under the Regularity Audit Manual. Most of the Government revenues and expenditures of Central Government are covered by audit. Risk-based audit planning is in place to determine an annual audit plan.

The NAO's Strategic Plan covering the period 2015 – 2019 outlines the audit strategies to be followed during the period. Under the Strategic Outcome 2 of the NAO Strategic Plan for 2015-2019, NAO intends to increase audit coverage from about 40% to 100% in 2019. NAO is undertaking audits of all local authorities; pre-audits of pensions and gratuities; regularity audits on donor-funded projects; audit of embassies; regularity audits of MDAs, Treasury Funds, EBU's and public corporations; audit of public debt; and transversal audits. The following are the other strategies to be implemented:

- Training of officers in Standards: ISSAIs and use of Manual to ensure that audit work is aligned with ISSAIs by 2019 and improve quality
- Customization of Quality Assurance Policy and Manual
- Procurement of audit management software/systems and training of officers in the use of audit management software/systems
- Update Audit Manuals (Performance Audit Manual; Regularity Audit Manual; Compliance Audit Manual) in line with AFROSAI-E
- Development of Audit Guidelines for Regularity Audits, public debt; IT; Environmental audits; pensions and gratuities.

In terms of coverage, for the fiscal year 2016/17, the NAO audited financial statements for 32 votes<sup>44</sup>, which represented 55% of the total voted expenditure and budget (2015/16: 68% and

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<sup>43</sup> Report of the Auditor General on the Accounts of the Government of Malawi for the year ended 30<sup>th</sup> June 2017: Paragraph 9: Scope of Audit

<sup>44</sup> Excluding EBU's since data was not available at time of assessment.



2014/15: 59%) i.e. in average 61%. This is in addition to one performance audit out of three planned and ad hoc demands for the NAO to undertake audits which were not originally planned for. The audit reports highlighted significant issues to be addressed by the auditees.

The financial statements of EBUs are either audited by the Auditor General or private auditor approved by the Auditor General. These audited financial statements are supposed to be submitted to Parliament but in practice this is not done. The Public Accounts Committee stated that it does not receive any of the audited financial statements for EBUs apart from the material issues identified by the Auditor General and included in the NAO’s annual report.

*Dimension 30.2 Submission of audit reports to the legislature.*

**Auditor General’s reports were submitted to the legislature within nine months from receipt of the financial reports by the Auditor General during only two of the last three completed fiscal years. Score C**

According to Section 83 (1) of the PFM Act, Secretary to the Treasury is supposed to prepare, sign and submit the Consolidated Statement of Accounts to the Auditor General within a period of four (4) months, but not later than 31<sup>st</sup> October after closure of each financial year for audit so that the Auditor General’s report is submitted by 31<sup>st</sup> December. Whilst the Secretary to the Treasury complied with the statutory deadline, significant delays were experienced by the NAO in finalizing the audited consolidated statements. As shown in Table 3-17 below, during the last three completed fiscal years it has taken on average 8 months for NAO to undertake the audit and finalize the accounts from receipt of the Appropriation Accounts to issue of the audit report to the Minister. The performance during the last two years has been markedly improved compared to earlier years so that the audit report is now submitted within six months of receipt of the draft financial statements. However, further reduction in the delay of issuing the audit report is required in order to comply with the legal requirements.

**Table 3-17 Submission of Draft Financial Statements and issue of related Audit Report**

Year covered by Audit	Date of Receipt of draft financial statements	Date of Auditor General Report	No. of months
2014/15	17 <sup>th</sup> February 2016	17 <sup>th</sup> February 2017	12
2015/16	3 <sup>rd</sup> November 2016	18 <sup>th</sup> May 2017	6
2016/17	30 <sup>th</sup> October 2017	4 <sup>th</sup> May 2018	6

*Dimension 30.3 External audit follow-up.*

**Implementation of audit recommendations has not been effective despite having a system in place where formal responses were made by audited entities during 2014, 2015, 2016 and 2017 on the audit observations for which follow up is expected: Score C.**

There is weak response to audit findings in terms of implementation of the audit recommendations. This is evidenced by recurring findings as well as statements in the Auditor General’s reports that

a significant number of Controlling Officers are unable to respond and implement audit recommendations as required by the Public Audit Act<sup>45</sup>. The matter is made worse by the inactiveness of the Audit Committees which have not been functional since 2013/14 due to lack of funding.

The Auditor General has put a system in place where unresolved audit observations in prior years are repeatedly reported until satisfactorily resolved. The Auditor General has a system of following up on the audit observations in the subsequent years' audit engagements. He also assists the Parliament in follow up on its recommendations as formulated in PAC Treasury Minutes, ref. PI-31.3. Many of the control weaknesses and limitations recur in subsequent reports of the Auditor General. Per the Auditor General's report on the accounts of the Government of Malawi for the fiscal year ended on 30 June 2017, the Auditor General stated that the audits have not been limited to the accounts for 2016/17 but have where necessary extended into the reviews of the preceding years.

*Dimension 30.4 Supreme Audit Institution (SAI) independence.*

**The NAO has unrestricted and timely access to the majority of the requested records, documentation and information, but NAO does not operate independently from the executive with respect to the procedures for appointment of the Auditor General and other NAO staff as well as execution of the NAO's budget: Score D**

The Public Audit Act 2003 was amended through enactment of Public Audit (Amendment) Act 2018. During the period under review, however, the Amendment Act 2018 was not effective.

The Public Audit Act 2003 placed the responsibility of appointing the Auditor General solely on the President but confirmed by the National Assembly by a majority of the members present and voting. The Act did not therefore create competition in terms of filling the post of Auditor General. The Act did not specify the qualifications and experience of the person to be appointed Auditor General. Further, the Act did not make provisions for Acting Auditor General in the event of vacancy in the Office of the Auditor General and the procedures to be followed. The Act did not give powers to the Auditor General to appoint, promote, and discipline employees of the National Audit Office. The Act did not also provide for salaries for employees of the National Audit Office apart from the Auditor General to be a charge against the Consolidated Fund. The salaries of employees of NAO were considered together with the Civil Service. The Act did not empower the Auditor General to publish any audit report in the Gazette and NAO website. Finally, the Act did not have a requirement for the NAO to prepare a budget and business plan for its operations.

These issues have mostly been addressed in the Amendment Act 2018, which provides for a higher degree of independence of the National Audit Office including appointment of the Auditor General and administration of staff as well as guaranteeing that salaries, allowances, pensions and other benefits payable to employees shall be a charge against the Consolidated Fund. However, while this Amendment Act spells out the procedures for appointment of the Auditor General including

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<sup>45</sup> Report of the Auditor General: Paragraph 11 – Responding to Audit Reports

administration and financial independence of the office of the Auditor General, in practice the Amendment Act is not yet operational despite being gazetted on 11th May 2018. This is due to delays by the Minister for finance to gazette an effective date for the Act. As at August 2018, the Public Audit Act of 2003 was still operational and this undermines the independence in terms of appointment of the Auditor General. In June 2018, the office of the Auditor General became vacant following non-renewal of the contract of the outgoing Auditor General. Since June the Government has been in the process of filling the vacancy using the provisions of the Public Audit Act 2003. This has been challenged by a number of stakeholders who have advised the Government to use the Amendment Act 2018, resulting in the process being delayed.

### *Recent or ongoing reform activities*

Implementation of the Public Audit (Amendment) Act 2018 is pending gazetting of its effective date by the Minister for finance. The key amendments of the Act include:

- a new recruitment procedure with open announcement of the vacancy, shortlisting of candidates, establishment of an interview panel which puts forward selected candidates from which the President, subject to section 183 (3)<sup>46</sup> of the Constitution, shall appoint the Auditor General;
- provision for appointing an Acting Auditor General with the same powers as the Auditor General;
- enhanced powers for the Auditor General, in consultation with the Civil Service Commission, to appoint, promote and discipline the employees of the National Audit Office; and for the determination of salaries, pensions and other benefits payable to employees of the National Audit Office; and making the salaries, pensions and other benefits a charge against the Consolidated Fund;
- mandatory publication in the Gazette and on the official website of the NAO every report relating to an audit under this Act.

### ***PI-31 Legislative scrutiny of audit reports***

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It contains four dimensions – one focusing on independence of external audit function and three focusing on audit of government’s annual financial reports. The institutional coverage is audit reports for Central Government including EBU’s and is assessed on

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<sup>46</sup> Appointment to the office of Auditor General shall be made by the President and confirmed by the National Assembly by a majority of the members present and voting, but the Public Appointments Committee may at any time inquire as to the competence of the person so appointed to perform the duties of that office and as to the financial probity of a person so appointed, so far as it is relevant to the duties of that office.

reports submitted to the legislature during the last three completed fiscal years i.e. 2015/16, 2016/17 and 2017/18.

Indicator/Dimension	Score	Brief Explanation
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>B</b>	Dimension scores combined by method M2 (Average)
31.1 Timing of audit report scrutiny	C	Scrutiny of audit reports on annual financial reports is completed within twelve months from receipt of reports.
31.2 Hearings on audit findings	B	PAC conducts in-depth public hearings on the audit reports by summoning all responsible controlling officers whose findings have been highlighted in the Auditor General's report; the audit reports considered cover most of CG expenditure.
31.3 Recommendations on audit by the legislature	B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation.
31.4 Transparency on legislative scrutiny of audit reports	B	Hearings are conducted in public through live radio broadcasts with a few exceptions. Committee reports are debated in the full chamber of the legislature but are not published on Parliament's official website. The reports are available at PAC's secretariat and can be accessed by the public.

*Dimension 31.1 - Timing of audit report scrutiny*

**Scrutiny of audit reports on annual financial reports is completed within twelve months from receipt of reports: Score C**

Table 3-18 provides the details of the dates on which the Annual Audit Reports from the Auditor General were received by Parliament and the dates of completion of Parliamentary scrutiny. Scrutiny of the Auditor General's reports for 2014/15 and 2015/16 was completed 9 months and 6 months respectively after the reports were received by Parliament. For 2016/17 the process had not yet started and hence the duration of the entire process could not be established at the time of conducting this assessment. Using data from the last three years for which the process has been completed results in an average process period of the scrutiny at 8 months.

**Table 3-18 Dates for Scrutiny of Auditor General’s Annual Report on Central Government**

<b>Year Covered by Audit</b>	<b>Date of Receipt of Audit Report</b>	<b>Completion Date of Scrutiny by Parliament</b>	<b>Months taken from Receipt to Completion</b>
2013/14	17 <sup>th</sup> February 2017	November 2017	9 months
2014/15	17 <sup>th</sup> February 2017	November 2017	9 months
2015/16	18 <sup>th</sup> May 2017	November 2017	6 months
2016/17	4 <sup>th</sup> May 2018	Not yet done	

*Dimension 31.2 - Hearings on audit findings*

**PAC conducts in-depth public hearings on the audit reports by summoning all responsible controlling officers whose findings have been highlighted in the Auditor General’s report; the audit reports considered cover most of CG expenditure: Score B**

PAC conducts in-depth public hearings only on the audit reports for central government by summoning all responsible controlling officers whose findings have been highlighted in the Auditor General’s report. However, individual audit reports for Extra Budgetary Units (EBUs) are not submitted to Parliament for scrutiny. The Auditor General includes in his report major issues emanating from the EBU audit reports the NAO may have received at the time of report completion. At the time of assessment, the number of EBUs which had submitted audit reports and received qualified or adverse audit opinions was not provided. As EBUs account for only about 14% of total CG expenditure it is verified that the hearings cover most government expenditure (more than 75%).

The Auditor General is in attendance and provides technical guidance and evidence to PAC. Controlling officers are given adequate time to prepare responses which are submitted to PAC in advance. These responses are later presented by each responsible controlling officer before PAC with evidence which PAC assesses/reviews in the presence of the Auditor General to determine whether the issue at hand has been satisfactorily addressed. Controlling officers with insufficient evidence on Auditor General’s findings are sent back to bring substantive evidence. Similarly, controlling officers who appear unprepared before PAC are also sent back so that they fully prepare for the hearings. Responsible officers are requested to clear any outstanding/unresolved findings appearing in the Auditor General’s report and provide PAC with evidence at a later date based on PAC’s calendar of events. These outstanding findings are followed up through Ministry of Finance’s Treasury Minutes.

*Dimension 31.3 - Recommendations on audit by the legislature*

**The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation: Score B**

The public hearings conducted by PAC culminate into a PAC summary report which contains all unresolved issues with corresponding recommendations. This summary report is discussed in

plenary and once adopted, a PAC report is prepared and submitted to the Minister of Finance for action. The follow up of the resolution of the findings and implementation of the recommendations is two-pronged: (a) The Minister of Finance prepares status of implementation of recommendations and (b) PAC and Auditor General verifies implementation and non-implementation of the recommendations. The Ministry of Finance's Treasury Minutes for 2013/14, 2014/15 and 2015/16 are being finalized and expected to be ready in September 2018. This shows significant delays in following up the implementation of the recommendations.

*Dimension 31.4 Transparency of legislative scrutiny of audit reports.*

**PAC hearings are conducted in public through live radio broadcasts with a few exceptions. Committee reports are debated in the full chamber of the legislature but are not published on Parliament's official website though readily available at PAC's secretariat for public access: Score B**

PAC hearings are open to the public and also are broadcast live through radio. The public does not contribute to the debate during hearings but may attend to follow the proceedings. Committee reports are debated in the full chamber of the legislature but are not published on Parliament's official website. However, the reports are available at PAC's secretariat and can be accessed by the public.

*Recent or ongoing reform activities*

- None identified other than implementation of the Public Audit (Amendment) Act 2018 as referred to under PI-30.

## Chapter 4. Conclusions of the Analysis of PFM Systems

This chapter provides an integrated analysis on the basis of the information presented in the preceding Chapters 2 and 3 and presents overall conclusions on the performance of PFM systems. In particular, the analysis assesses how the performance of PFM systems may affect the government's ability to deliver intended fiscal and budgetary outcomes. The most important systemic weaknesses are identified in that respect.

### 4.1 Integrated assessment of PFM performance

This section presents the implications of the assessment for the seven pillars of PFM performance: budget reliability, transparency of public finances, management of assets and liabilities, policy-based fiscal strategy and budgeting, predictability and control in budget execution, accounting and reporting, and external scrutiny and audit. For an overview of the range of scores for each pillar, see table 4-1.

**Table 4-1. Number of Performance Indicators in each score range by PFM Pillar**

Pillar	A	B/B+	C/C+	D/D+	No. of PIs
I. Budget reliability	1		1	1	3
II. Transparency of public finances	1	1	2	2	6
III. Management of assets and liabilities		1		3	4
IV. Policy-based fiscal strategy and budgeting		2	1	2	5
V. Predictability and control in budget execution	1	1	3	2	7
VI. Accounting and reporting			2	2	4
VII. External scrutiny and audit		1		1	2
<b>ALL PILLARS</b>	<b>3</b>	<b>6</b>	<b>9</b>	<b>13</b>	<b>31</b>

#### *Pillar I: Budget reliability*

The budget reliability indicators under this pillar do not directly assess PFM systems. Whilst budget outturns are - at least partly - results of the performance of a combination of PFM systems, assessed by performance indicators under the other pillars, other factors – external to the systems – are also at play.

**The original approved budget is a good indicator of actual fiscal performance during the year as far as aggregate revenue and expenditure is concerned (PI-1 and PI-3.1).** The deviations of actual from approved budget are minor. When it comes to budget composition the situation is quite different. There is significant variance in the composition of revenue, with external grants and dividends from public corporations typically underperforming (PI-3.2) which

suggests the need for a more realistic approach to estimating progress on donor-funded projects and better analysis and monitoring of public corporations.

**On expenditure composition, variance is very substantial by function and by vote, but also significant for main economic categories (PI-2)** and reflects frequent in-year needs for reallocation caused by external events, unrealistic estimates and emerging political pressures. Through his substantial powers over reallocations, the Minister for Finance has been able to undertake such reallocations within the overall approved resource envelope. There is a pattern of annual over-performance on votes 101 and 341 (Defense Force and Police) whereas performance on other votes fluctuates from year to year. There is also a pattern of under-performance on development expenditure with other economic categories showing no fixed trends. The unallocated contingency reserve is very small and has proven inadequate to cater for fiscal risks that have materialized during budget execution.

While considering these findings it should be borne in mind that **substantial funding of government operations take place outside the consolidated central government budget** through EBUs and off-budget funding by development partners (ref. PI-6).

### *Pillar II: Transparency of public finances*

**The budget is presented and executed according to a comprehensive classification** including administrative, economic and program breakdown (PI-4). Budget documentation is comprehensive with the main deficiency being lack of actual outturn data from the previous year in the same format as the budget proposals (PI-5) as actuals are presented only by functional categories through bridge tables and are hard to compare and reconcile with budget estimates.

**Major government operations are financed outside the consolidated central government budget.** Off-budget funding by DPs may constitute as much as a quarter of financial operations, on which no up to date and reliable reporting is available. EBUs collect about 10% of government revenue outside budget estimates and receive substantial subventions, but their financial reporting is late and only included in budget documentation as far as subventions are concerned (PI-6).

**Inter-government fiscal relations are in transition (PI-7).** An increasing range of sector transfers are made to local government councils, but horizontal allocations formulas have not been agreed and approved for a number of new transfers and for the long standing transfers the formulas are considered out of date. Despite reintroduction of elected councils in 2014, they still have to prepare their budgets as if they were central government MDAs. The issue of final ceilings by MoFEPD late in the budgeting process means that councils have to revise their locally approved budgets prior to the onset of the fiscal year (ref. PI-17).

**Performance information as part of Program Based Budgets is quite well developed in terms of output and activity targets as well as achievements reported (PI-8).** Ad hoc reports are produced on actual expenditure by cost center, but do not include the substantial off-budget funding of service delivery in major service functions such as health and education. A system for routine evaluation of performance contracts across MDAs and EBUs is in place, but performance



evaluations are not published and do not include evaluation of efficiency which has been carried out for only a few programs during the past 3 years.

**Public access to fiscal information is very limited** (PI-9). The government made available - in a complete and timely manner - only the annual executive budget proposal, including a summary of the budget proposal, and the Auditor General's Annual Report on budgetary central government but without the actual financial statements. Publication of in-year budget execution reports has been irregular and often delayed. Very few EBUs and public corporations published their annual financial reports (ref. PI-6.3 and PI-10.1).

### *Pillar III: Management of assets and liabilities*

**Systems for fiscal risk management are insufficient** (PI-10). Audited annual financial statements for public corporations are mostly submitted late and only one corporation had published its audited financial statements within six months of the end of financial year. Submission of annual financial reports by local government councils is subject to long delays and not published. Whilst NLGFC produces quarterly monitoring reports on a consolidated basis they are consequently incomplete. Apart from debt sustainability analysis, hardly any reporting takes place on contingent liabilities and other fiscal risks including PPPs.

**A basic investment management system is in place but its coverage is incomplete** (PI-11). Economic analyses are conducted for major investment projects with external funding, which constitute most of major projects. The PSIP process provides a formal system for managing selection and prioritization of all large projects prior to their inclusion in the budget. Projections of the total capital cost of the major projects are not included in the budget documents which only shows the capital expenditure estimates for the forthcoming budget year. Physical progress and costs of major projects is monitored, but there is no standard procedure and reporting template.

**Asset management systems are fragmented with major gaps** (PI-12). There is no central system for managing, monitoring and reporting on the financial assets as a total portfolio. A central register of government land and buildings is kept, whereas other records of non-financial assets are fragmented and incomplete. Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but no consolidated information is available on such disposals.

**Debt management systems are in better shape** (PI-13). Domestic and foreign debt records and guarantees are complete, accurate and updated at least quarterly. Comprehensive management and statistical reports are produced at least annually and presented before the Parliament. There is a single authority - the Minister for Finance – approving all debt and guarantees on behalf of the government. A debt management strategy has recently been prepared, but has not yet been published and implemented.

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

**Macro-economic and fiscal forecasting systems exist but are basic** (PI-14). Only a macro-economic baseline scenario has been developed and it only covers the forthcoming budget year and one outer year, so does not sufficiently underpin the related three-year forecasts of the

aggregate revenue, expenditure, budget balance and financing which are presented in the budget documentation. For the latter, the explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts.

**Fiscal strategy systems are simple with limited transparency** (PI-15). Fiscal impact estimates of proposed revenue measures are made for only a few of the introduced measures, whereas multi-year estimates are available for many expenditure policies. A fiscal strategy of qualitative objectives is presented to the National Assembly for information only. Reporting on progress towards fiscal targets and implementation of related fiscal policies under the ECF Arrangement is internal and submitted to the IMF.

**A three-year rolling MTEF is in place with clear links to national and sector development strategies and plans** (PI-16). However, an important element of the MTEF is still missing, namely explanations of changes to the updated medium-term expenditure estimates compared to the previous year's estimates. Without this, and given the high variance on composition of annual budget outturns (ref. PI-2) the MTEF is not considered very valuable by service delivering sector MDAs.

**The annual budgeting process is well set out in principle but facing implementation delays** (PI-17). The generic budget calendar is comprehensive and clear, but is implemented with significant delays which leave MDAs with only about three weeks combined to prepare their budget proposals and estimates after receipt of the respective ceilings. Moreover, the budget proposals are presented to Parliament only 5-6 weeks before the start of the fiscal year

**Parliament's review of budget proposals is well established but limited in scope** (PI-18). Details of revenue and expenditure are reviewed, but not fiscal policies and aggregate fiscal forecasts. Parliament has approved the annual budget before the start of the fiscal year. Clear rules for in-year budget reallocations by the executive are set out, but provide the executive with substantial powers of reallocation within the overall aggregate of original appropriations.

#### ***Pillar V: Predictability and control in budget execution***

**Revenue administration and collection systems are performing well though tax arrears remain relatively high** (PI-19 and PI-20). Comprehensive and up-to-date information is freely available for users online and through several other means. MRA operates an enterprise risk management system. The taxpayer self-assessment systems are monitored through a risk based audit system with most audits completed as planned. Tax arrears are significant (12% of the total collections) with two thirds more than 12 months outstanding. Consolidated reports on collections are done monthly and collections transferred daily to the Treasury. Reconciliations of assessments, payments, arrears and transfers to Treasury are done monthly (PI-20).

**Cash management is firm but rigid** (PI-21). Cash flow forecasts are updated monthly. Reliable information to MDAs on funds available for commitment is only provided for one month in advance, and significant in-year budgetary re-allocations are done with fair transparency. Whilst cash budget management and extensive re-allocations help to keep the budget within aggregate

ceilings (ref. PI-1 and PI-3), it creates incentives for MDAs to generate expenditure commitments outside IFMIS controls (ref. PI-25.2).

**Expenditure arrears is a serious concern (PI-22).** Large amounts of arrears were identified in 2014, subsequently verified and converted into ZCPN. However, arrears to the order of more than 10% of total expenditure remained at end of 2016/17. Nonetheless, data on the stock and development of arrears for 2017/18 was not available as there is no systematic monitoring mechanism in place for outstanding invoices. Incomplete commitment control systems (PI-25.2) and disincentives for compliance due to cash rationing (PI-21) enhance the need for arrears monitoring systems.

**Payroll management systems are performing reasonably well (PI-23).** Approved staff list, personnel database, and payroll are directly linked through the HRMIS, but the link to budget control in IFMIS still involves a manual process. Appointments and promotions are controlled against approved staff establishment. Payroll data is updated timely and retroactive adjustments are rare. Internal controls are well defined and generates an audit trails in HRMIS and IFMIS respectively, but a backlog of payroll reconciliations and a break in the audit trail between HRMIS and IFMIS introduce risks to system and data integrity. A largely complete payroll audit has been completed within the last three years.

**Procurement monitoring and transparency is in poor shape (PI-24).** There are no comprehensive databases available in procuring entities or at ODPP/PPDA. No data is available on which to judge the extent to which various procurement methods are used for award of contracts. Key procurement information is not made available to the public beyond legislation and bidding opportunities in hard copies. However, a well-structured procurement complaint system exists.

**Internal control systems for non-salary expenditure are prescribed but not comprehensive and compliance is far from complete (PI-25).** Segregation of duties is established with responsibilities clearly laid down. Expenditure commitment control systems relate to ORT only and are limited to single-year commitments. Payment processing is not fully compliant with regular procedures and show little progress from year to year (ref. PI-26 and PI-30).

**Internal audit is not effective (PI-26).** IA covers all central government entities including extra budgetary units. However, the function is weak due to high vacancy rates and low funding levels. Audit Committees are absent in most entities. Only about half of the planned audits have been undertaken in recent years and activities largely focus on compliance. Whilst a quality assurance system is in place, most IA reports fail to meet the established standards. Response to internal audit recommendations is very poor with the resolution of audit findings at just 11%.

#### ***Pillar VI: Accounting and reporting***

**There are concerns about the standard of financial data (PI-27).** Bank reconciliations do not take place routinely every quarter at all MDAs and have reconciling items dating back even two or three years, though major progress is being made to clear the backlog. However, advance accounts are cleared timely. The IT systems used have effective access controls and generate audit

trails. However, lacking integration of the several systems used for PFM result in breaks in these trails and are points of risk in ensuring integrity of data.

**A wide range of budget execution reports are produced** (PI-28). Monthly and quarterly reports are prepared for internal use with data classification allowing comparison to the original budget, based on the payment stage. Separate quarterly commitment reports are produced. Narrative description of budget execution is provided in quarterly, mid-year and annual reports.

**Annual financial reporting is performing reasonable well but at a basic level** (PI-29). Financial statements cover income, expenditure and cash balances; and are comparable to the approved budget by vote and economic item. The financial reports for the most recent year were submitted for audit four months after year end as required by legislation. Despite the official adoption of GFS 2001 (ref. PI-4) the reports are on cash basis with standards disclosed. Information on financial assets and liabilities is incomplete due to missing basic records (ref. PI-12) and therefore, the financial statements do not meet requirements set out in the PFM Act.

#### *Pillar VII: External scrutiny and audit*

**External audit systems are in transition** (PI-30). The annual accounts of all MDAs and the consolidated financial statements are audited by the National Audit Office, but NAO is still working on clearing a backlog. Consequently, recent annual audit reports have been issued up to six months after receipt of the draft financial statements. Responses to audit findings are neither comprehensive nor timely and findings repeat themselves from year to year. All EBUs and public corporations are audited by the NAO or a private audit company approved by the NAO, but often completed with substantial delay. The NAO does not operate with a high degree of independence, but this should change as soon as the Public Audit (Amendment) Act 2018 has been made effective. A few performance audits have been undertaken in recent years (ref. PI-8.4) but coverage of programs is low.

**Parliamentary review of audit reports is well established if basic** (PI-31). Scrutiny is completed within twelve months from receipt of the report and includes hearings with controlling officers from all MDAs highlighted in the audit report. Parliament issues recommendations and has a suitable system for monitoring their implementation. There is a high degree of public access to PAC hearings and debate in plenary. However, audit reports of EBUs and public corporations are not submitted to Parliament, though some major issues are included in the NAO's annual report.

## **4.2 Effectiveness of the internal control framework**

The legal and institutional features of the internal control framework are described in section 2.5. This section is focused on the actual functioning and effectiveness of the framework based on a more detailed assessment of each control component provided in Annex 2.

**The control environment** has clear cut definition of responsibilities and roles for those instrumental in instituting oversight roles over the entire internal control framework. The institutional framework is espoused in various legislation affecting public financial management

which among them include the PFM Act of 2003, the National Audit Office Act, the Public Procurement and Disposal of Assets Act, However, some of the Acts have been amended and some are in the process of revision to cover critical issues and gaps which were overlooked when initial legal frameworks were enacted. Amendments were made to the Public Audit Act and passed in 2018, but the effective date of implementation has not been gazetted and a reason for this delay could not be obtained. Since June 2018 when the appointed Auditor General's five-year term expired, the incumbent holding office is in an acting capacity. At the time of assessment discussions were ongoing as to which Act should guide recruitment of the new Auditor General.

In the context of **risk assessment**, no formal evaluation procedures are available in dealing with risks emanating from public corporations and this has an implicit bearing on the response mechanisms which are absent, undermining the treatment of such risks with direct bearing on the fiscus. This leaves the government's public financial management systems unprepared to deal with such fiscal risks emanating directly from public corporations.

The **control activities** are functioning in certain respects such as the segregation of duties, authorisation of expenditures and evaluation of implementation of major investment projects. Most procurement takes place under development spending. MDAs are given clear guidelines on which projects to include in budgets, even if more comprehensive economic analysis would assist in selection of projects to further economic growth. Regular monitoring of procurement operations is limited, however, and project effectiveness is hampered by non-compliance with procurement guidelines as indicated in the Procurement Post Review carried out by the ODPP for the Local Development Fund (LDF) for 2015-2016.

The AGD must ensure that financial controls exist within MDAs, and returns are done on time to allow reconciliation to be carried out. However, bank reconciliations carried out by MDAs are incomplete and have long dated transactions indicating challenges in clearance of outstanding items. Some departments have not been submitting all returns required by the PFM Act to the AGD to allow consolidation. This situation highlights ineffectiveness of the internal control framework and has left the systems exposed, which could be part of the factors leading to 'Cashgate' experienced in 2013. There are reforms going on in strengthening of such control activities though reactionary, information at hand show such efforts, which will go a long way in enhancing PFM systems, thanks to technical assistance received.

On **information and communication**, there are opportunities for improvement in the manner in which engagement is done with the civil society with respect to budget information, reporting on execution and also other critical issues regarding procurement. However, Parliament is open to the public during debate of budget proposals and hearings on financial reports.

**Monitoring** of the PFM systems and results is carried out by the internal and external audit units. The pending effectiveness of the amended Public Audit Act has a bearing not only on the recruitment of the Auditor General, but also on other aspects of independence of the Audit Office. There are backlogs in the Audit Office with respect to completed fiscal years. The public accounts for 2016/2017 had not been laid before the Public Accounts Committee as at August 2018. Moreover, the implementation rate of audit recommendations is low with frequent repeat findings from year to year.

Independence of internal audit in MDAs is major concern given the absence of Audit Committees. Audit Committees have been replaced by Financial Inspectors, but the relationship between Financial Inspectors and Internal Audit is not clear. The annual audit plans are prepared across all MDAs, but implementation of planned audit activities has been challenging for most MDAs due to over-ambitious plans in view of high vacancy rates and limited funding. High vacancy rates in IAUs are indicative of eroded motivation of internal audit personnel, further undermining effectiveness of the internal control system. At the CIAU, top positions for the Director and Assistant Directors are vacant, so effective oversight of IAUs does not exist in practice. The take-up rate of the internal audit recommendations has been pathetic. In some of the MDAs, the implementation rate of the audit recommendations has been as low as five percent i.e. ninety-five percent of the recommendations being ignored. This ordinarily points to total system breakdown. There has been continued repeat findings as with external audit. In addition, no sanctions have been applied to the MDAs which do not implement internal or external audit recommendations. This may be indicative of the tone at the top, given that sanctions are specified in legislation, but not applied.

**In Summary, Malawi has adequate governing PFM legislation which needs to be effectively implemented and sustained. However, non-compliance with internal financial controls is widespread with little consequence for the responsible officials.**

#### **4.3 PFM strengths and weaknesses**

The extent to which the PFM systems enable achievement of the planned fiscal and budgetary outcomes is discussed below in terms of the three main outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient use of resources for service delivery.

**Aggregate fiscal discipline** requires that fiscal aggregates be delivered as planned, primarily as per the approved budget, but also including extra-budgetary operations.

Aggregate budget outturns of GoM indicate that the approved budget is a good indicator of actual performance at the aggregate level for both revenue and expenditure, leading to budget deficits roughly in line with the fiscal framework proposed prior to the beginning of each year. The effect of the very substantial extra-budgetary operations on aggregate fiscal discipline is not known due to lack of consolidated data. The main part relates to development support provided by various Development Partners which is unlikely to negatively influence fiscal balance, whereas the financial performance of extra-budgetary units is subject to limited monitoring and is more likely to pose a fiscal risk. Of more concern, however, is the situation regarding expenditure arrears (i.e. informal debt that is only recognized in fiscal reports when it is paid) as well as inadequate monitoring and reporting of fiscal risks from public corporations where deficits may build up and to which loan guarantees have been issued.

The executive has been able achieve the estimated aggregate expenditure through rigid cash budget management and use of the extensive powers of the Minister of Finance to re-allocate budget funds

during the year despite regular underperformance on development expenditure and frequent response to political and external events which lead to change of priorities during the year.

The quite well-functioning tax administration system and realistic revenue estimates – in aggregate - support collection of the estimated revenues. Fiscal strategy is also clear even if this is primarily determined and reported in consultation with the IMF under the ongoing ECF arrangement. However, cash budget management creates incentives for managers of public services to commit expenditure outside the central commitment controls built into IFMIS with no sanctions applied to the responsible officers when discovered. IFMIS controls are also limited by not accommodating multi-year commitments. These may be some of the reasons for appearance of expenditure arrears.

**Strategic allocation of resources** will be effective when available resources are allocated and used in line with government priorities aimed at achieving policy objectives. The key processes to achieve this outcome relate to the budget formulation process, budget execution including investment management and reporting on budget execution.

The high levels of compositional variance in budget outturns every year – particularly for expenditure - indicate important issues that need addressing. Some votes and economic items show consistent over- or under-performance from year to year, which suggest that such budgets are unrealistic or not respected. Budget estimates for most sectors follow proper processes, and are based on comprehensive medium term sector strategies and clear statements of program objectives and output targets. As there is hardly any contingency reserve set aside in the budget, the frequently materializing fiscal risks (such as calls on guarantees and emergency funding for natural disasters) lead to significant in-year re-allocations and poor expenditure outturns for many sectors, as the priority is to keep aggregate expenditure within the ceiling. The existing medium-term budget planning system should in principle support strategic allocation, but this is not being fully achieved due to unreliable annual budget outturns and lack of reconciliation and explanation of outer year estimates from one budget cycle with the budget year estimates and related outer year forecasts presented for the following budget cycle.

Transparency in strategic allocation suffers from lack of actual outturns from the previous year (by the same classification as budget estimates) in budget documentation. Also missing is public access to some key fiscal documents, such as regular budget execution reports, consolidated and up-to-date reporting on extra-budgetary units, off-budget donor support and financial reports of public corporations, as well as completion and updating of allocation formulas to local government councils.

**Efficient service delivery** requires use of available resources to achieve the optimal levels of public services, which are critical points of contact between citizens and government.

Service objectives and quantitative output and activity targets are extensively set out in the Program Based Budget parts of budget documentation, including reporting on actual achievements, but the corresponding reporting on actual spending by (sub-) program is missing, thus hampering assessment of efficiency. Whilst medium term budget planning should support efficient service planning, this is not achieved as mentioned under Strategic Resource Allocation.

The comprehensive PSIP system for investment management helps in proper selection of priority projects for budgetary funding, even if capacity to fully implement the system could be improved. Lack of monitoring and transparency of procurement processes points to procurement being a high risk area in the pursuit of value for money in public expenditure. Large compositional variance in expenditure budget outturns suggest that shifts in priorities during the year lead to some services being deprived of funding for the planned annual service outputs, and whilst some service managers may try to make up for the difference by committing expenditure by bypassing central controls, this likely results in expenditure arrears with high financing costs for suppliers and consequently increased prices on government procurement.

Inadequate public access to comprehensive information on budget execution and extra-budgetary operations, poor implementation of internal and external audit recommendations and lacking application of sanctions for non-compliance with rules and regulations suggest that accountability for use of public resources and delivery of services may not be as effective as desirable.

#### **4.4 Performance changes since the 2011 assessment**

The 2016 PEFA Framework upgrade was used to establish the current situation in Malawi as a new baseline from which to assess progress going forward from 2018. The information collected for that exercise was at the same time used to assess change in performance of GoM systems since 2011 to 2018, by scoring the 2018 situation against the 2011 version of the PEFA Framework which was the basis for the 2011 PEFA assessment of Malawi. This allowed change over time to be assessed on 28 performance indicators with 71 individual indicator dimensions of government systems performance, as explained in detail in Annex 4.

#### **In summary, performance changes between 2011 and 2018 on the 28 indicators are:**

- improvement in performance was recorded on 12 performance indicators,
- deterioration was found on 7 indicators,
- a mixture of improvement and deterioration without overall change on 2 indicators (budget execution reports and external audit),
- no change identifiable on 5 indicators (aggregate expenditure outturn, expenditure arrears, budget classification, public access to fiscal reports, annual financial reporting),
- direction of change could not be determined for 2 indicators (effectiveness in collection of tax payments and payroll controls).

#### **Improvements were noted in the areas of**

- Revenue management with strong improvement in tax collection outturn and in tax registration and assessment, as well as minor improvement in transparency of taxpayer obligations and liabilities.
- Annual budget preparation, and multi-year budgeting (MTEF and PSIP).
- Parliamentary oversight of budget proposals and scrutiny of audited annual financial reports.



- Minor improvements in reporting on extra-budgetary operations (Treasury Funds), , procurement (legislation), bank and advance account reconciliation, internal audit (reporting) and information on resources for primary service delivery units (cost center classification and reporting through IFMIS).

**The areas of deterioration were:**

- Outturn on composition of expenditure, which deteriorated significantly;
- Budget documentation (actual outturn data in comparable format now missing),
- Inter-governmental fiscal relations (horizontal allocation formulas and consolidation of financial data for general government),
- Oversight of fiscal risk from EBUs and public corporations (timeliness and completeness of information),
- Predictability in the availability of funds for commitment of expenditure,
- Public debt reporting,
- Effectiveness of internal controls for non-salary expenditure (commitment controls and degree of non-compliance with rules).

**Overall, the findings show substantial progress in the performance of many PFM sub-systems, particularly in the revenue management area, but also several systems where performance has deteriorated over the past seven years.**

Achievement of of aggregate fiscal discipline has benefited from improved revenue management and strengthened reporting on Treasury Funds, but declining oversight of EBUs and public corporations and debt reporting as well as slipping effectiveness of commitment controls reduce the effect of those improvements.

Whilst systems to facilitate strategic allocation of resources has been strengthened through the annual budget process, establishment of and MTEF and the PSIP process, several other systems that affect strategic allocation have been weakened; including provision of budget outturn data, oversight and reporting of fiscal risks as well as rules and transparency in transfers to local councils.

Systems to support efficiency in use of resources have been strengthened through reducing the backlogs in account reconciliation, submission and audit of annual financial statements, and procurement legislation as well as introduction of PBB and of cost center reporting in IFMIS. However, cash rationing and declining compliance with internal controls are likely to have had significant negative impact on efficient resource use.

## **Chapter 5. Government PFM Reform Process**

This chapter discusses the government's overall approach to PFM reform and describes recent and ongoing reform initiatives to improve PFM performance<sup>47</sup>.

### **5.1 Approach to PFM reforms**

In 2011, Government adopted the Public Finance and Economic Management Reform Program (PFEM-RP) as its umbrella framework for providing greater coherence and guidance to reforms of its PFM systems. The primary purpose of this three-year (2011-2014) reform program was to strengthen macro-fiscal discipline; improve effectiveness in allocation of resources; enhance efficiency and effectiveness in the delivery of government programs; and strengthen transparency and accountability in the use of public finances. There were thirteen PFM issues to be implemented through its ten components, namely: planning and policy; resource mobilization; budgeting; procurement; parastatal financing; accounting and financial management; cash and debt management; monitoring and reporting; external auditing; and programme management.

The PFEM-RP reforms were implemented in a coordinated approach as individual interventions financed through the Multi-Donor Trust Fund (MDTF), an arrangement where various development partners were expected to pull their resources together under the management of the World Bank. The PFEM-RP had an estimated budget of US\$ 40 million. However, as resources were moving slowly into the MDTF, implementation started gradually with three substantive components under the Financial Reporting and Oversight Improvement Project (FROIP) namely: Accounting and Financial management; External Auditing; and Internal Auditing. Subsequently, Procurement and Resource Mobilization was added with funding by the African Development Bank (AfDB). Significant contributions to the PFEM-RP were made through complementary funding - rather than contributions to the MDTF - from DfID, Norway, GIZ, UNDP and the EU. In particular the EU Capacity Building Project for Economic Management and Policy Coordination was instrumental in developing the PFEM-RP and strengthening capacity in both the Ministry of Finance and the Department of Economic Development and Planning prior to the two being merged to become the MoFEDP in June 2014. Throughout the IMF has provided freestanding technical assistance on selected topics.

Due to limited government implementation capacity and slower than expected provision of external funding, the PFEM-RP continued implementation until 2018 i.e. over a seven year period rather than the three years initially envisaged.

A PFM Rolling Plan has been formulated in 2018 as a successor to the PFEM-RP based on the identified weaknesses/challenges. It has taken on board several uncompleted activities from the expired PFEM-RP and reflects new priorities to remedy PFM weaknesses exposed by the 2013 public resource defraud and other issues that require further improvement. The Rolling Plan sets the ground for improving alignment of public finances to national development goals and

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<sup>47</sup> This chapter draws on (1) MoFEDP: Renew and Reform Malawi's Public Financial Management System, Public Finance Management Rolling Plan July 2018–June 2021, August 2018; (2) Concept Note for the PEFA assessment.

optimizing their impact on economic growth by implementing pertinent reforms in five thematic areas: planning and budgeting; budget execution; monitoring and reporting; budget oversight; and PFM institutional framework.

The most costly investments over the period of the Rolling Plan will be in the public finance management information systems, their roll-out to local councils, as well as tax and non-tax revenue management information systems. Some important areas in PFM were either overshadowed or narrowly defined under the PFEM-RP among which is contract management which now constitutes a reform component with the objective of providing value-for-money in government procurement of goods and services.

## **5.2 Recent and ongoing reform actions**

### *Achievements*

The implementation of the PFEM-RP resulted in significant progress in enhancing the PFM environment for which there are a number of notable achievements:

- IFMIS coverage, sustainability and utilization have improved although there is more to be done;
- Financial reporting – preparation of annual financial statements is now up to date and timely submitted for audit;
- Establishment of Cash Management Unit and Financial Compliance Unit to improve cash flow planning and internal controls;
- Improvements in bank reconciliation - backlog has been cleared substantially;
- The introduction of output focus to the annual budget through the PBB and development of an MTEF;
- Implementation of decentralization in terms of payroll devolution to local councils;
- Improved performance of the National Audit Office with substantial clearing of the audit backlog as well as a new legal framework;
- Improved revenue collection systems at Malawi Revenue Authority; and
- Steps taken to improve transparency in procurement processes through a new legal framework.

An important achievement in parallel was the second phase of a personnel and payroll audit which included a physical headcount in 2015, and resulted in unverified employees on payroll being deleted. This was supported under the WB's Second Agriculture Support and Fiscal Management Development Policy Operation.

### *Challenges*

The following were the major problems and challenges for the PFEM-RP:

- Financing shortfalls and fragmentation leading to failure to finance all planned components.

- The exposure of the 2013 public resource fraud issues (‘cashgate’) diverted attention of implementing the planned activities under the FROIP, resulting in some of the planned activities not being implemented.
- Key staff vacancies – delayed start of the external audit due to the vacancy in the office of the Auditor General, and other initiatives slowed due to staff vacancies.
- Inclusion of unplanned but critical activities in the course of implementation that led to reprioritization e.g. GWAN fiber backbone; payroll devolution; need for the new IFMIS; and the forensic audit following ‘cashgate’.
- Delays in the delivery of contracted services e.g. the GWAN consultant contract.
- Staff capacity in the PFEM Unit, especially in the first two years. Staff capacity has also been a challenge in several PFM related institutions because of the need for new skills and numbers to manage new activities resulting from reforms. Overall this has led to coordination and oversight of the reform program being problematic.
- The human factor: incentives and sanctions to manage staff performance are lacking in the system leading to slow and poor delivery of services. In addition, deteriorating conditions of service have weakened the delivery of field-related activities like monitoring and supervision.

### **5.3 Institutional considerations**

#### *Institutional challenges for the new PFM Rolling Plan*

Unlike the PFEM-RP, the Rolling Plan has clearly identified linkages to other reform areas in government; set up stronger governance structures; and will be reviewed by government on an annual basis to take on board emerging challenges without compromising the delivery of the ongoing reforms. A major consideration for the success of implementing these important reform efforts are two factors that are beyond the PFM jurisdiction: (1) the internet connectivity of government institutions at the central and local levels; and (2) the adequacy of staff capacity and incentives in PFM institutions. These areas are being addressed through related reform involving the entire public sector<sup>48</sup> and their success will have important implications on the performance and productivity of PFM reform investments.

PFMRP includes a long list of detailed reform activities under its thirteen components, covering practically all areas assessed in this PEFA assessment. A major challenge will be to develop a prioritized and well-sequenced multi-year plan which is realistic in view of the government’s implementation and coordination capacity.

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<sup>48</sup> E.g. the large-scale Public Service Reform Program (PSRP) known as “Making Malawi Work”, which outlines several reforms to improve public service delivery.

### *Coordination and management arrangements*

The governance arrangements for the PFEM-RP consisted of (1) PFEM Steering Committee, (2) PFEM Technical Committee, (3) Technical Working Groups, (4) PFEM Unit and (5) Joint Government-Donor Committee. Interventions and support happening outside the MDTF were tracked using a PFM support matrix maintained by the PFEM Unit and updated from time to time through discussions during meetings of the Joint Government-Donor Committee.

Under the new Rolling Plan the high level structure that steered the PFEM-RP will be retained, but its composition will be strengthened to reflect the key challenges facing the current generation of PFM reforms. The highest governing structure will be the PFM High Level Forum with membership at the political level, and below it the PFM Implementation Committee with membership at technical and administrative level. Both these governance structures will be served by the PFM Reform Secretariat within the MoFEPD (corresponding to the PFEM Unit, currently in the PFM Systems Division). The PFM Reform Secretariat will be responsible for stakeholder communication, logistical support and guidance to the implementing agencies, consolidating annual work plans and budgets for the Rolling Plan, as well as financial management of its implementation.

The PFM Reform Secretariat will also be at the center of all monitoring and evaluation reporting for the interventions in the Rolling Plan. The initial format for monitoring the Rolling Plan's twelve technical components is linked to most of the PEFA performance indicators, though that framework will need updating on the basis of the present PEFA assessment report, as the the PFM RP was prepared prior to completion of the PEFA assessment.

# ANNEXES

## Annex 1: Performance Indicator Summary for 2018 – Using 2016 PEFA Framework

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
<b>Pillar I. Budget Reliability</b>		
<b>PI-1 Aggregate expenditure outturn</b>	A	At 103.4%, 97.0%, and 97.9% for 2014/15, 2015/16, and 2016/17 respectively, aggregate expenditure outturn deviated less than 5% from the approved budget in all three fiscal years
<b>PI-2 Expenditure composition outturn</b>	D+	Dimension scores combined by Method M1 (weakest link)
2.1 Expenditure composition outturn by function	D	Variance in expenditure composition by functional classification was 27.1%, 32.3% and 21.3% for the fiscal years 2014/15, 2015/16 and 2016/17 respectively i.e. above 15% in all three years for which data was available.
2.2 Expenditure composition outturn by economic type	C	Variance in expenditure composition by economic classification was 16.3%, 11.8% and 9.3% respectively in the three years under consideration i.e. it was less than 15% in two of the years but less than 10% in only one year
2.3 Expenditure from contingency reserves	A	Actual expenditure charged to the contingency vote was in the order of 0.2% in each of the last three years for which data was available.
<b>PI-3 Revenue outturn</b>	C+	Dimension scores combined by Method M2 (average)
3.1 Aggregate revenue outturn	A	At 92.0%, 97.7% and 98.1% respectively, aggregate revenue outturn was between 97% and 106% of the originally approved revenue budget in two of the last three completed fiscal years for which data was available
3.2 Revenue composition outturn	D	At 7.9%, 15.2% and 16.5% respectively, revenue composition variance was above 15.0% in two of the last three completed fiscal years for which data was available
<b>Pillar II. Transparency of Public Finances</b>		
<b>PI-4 Budget classification</b>	A	The budget classification is based on administrative, economic (GFS 1986) and program classification. These classifications are also embedded in the chart of accounts.

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
<b>PI-5 Budget documentation</b>	<b>B</b>	<p>Budget documentation for 2018/19 fulfilled 3 basic elements and 4 additional elements i.e. in total 7 of the 12 key elements.</p> <p>Basic elements fulfilled are:</p> <ul style="list-style-type: none"> <li>• Forecast of the fiscal deficit or surplus</li> <li>• Current fiscal year's budget in the format of the budget proposal</li> <li>• Aggregated budget data by main heads of the classification</li> </ul> <p>The additional elements fulfilled are:</p> <ul style="list-style-type: none"> <li>• Deficit financing</li> <li>• Macroeconomic assumptions</li> <li>• Debt stock</li> <li>• Medium-term fiscal forecasts</li> </ul>
<b>PI-6 Central Government operations outside financial reports</b>	<b>D</b>	Dimension scores combined by Method M2 (average)
6.1 Expenditure outside financial reports	D*	Government financial reports concerning off-budget development expenditure financed by Development Partners have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary expenditure remains unreported for 2016/17.
6.2 Revenue outside financial reports	D*	Government financial reports concerning receipts of grants and loans from Development Partners for off-budget development expenditure have not been produced since 2014/15; the amount involved is uncertain. No other extra-budgetary revenue remains unreported for 2016/17.
6.3 Financial reports of extra budgetary unit	D	Six out of 39 EBUs, representing 19% of EBUs' combined annual expenditure, had submitted their audited accounts for 2016/17 to MoFEPD within 9 months of end of the financial year.
<b>PI-7 Transfers to subnational governments</b>	<b>C</b>	Dimension scores combined by Method M2 (average)
7.1 Systems for allocating transfers	C	The horizontal allocation of transfers to local councils from central government is determined by rules based formulas approved by Parliament for 62% of total cash transfers.
7.2 Timelines of information on transfers	C	Final ceilings on annual transfers to local councils are issued before the start of the local councils' fiscal year, but after budget plans are decided and approved by the councils



Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
<b>PI-8 Performance information for service delivery</b>	<b>C</b>	Dimension scores combined by Method M2 (average)
8.1 Performance plans for service delivery	<b>B</b>	Annual published budget documentation includes - for all ministries, departments and subvented organizations i.e. more than 75% of total CG operations - objectives by program with performance indicators for expected outputs and activities.
8.2 Performance achieved for service delivery	<b>B</b>	Annual information was published in the PBB budget documentation on the quantity of outputs achieved for all ministries and departments i.e. more than 75% of total CG operations.
8.3 Resources received by service delivery units	<b>D</b>	Budget classification and chart of accounts include cost centre codes for all central government service delivery units and budget information by cost centre is presented in annual budget documents. Ad hoc reports are produced on actual expenditure by cost centre, but do not include the substantial off-budget funding of service delivery in major service functions such as health and education
8.4 Performance evaluation for service delivery units	<b>D</b>	A system for routine evaluation of performance contracts across MDAs and EBUs is in place, but performance evaluations are not published and do not include evaluation of efficiency. Evaluations of effectiveness and efficiency have been carried out for a few programs during the past 3 years in terms of performance audits and published, but covering significantly less than 25% of total operations of central government.
<b>PI-9 Public access to fiscal information</b>	<b>D</b>	The government made available - in a complete and timely manner - only one of the five basic elements and one of the four additional elements listed. The documents published were <ul style="list-style-type: none"> <li>• (basic) Annual executive budget proposal (and The Auditor General's Annual Report but without the actual financial statements).</li> <li>• (additional) a summary of the budget proposal (citizen budget)</li> </ul>
<b>Pillar III. Management of Assets and Liabilities</b>		
<b>PI-10 Fiscal Risk Reporting</b>	<b>D+</b>	Dimension scores combined by Method M2 (average)
10.1 Monitoring of public corporations	<b>D</b>	Audited annual financial statements for 2016/17 were submitted to Government within 9 months of end of the financial year by 13 of the 27 operational public corporations, accounting for 68% of total income of this sector. Only one corporation had published its audited financial statements within six month of the end of financial year.
10.2 Monitoring of subnational governments	<b>D</b>	NLGFC produces quarterly monitoring reports on a consolidated basis, but they are substantially incomplete due to long delays in receiving reports from many of the councils. There is no evidence that any local council has published its annual financial statements for any recent year.

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
10.3 Contingent liabilities and other fiscal risks	D	Hardly any reporting takes place on contingent liabilities and other fiscal risks from central government's operations
<b>PI-11 Public investment management</b>	<b>D+</b>	Dimension scores combined by Method M2 (average)
11.1 Economic analysis of investment proposals	C	Economic analyses are conducted for most major investment projects especially those that are funded by DP loans and grants and through PPP/Joint Ventures, Study findings are not reviewed by an independent entity, nor are the studies published.
11.2 Investment project selection	C	Some major investment projects are prioritized by the PSIP Department, recommended to Cabinet and included in the budgets for approval by the Parliament prior to their inclusion in the budget.
11.3 Investment project costing	D	Total estimated capital cost of major investment projects, including the capital costs for the forthcoming budget years are not included in the budget documents which show only budget year expenditure estimates
11.4 Investment project monitoring	C	Information on project expenditure and physical progress is collected during the year from the implementing MDAs and obtained through onsite visits, but monitoring is not systematic. Reporting to Cabinet is annual and up to date, but the report is not published.
<b>PI-12 Public asset management</b>	<b>D</b>	Dimension scores combined by Method M2
12.1 Financial asset monitoring	D	There is no central system for managing, monitoring and reporting on the financial assets as a total portfolio despite the existence of the financial assets.
12.2 Nonfinancial asset monitoring	D	A central register of Government land and buildings is kept by the Land Registry under Ministry of Lands, whereas other records of non-financial assets are fragmented and incomplete. Comprehensive information on holdings of any type of non-financial assets is not publicized.
12.3 Transparency of asset disposal	D	Transfers and disposal of nonfinancial assets is covered by standing rules on asset disposal, but no consolidated information is available on such disposals, including the information of both acquisition and disposal values.
<b>PI-13 Debt Management</b>	<b>B</b>	Dimensions combined by Method M2
13.1 Recording and reporting of debt and guarantees	B	Domestic and foreign debt records and guarantees are complete, accurate and updated at least quarterly. Comprehensive management and statistical reports are produced at least annually and presented before the Parliament.

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
13.2 Approval of debt and guarantees	A	The Constitution of Malawi and the PFM Act No. 7 of 2003 authorizes the Minister responsible for Finance to contract debt and guarantees on behalf of the government subject to the approval of Parliament.
13.3 Debt management strategy	D	As at August 2018, a debt management strategy had been officially established but had yet not been made publicly available.
<b>Pillar IV. Policy-based Fiscal Strategy and Budgeting</b>		
<b>PI-14 Macroeconomic and fiscal forecasting</b>	<b>D+</b>	Dimensions combined by Method M2 (average)
14.1 Macroeconomic forecasts	D	Macro-economic forecasts are prepared and updated twice annually but cover only the forthcoming budget year and the following fiscal year.
14.2 Fiscal forecasts	C	The government prepares forecasts of the aggregate revenue, expenditure, budget balance and financing for the budget year and the following two years and presents the forecasts in the budget documentation submitted to the National Assembly. Explanation of the underlying assumptions is incomplete and there is no comparison to the previous year's forecasts
14.3 Macro-fiscal sensitivity analysis	D	There is no evidence of macro-fiscal sensitivity analysis having taken place during the past three fiscal years.
<b>PI-15 Fiscal Strategy</b>	<b>D+</b>	Dimensions combined by Method M2
15.1 Fiscal impact of policy proposals	D	Fiscal impact is estimated for only a few of the proposed revenue measures and only for the budget year, whereas multi-year estimates are available for many expenditure policy proposals
15.2 Fiscal strategy adoption	C	The government presents a fiscal strategy of qualitative objectives for the forthcoming budget year, which is presented to the National Assembly in the EFPS, but quantitative fiscal targets or rules for the main fiscal parameters are neither set in law nor adopted by the government and submitted to the National Assembly
15.3 Reporting on fiscal outcomes	C	The government prepares an internal report on progress towards fiscal targets and implementation of fiscal policies under the ECF Arrangement but only for submission to the IMF
<b>PI-16 Medium-term perspective in expenditure budgeting</b>	<b>B</b>	Dimensions combined by Method M2 (average)

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
16.1 Medium-term expenditure estimates	B	The annual budget proposal and final estimates present estimates of expenditure for the budget year and the two following years by administrative, economic and program classification, though with a high degree of aggregation as concerns breakdown by economic item
16.2 Medium-term expenditure ceilings	A	Expenditure ceilings at MDA level - and in aggregate – cover the budget year and the two following years and are approved by the Cabinet before each set of ceilings letters are issued
16.3 Alignment of strategic plans and medium-term budgeting	A	Medium-term strategic plans are prepared and costed for all major sectors, representing most MDA expenditure, and expenditure policy proposals included in the annual update of the MTEF draw heavily on the sector plans.
16.4 Consistency of budgets with previous estimates	D	Budget documents do not provide any explanations of changes to the updated medium-term expenditure estimates compared to the previous year’s estimates.
<b>PI-17 Budget preparation process</b>	<b>B</b>	Dimensions combined by Method M2 (average).
17.1 Budget calendar	C	A clear and comprehensive budget calendar exists, but is implemented with significant delays which leave MDAs with only about three weeks combined to prepare their budget proposals and estimates after receipt of the respective ceilings
17.2 Guidance on budget preparation	A	A comprehensive, generic Budget Preparation Guidelines document is circulated to all MDAs and covers the entire budget for the full year. Subsequently, two sets of individual letters are sent to MDAs with initial and final ceilings respectively, as approved by the Cabinet
17.3 Budget submission to the legislature	C	The Minister of Finance has – in each of the last three years - presented the annual budget proposals to the National Assembly 5-6 weeks before the start of the fiscal year.
<b>PI-18 Legislative scrutiny of budgets</b>	<b>C+</b>	Dimensions combined by Method M1 (weakest link)
18.1 Scope of budget scrutiny	C	The National Assembly reviews the details of revenue and expenditure, but not fiscal policies and aggregate fiscal forecasts
18.2 Legislative procedures for budget scrutiny	B	The National Assembly has well established procedures for scrutiny of the budget, which are adhered to. The procedures include (limited) negotiation procedures, some technical support to committees, consultations with civil society and access for the media to attend consultations.

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
18.3 Timing of budget approval	A	The National Assembly has – in each of the last three years - approved the annual budget before the start of the fiscal year
18.4 Rules for budget adjustments by the executive	B	Clear rules for in-year budget reallocations by the executive are set out in the PFM Act and adhered to. The rules provide the executive with substantial powers of reallocation within the overall aggregate of original appropriations.
<b>Pillar V. Predictability and Control in Budget Execution</b>		
<b>PI-19 Revenue Administration</b>	<b>B</b>	Dimensions combined by Method M2 (average)
19.1 Rights and obligation for revenue measures	A	Updated information is freely available for users online and supplemented by print and broadcast media and taxpayer education meetings, with a concise and comprehensive charter covering taxpayer rights and obligation.
19.2 Revenue risk management	B	MRA – collecting more than 90% of revenues - prioritize and assesses compliance risks for the majority of revenue categories by using structured and systematic approaches by entities.
19.3 Revenue Audit investigation	C	The majority of planned audits and investigations are completed during the year using documented compliance control procedures.
19.4 Revenue arrears monitoring	C	The stock of revenue arrears as at 30 June 2016 was 12% of the total revenue collection, two thirds of which had been outstanding for more than 12 months.
<b>PI-20 Accounting for revenues</b>	<b>A</b>	Dimensions combined by Method M1 (weakest link).
20.1 Information on revenue collections	A	Monthly consolidated reports on all of the Central Government revenues are prepared by MRA showing revenue breakdown by type, and submitted to MoFEPD.
20.2 Transfer of revenue collections	A	Revenue collections by MRA (more than 75% of total revenue) are transferred daily into Treasury Accounts.
20.3 Revenue accounts reconciliation	A	Complete reconciliation of assessment is done for assessments, collections, arrears and transfers to Treasury by MRA on a monthly basis and quarterly reports are also prepared.
<b>PI-21 Predictability of in-year resource allocation</b>	<b>C+</b>	Dimensions combined by Method M2 (average).
21.1 Consolidation of cash balances	D	All cash balances are consolidated on an annual.

Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
21.2 Cash flow forecasting and monitoring	A	A comprehensive cash flow forecast is produced for the fiscal year and updated monthly on the basis of actual revenue collections which take into consideration expenditure commitments and actual payments.
21.3 Information on commitment ceilings	C	Reliable information on funds available for commitment is provided to budgetary units for only one month in advance
21.4 Significance of in-year budget adjustments	B	Significant in-year budget adjustments to allocations took place twice in 2017/18 and were fairly transparent.
<b>PI-22 Expenditure arrears</b>	<b>D</b>	Dimensions combined by Method M1 (weakest link).
22.1 Stock of expenditure arrears	D*	Stock of expenditure arrears was more than 10% of total expenditure as at end of 2016/17. The stock of arrears for 2017/18 was not available
22.2 Expenditure arrears monitoring	D	Data on stock and composition of expenditure arrears is not timely generated. There is no systematic mechanism for monitoring expenditure arrears in place at both Treasury and MDA levels resulting in Treasury being unable to report arrears at the aggregate level
<b>PI-23 Payroll Controls</b>	<b>C+</b>	Dimensions combined by Method M1 (weakest link).
23.1 Integration of payroll and personnel records	C	Appointments and promotions are controlled against approved staff establishment; and approved staff positions, personnel database and payroll generation are directly linked within the HRMIS; but reconciliation of payroll data is not yet monthly and HRMIS is not directly linked to IFMIS which is used for budget control.
23.2 Management of payroll changes	A	Payroll data is updated monthly and concluded by 5 <sup>th</sup> of the month to facilitate salary processing by Treasury at the end of the month. Retroactive adjustments are rare.
23.3 Internal controls of payroll	C	Payroll controls are well segregated and restricted by user defined access levels with strong password protection within HRMIS and IFMIS respectively. Changes to the payroll and HRMIS database are well documented, but a backlog of monthly data reconciliations as well as lack of integration between HRMIS and IFMIS create risks to data integrity.
23.4 Payroll audit	B	A payroll audit covering 99.5% of all entities (weighted by amounts of personal emoluments) has been completed in stages within the last three years
<b>PI-24 Procurement</b>	<b>D+</b>	Dimension scores combined by method M2 (Average)
24.1 Procurement monitoring	D	There are no comprehensive databases available in procuring entities or at ODPP
24.2 Procurement methods	D*	No data is available on which to judge the extent to which various procurement methods are used for award of contracts

<b>Current Assessment</b>		
<b>Indicators/Dimension</b>	<b>2018 Score</b>	<b>Description of Requirements Met</b>
24.3 Public access to procurement information	D	Key procurement information is not made available to the public beyond legislation in the Government Gazette and bidding opportunities newspapers.
24.4 Procurement complaints management	B	The procurement complaint system meets criterion 1 (independence of review committee) and three of the other criteria.
<b>PI-25 Internal controls on non-salary expenditure</b>	<b>C</b>	Dimension scores combined by method M2 (Average)
25.1 Segregation of duties	B	Segregation of duties is prescribed throughout the expenditure process with responsibilities clearly laid down for most key steps.
25.2 Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist as part of IFMIS. The control system relates to ORT only and is limited to single-year commitments.
25.3 Compliance with payment rules and procedures	D	Payment processing is not fully compliant with the regular payment procedures, and exceptions are often insufficiently justified and authorized, as reported in internal and external audit reports
<b>PI-26 Internal Audit</b>	<b>D+</b>	Dimension scores combined by Method M1 (weakest link)
26.1 Coverage of Internal Audit	D	Internal audit is fully operational in MRA collecting practically all government revenue, but is barely functioning in MDAs responsible for practically all government expenditure as the internal audit units in MDAs and most EBUs are constrained by high vacancy rates, inadequate funding and absence of audit committees
26.2 Nature of audits and Standards applied	C	Internal audit activities largely focus on compliance. A quality assurance system is in place but most IA reports fail to meet the established standards
26.3 Implementation of internal audits and reports	C	An annual work plan for internal audit is prepared and the majority of audit assignments implemented, with 55% of the planned audits undertaken in 2017/18.
26.4 Response to internal audits	D	Response to internal audit recommendations is weak as evidenced by recurring findings. Cumulatively, the resolution of audit findings stood at 11% over the past two years up to June 2017
<b>Pillar VI. Accounting and Reporting</b>		
<b>PI-27 Financial Data Integrity</b>	<b>C</b>	Dimension scores combined by Method M2 (average)
27.1 Bank account reconciliation	D	Bank accounts for key treasury accounts are reconciled monthly, but with three months' time lag. A number of unprocessed entries for the MDAs still appear on the bank reconciliation statements

<b>Current Assessment</b>		
<b>Indicators/Dimension</b>	<b>2018 Score</b>	<b>Description of Requirements Met</b>
27.2 Suspense accounts	D	No suspense accounts are utilized, instead there is a tendency to ignore their use and leave outstanding items within other bank reconciliation statements for quite a long time. Unprocessed bank credits and bank debits on Bank statements are left unattended to for a long period of time.
27.3 Advance accounts	A	Advance accounts are reconciled on a monthly basis for staff for educational and emergency advances. The report is part of the return sent to the Accountant General for capturing by MDAs.
27.4 Financial data integrity processes	C	Financial data is kept in electronic systems in which access and changes to records and data is restricted and recorded through segregation of access in line with duties through controlled passwords; whilst this creates an audit trail for users within each system the lack of system integration involve manual transfer processes without audit trail.
<b>PI-28 In-year budget reports</b>	<b>C+</b>	Dimension scores combined by Method M1 (weakest link)
28.1 Coverage and comparability of reports	B	In-year budget execution reports are produced monthly for budgetary central government and data classification allows comparison to the original budget.
28.2 Timing of in-year budget reports	C	In year-budget execution reports are produced quarterly and issued internally within (in average) a period of two months after the end of the quarter.
28.3 Accuracy of in-year budget reports	B	Quarterly and monthly budget execution reports include expenditure at the payment stage with some data quality concerns. Separate commitment reports are produced. Narrative description of budget execution is provided in quarterly, mid-year and annual execution reports.
<b>PI-29 Annual Financial Reports</b>	<b>D+</b>	Dimensions combined by Method M1 (weakest link)
29.1 Completeness of annual financial reports	C	Annual financial reports are prepared covering items of income, expenditure and cash balances with some but incomplete information on financial assets and liabilities. They are comparable to the approved budget.
29.2 Submission of reports for external audit	B	The financial reports for 2016/17 were submitted for external audit within four months - but more than three months - after the fiscal year end.
29.3 Accounting standards	D	The accounting standards used in preparing the financial reports are disclosed in the financial reports and ensure consistency from year to year, but are not consistent with the country's legal framework.
<b>Pillar VII. External Scrutiny and Audit</b>		
<b>PI-30 External Audit</b>	<b>D+</b>	Dimension scores combined by Method M1 (weakest link)



Current Assessment		
Indicators/Dimension	2018 Score	Description of Requirements Met
30.1 Audit Coverage and Standards	C	Financial reports of central government are audited by the Auditor General using ISSAIs and cover the majority of votes; material risks and internal control issues are highlighted for most of the government expenditures and revenues
30.2 Submission of audit reports to the legislature	D	Auditor General's reports were submitted to the legislature within nine months from receipt of the financial reports by the Auditor General during only two of the last three completed fiscal years
30.3 External Audit follow-up	C	Implementation of audit recommendations has not been effective despite having a system in place where formal responses were made by audited entities during 2014, 2015, 2016 and 2017 on the audit observations for which follow up is expected.
30.4 Supreme Audit Institution independence	D	The NAO has unrestricted and timely access to the majority of the requested records, documentation and information, but NAO does not operate independently from the executive with respect to the procedures for appointment of the Auditor General and other NAO staff as well as execution of NAO's budget.
<b>PI-31 Legislative scrutiny of audit reports</b>	<b>B</b>	Dimension scores combined by method M2 (Average)
31.1 Timing of audit report scrutiny	C	Scrutiny of audit reports on annual financial reports is completed within twelve months from receipt of reports.
31.2 Hearings on audit findings	B	PAC conducts in-depth public hearings on the audit reports by summoning all responsible controlling officers whose findings have been highlighted in the Auditor General's report; the audit reports considered cover most of CG expenditure.
31.3 Recommendations on audit by the legislature	B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation.
31.4 Transparency of legislative scrutiny of audit reports	B	Hearings are conducted in public through live radio broadcasts with a few exceptions. Committee reports are debated in the full chamber of the legislature but are not published on Parliament's official website. The reports are available at PAC's secretariat and can be accessed by the public.

## Annex 2: Summary of Observations on the Internal Control Framework

Internal control components and elements	Summary of observations
<b>1. Control environment</b>	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	<p>The Constitution of Malawi and its various amendments establishes and provides for the qualities and characteristics of persons who are supposed to man the public institutions such as the Head to National Audit Office (Auditor General) and the various organisations which have the mandate of handling public funds. It does not elaborate on their qualifications and experience. The Public Finance Management Act of 2003 empowers the Secretary to the Treasury to govern and control public resources.</p> <p>2. The control environment includes:</p> <ul style="list-style-type: none"> <li>a) personal integrity and professional ethics of the management and other employees of the public entity;</li> <li>b) management policies and work style;</li> <li>c) organizational structure, ensuring segregation of duties, hierarchy and clear rules, rights, responsibilities and reporting lines;</li> <li>d) the policies and practices of human resource management and;</li> <li>e) the professional skills of employees.</li> </ul> <p>The assessment team was not in a position to evaluate the overall personal and professional integrity and ethical values of management and staff. Observations on the other aspects of the control environment are provided below.</p>
1.2 Commitment to competence	<p>The issue of commitment to competence could not be ascertained by the assessment team during the field exercise. The qualifications of the office bearers for senior positions are not clearly defined in the Acts and regulations. For such positions, the incumbents are supposed to appear before the Public Accountability Committee which assesses their competence and financial probity. The PFMA provides for the circumstances by which an officer can be relieved of his/her duties in the event that it can be proven beyond reasonable doubt that the officer is incompetent in the discharge of the duties. Whereas the PFMA provides the sanctions which can be imposed upon the senior office bearers like Controlling Officers who fail to uphold certain requirements expected of them, such sanctions have not been applied despite infringements in certain instances. Certain MDAs have had instances where they were made to make certain appointments without properly following the laid down procedures especially in run-up to the election periods.</p>
1.3 The “tone at the top” (i.e. management’s philosophy and operating style)	<p>There was no opportunity for the assessment team to comprehensively judge the management philosophy and operating style.</p> <p>A number of sanctions exist in the legislation for dealing with non-compliance with policies and guidelines but no one has been sanctioned for non-compliance or infringements. Implementation rate for internal audit recommendations to improve the system performance is low. Repeat findings continue to appear in subsequent reports. Internal audit used to report to Audit Committees and it was noted that implementation rate of internal audit recommendations during this period was better than the current scenario. As an alternative, there are now Financial Inspectors who are part of the system as an Audit Committee alternative. Their role could not be clearly evaluated as to whether they are a viable and effective alternative to the Audit Committee.</p>
1.4 Organizational structure	<p>There is clear organisational structure in existence for MDAs, including AGD.</p>

Internal control components and elements	Summary of observations
	<p>In certain MDAs, despite the existence of an organisation structure on paper, some senior and critical positions of the establishments are vacant and have not been filled for a period. One such instance is the Central Internal Audit Unit (CIAU) which has vacant top positions for the Director of Internal Audit and Assistant Directors. These have been vacant for more than two years. The current incumbent Director is in acting capacity (ref. PI-26). Similarly, the Auditor General office has been vacant since early 2018 and no appointment has been confirmed. A new Public Audit Act has been promulgated, passed by the Parliament and the President given assent, but its effective date has not been Gazetted. Hence it is unclear whether the appointment will be made based on the Old Act or the New Act, the latter including a more transparent recruitment procedure (ref. PI-30).</p> <p>The Internal Audit and the External Audit functions are core oversight institutions which act as watchdogs for the systems functionality, public finances and resources management.</p>
1.5 Human resource policies and practices	No information was available to the assessment teams with respect to Human resource policies and practices.
<b>2. Risk assessment</b>	
2.1 Risk identification	<p>Although financial statements are prepared for public corporations no disclosures are done by such entities in terms of fiscal risks which can have a bearing on the government in the future budget years. This is a requirement of PFMA but disclosure has been lacking and the government will not be in a position to identify all the fiscal risks it is exposed to in such arrangements and transactions.</p> <p>The same is also true for the Public Private Partnership (PPPs) transactions where there are post implementation contingencies which can cause fiscal risks to the government. Such risks in these arrangements are not reported.</p> <p>In certain MDAs, Enterprise Wide Risk Management Systems (EWRMS) methodologies have been introduced to help them in defining risks and identifying risks with a significant fiscal impact.</p> <p>In the Medium Term Debt Strategy (MTDS) the critical risks arising from government debt have been identified and documented.</p>
2.2 Risk assessment (significance and likelihood)	<p>The assessment of the magnitude of risk was found in the area of revenue collection (PI-19). A robot system is assigned to colour codes depicting the severity and impact of identified risks with colours such as red (very severe and high impact), amber (moderately severe and medium impact) and green (low impact and not severe).</p> <p>The MRA also has implemented in the Enterprise Wide Risk Management systems methodologies of assessing risks (ref. PI-19). No assessment of the magnitude of risk has been reported on fiscal risk reporting with respect to subnational governments EBUs and public corporations. (ref. PI-10).</p>
2.3 Risk evaluation	No formal and explicit risk evaluation was identified by the assessment team. It was noted that in PI-10, that there was no risk evaluation carried out even for the public corporations and subnational governments (local authorities) which carry a significant amount of risk emanating from guarantees made by government on behalf of these institutions and expenditure arrears (including tax arrears).
2.4 Risk appetite assessment	The level of risk appetite could not be judged by the assessment team.

Internal control components and elements	Summary of observations
2.5 Responses to risk (transfer, tolerance, treatment or termination)	There are no documented plans and/or procedures in place on how to deal with revenue arrears (PI-19). Revenue arrears are an apparent issue which needs redress as they are continually increasing. It was noted that there were no Audit Committees in place for all line Ministries and this has not been addressed.
<b>3. Control activities</b>	
3.1 Authorization and approval procedures	<p>Authorisation and approval procedures are well established and defined.</p> <p>Capital investment projects are supposed to pass through the test of fitting into the Malawi Growth and Development Strategy (MGDS) and the related sector plans.</p> <p>The approval of the contracting of debt is done by the Minister for Finance is the sole authority to approve debt and guarantees.</p> <p>On authorization of staff recruitment, MDAs are supposed to ensure that each position is necessary for the establishment before they include it in the budget proposal. In the event of replacements, the MDAs must also explain that they have the required budget provision. DHRMD must approve such appointments before seeking AGD to sanction the filling in of the position.</p> <p>Procedures for approval of the annual appropriations bill and in year revisions are clear but leave little room for National Assembly's influence on fiscal framework and allocations and give substantial powers to the Minister for Finance to change allocations in-year.</p> <p>MDAs are only able to make payments on items for which provision is made in the budget. MoFEPD enters the cash releases into the IFMIS and transfer funds to MDAs accounts with the RBM, so that they can make payments to their suppliers.</p> <p>Before MDAs receive their funding for a particular month they are required to submit returns which includes commitments made, advance return and also the expenditure return for previous month allocation.</p> <p>User profiles in the ICT system are created by the user departments by filling in the user authorisation form, indicating the roles to be assigned to the user in the system. This will ensure that there is control of access rights. For example, MDAs may enter employee records in the system by capturing biodata but will not have access to enter or change employee bank accounts, birthdays and salary rates which are all managed by DHRMD.</p> <p>Upon the fiscal year end, the Secretary to the Treasury is required to authorise the submission of financial reports to the National Audit Office.</p>
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	There is clear distinction of roles and responsibilities, which has been enabled by the existence of the PFM System. One officer is responsible for capturing and parking transactions, another officer is responsible for reviewing the transactions and a third will approve and post into the system. There is clear segregation of duties and only collusion will render the system ineffective. The current system has in many reports been blamed for 'Cashgate' <sup>49</sup> that hit the government in the period around 2013 and 2015 and took long for the government to notice. The government is looking for a better system which can help to trigger alarm in the case of suspicious transactions.

<sup>49</sup> IMF TA controls and reporting cr17332 on page 1 introduction.

Internal control components and elements	Summary of observations																		
	<p>From 3.3 below, it can be found that the current ICT system is not effective given that the ratings for system functionality, having effective ICT System may fail to deliver the objective of using the same as an effective management and budget control tool. System core functionality does not have a high grade, and the Total System Strength is below average.</p>																		
<p>3.3 Controls over access to resources and records</p>	<p>Every user in the system has unique roles. The PFM ICT Centre /Unit is responsible for creating users under defined roles. One cannot log on to the system and access the system when they have not been created in the system. Users access the system via password logging system. All their activities within the systems are logged onto an audit trail which would help to track user actions in the system. In the event one terminates his/her employment with the government, user departments or line Ministries communicate with the PFM ICT Unit to remove the user from the system.</p> <p><b>A Diagnostic Framework: How to Assess the Capacity of a Government's Financial Management Information System as a Budget Management Tool:</b> This paper, published as World Bank's IEG Working Paper 2016/No.1, included the implementation of the IFMIS (PFMS) in Malawi in its assessment sample. <i>The overall assessment for Malawi were as follows, ref. Table 3.1 and paragraph 3.11 of the paper</i></p> <table data-bbox="771 856 1364 1039"> <tr> <td><input type="checkbox"/></td> <td>TSA Status</td> <td>Score 7 out of 10</td> </tr> <tr> <td><input type="checkbox"/></td> <td>FMIS Coverage</td> <td>Score 11 out of 25</td> </tr> <tr> <td><input type="checkbox"/></td> <td>Core Functionality</td> <td>Score 16 out of 40</td> </tr> <tr> <td><input type="checkbox"/></td> <td>Ancillary Features</td> <td>Score 4 out of 15</td> </tr> <tr> <td><input type="checkbox"/></td> <td>Technical Aspects</td> <td>Score 5 out of 10</td> </tr> <tr> <td><input type="checkbox"/></td> <td><b>Total System Strength</b></td> <td><b>Score 43 out of 100</b></td> </tr> </table> <p>A review of the system scores suggests that having a fully functional IFMIS in place is not in itself a sufficient condition for it to serve as a good budget management tool. Some countries with good scores in functionality and technical aspects such as Ghana, Sierra Leone, and Zambia, continue to have mediocre overall ratings owing to, for example, an insufficient underlying policy environment (as reflected by the TSA), coverage of the system (extent of its use) or application of its controls. The ratings for Malawi in terms of core system functionality, IFMIS coverage and ancillary features are all below the mid-point. This did weigh down the total system strength score (ref PI-23.1 and PI-27.4)</p>	<input type="checkbox"/>	TSA Status	Score 7 out of 10	<input type="checkbox"/>	FMIS Coverage	Score 11 out of 25	<input type="checkbox"/>	Core Functionality	Score 16 out of 40	<input type="checkbox"/>	Ancillary Features	Score 4 out of 15	<input type="checkbox"/>	Technical Aspects	Score 5 out of 10	<input type="checkbox"/>	<b>Total System Strength</b>	<b>Score 43 out of 100</b>
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<p>3.4 Verifications</p>	<p>Inspection is the most accepted practice for verifying the delivery of goods and services. The implementing MDA is the one responsible for inspection and monitoring for verification purposes. The Monitoring and Evaluation Unit (M&amp;E) of the MoFEPD carries onsite visits for developmental projects and checking the presence of contractors on site using a standard and formal documented procedures. MDAs at times are not carrying out these procedures or completing the required documents to certify that inspections have been carried out when goods have been delivered or services rendered.</p> <p>Whilst for some selected projects, physical inspections are carried out, there is no formal standard documented procedure in place to define how the monitoring is to be carried out, what are the critical items that should be flagged or be confirmed as satisfactory during the verification process (ref project inspection PI-11.4)</p>																		
<p>3.5 Reconciliations</p>	<p>Bank account reconciliations are supposed to take place on a regular basis for the Treasury Bank accounts which include the Consolidated Fund and the MG Accounts. Bank reconciliations are lagging behind and as at the time of assessments (August 2018) the Line Ministries' last reconciliations concerned May 2018. There</p>																		

Internal control components and elements	Summary of observations
	<p>are a number of outstanding long dated transactions still appearing on the reconciliation statements with some over two years old. In addition, the reconciliations were incomplete as some entries which should have updated the cash book before preparing the reconciliations were still listed as reconciling items.</p> <p>Advance account reconciliations are performed on a monthly basis. Submission of advance returns is a requirement for MDAs when requesting funding for the coming budget month. Suspense accounts are in principle not used. However, items which are supposed to be resolved through suspense accounts are left hanging on the Bank reconciliation without being expunged into the system (ref PI-27),</p> <p>Reconciliation of revenue collections from MRA to Treasury is done regularly (monthly) and the same is the case for MRA reconciliation of tax payer accounts.</p>
3.6 Reviews of operating performance	<p>The budget documentation includes performance targets and achievements through use of a Program Based Budgeting system. Variance analysis used is the financial reports where budget is compared to actual results although in aggregated performance and does not routinely include financial variance by program. Monitoring is fragmented and there is no systematic evaluation of service delivery and activities across MDAs MoFEPD is yet to establish and define a system of how performance outcomes are to be measured and reported as this is not yet in place for items reported under Program Based Budgeting. A few performance audits of budget programs have been undertaken but the coverage of such audits is still very limited (Ref PI-8).</p>
3.7 Reviews of operations, processes and activities	<p>The Auditor General’s reports for most of the MDAs and MoFEPD focus mainly on the financial performance or regularity audits. There are minimum reviews of processes, operations and activities.</p> <p>Following the decentralisation of the procurement function to the MDAs, the Public Procurement and Disposal Authority (PPDA) (formerly of Office of the Director of Public Procurement) carried out a review using the Methodology for Assessing Procurement Systems (MAPS) in 2018 to evaluate compliance by procuring units and pass recommendations on how to improve systems.</p> <p>A review of Public Investment Management was carried out by IMF in 2018 and included recommendations on ways how to improve the system.</p> <p>There are also revisions which have set the ball rolling to improve systems and currently they are working on revising the PFM Act. The Public Audit Act has recently been revised and a new one enacted. The government is also working on implementing a new IFMIS solution in order to cater for the shortcomings of the current EPICOR-based IFMIS.</p> <p>Other reviews are carried out from a cost impact perspective but not helping to improve the situation. This is the situation with respect to the removal of Audit Committees and replacing them with internal Financial Inspectors.</p>
3.8 Supervision (assigning, reviewing and approving, guidance and training)	<p>From a financial management perspective clear guidelines are apparent with regards to assigning reviewing and approval of expenditures. Reviews of bank reconciliation statements need to be improved. There are clear instructions on what the preparers of bank reconciliation statements need to follow but reviewers at times will sign the bank reconciliation statements whilst items mentioned on preparation guidelines are apparently not addressed.</p>

Internal control components and elements	Summary of observations
	<p>Training manuals<sup>50</sup> are available to assist users in procurement management following the decentralisation of the function. This was carried out by the Staff Development Institute with the guidance from the Public Procurement and Disposal Authority (PPDA) to equip officers in the function to be able to handle their roles and responsibilities in terms of public procurement. The training program had clear objectives on what was to be achieved at the end of the training session.</p>
<b>4. Information and communication</b>	<p>Tax payers have up to date information with respect their tax obligations. The taxpayer Charter is also available for taxpayers and this is easily accessible online on the MRA website. It gives users and taxpayer information of the redress process and procedure in the event that they believe their rights have been infringed. Information is freely available for taxes, the type of taxes payable and how they arise.</p> <p>In terms of budgets, budget documentation at the approval stage is available to the public and quite comprehensive, whereas budget execution reports are not posted consistently and timely. The Malawi Economic Justice Network (MEJN) has compiled information for rating of Malawi under the Open Budget Survey. The 2017 ratings were below the international average but this has now helped the government finding ways of improving public access to fiscal information.</p> <p>Fiscal information on EBUs, public corporations and local governments has not been made available to the public by the government. Most of the information is prepared but unavailable in the public domain. (ref PI-9 and PI-19)</p>
<b>5. Monitoring</b>	
5.1 Ongoing monitoring	<p>The Secretary to the Treasury through the Accountant General is responsible for setting up a system to monitor the financial management and control systems, in order to ensure that they are functioning correctly and systems are updated. The Internal Audit is important to the monitoring system. IA Units exist in all MDAs, but the absence of audit committees does not give the IA function the required independence function effectively. Vacancies remain a problem both at MDAs and for the CIAU. Audit Committees were replaced by the introduction of Financial Inspectors but their roles cannot be said to be mutually exclusive. This is because the Financial Inspectors are by their nature of appointment not independent of the management.</p>
5.2 Evaluations	<p>External Audit is conducted periodically. Ordinarily external audit is supposed to be completed by the 31<sup>st</sup> of December each year and report submitted for presentation to the Parliament by the forthcoming plenary session. This has not been the case as the department was inundated with backlogs which are now being cleared with the help of technical assistance. The consolidated position for the government reports was given a clean audit opinion but at MDAs level, the situation was different.</p>
5.3 Management responses	<p>The response rate to issues raised in Audit reports is not satisfactory. A number of issues emerged in Internal Audit reports and subsequent audits indicated that no action had been taken of the items raised and actually commented to by management response. No sanctions have been applied to responsible officers of these MDAs</p>

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<sup>50</sup> SDI Procurement In-Service Training Manual.

### Annex 3: Sources of information

#### Annex 3A: List of Stakeholders Consulted

NAME	POSITION	DEPARTMENT/UNIT
<b>Ministry of Finance, Economic Planning and Development (MoFEPD) – Treasury Department</b>		
Ben Botolo	Secretary to the Treasury	
Peterson Ponderani	Budget Director	Budget Division
Lawrence Ngwalangwa	Assistant Budget Director	Budget Division
Precious Chimbamba	Assistant Budget Director	Budget Division
Chisomo Tsonga	Principal Budget Officer	Budget Division
MacDonald Mwale	Director-	Economic Affairs Division
Rodwell Mzonde	Deputy Director	Economic Affairs Division
Stanley Longwe	Chief Economist	Economic Affairs Division
Elsie Salima	Chief Economist	Economic Affairs Division
Twaib Ali	Deputy Director	Debt and Aid Management Division
Tiyamika Kanthambi	Assistant Director	Debt and Aid Management Division
Tithokoze Samuel	Assistant Director	Cash Management Unit
Gilbert Gundasi	Principal Internal Auditor	Central Internal Audit Unit
Atusaye Kayuni	Chief Internal Auditor	Central Internal Audit Unit
Harlord Kanthiti	Chief Internal Auditor	Central Internal Audit Unit
Kenneth Matupa	Director	Revenue Policy Division
Frank Kaphamtengo	Revenue Officer	Revenue Policy Division
Natasha Kandoje	Revenue Officer	Revenue Policy Division
Alick Wella	Principal Revenue Officer	Revenue Policy Division
John Mphoha	Principal Economist	Revenue Policy Division
Hetherwick Njati	Director	PFM Systems Division
Martha Chizimba	Deputy Director	PFM Systems Division
Daisi Kachingwe Phiri	Deputy Director	PFM Systems Division
Steve Chimanya	Chief Accountant	PFM Systems Division
James Mandambwe	Principal Accountant	PFM Systems Division
Godfrey Mangulenje	Procurement Specialist	PFM Systems Division
Peter Magasa	Accountant	PFM Systems Division
Temwani Kumwenda	Economist	PFM Systems Division
<b>Department of Finance, Economic Planning and Development (EPD)</b>		
Jollam Banda	Director	Public Sector Investment Program



Charles Mtonga	Chief Economist	Public Sector Investment Program
Chikondi Phiri	Economist	Public Sector Investment Program
Afiske Nsini	Economist	Public Sector Investment Program
Dandi Chinong'one	Economist	Public Sector Investment Program
Adwell Zembele	Deputy Director	Economic Planning Division
Chaona Sinalo	Economist	Economic Planning Division
Owen Makaka	Economist	Economic Planning Division
Sophie Kang'oma	Director	Monitoring & Evaluation Division
Victoria Geresomo	Deputy Director	Monitoring & Evaluation Division
Venancio Mzonda	Principal Economist	Monitoring & Evaluation Division
<b>Accountant General Department (AGD)</b>		
Chrighton Chimombo	Accountant General	
Steve Chimombo	Principal Accountant	
Sutene Mwakalagho	Principal Accountant	
Gertrude Masumbu	Deputy Director of Finance	
Alice Perekamoyo	Accountant	
Priscila Mambelera	Accountant	
Jeane Munyenyembe	Director	
Abel Mwambinga	Director	
Desmond Kadam'manja	Principal Accountant	
Chifuniro Mawaya	Accountant	
<b>Malawi Revenue Authority (MRA)</b>		
Roza Mbilizi	Deputy Commissioner General	
Felix Chome	Head ECORM	
Timothy Makamba	Director of Planning & Research	
Allans Nkhoma	Director Internal Audit	
Elton Msapato	Deputy Commissioner	
Sam Zuze	Director of Finance	
Max Mlomba	Director ICT	
Mofolo Chikaoneka	Chief Accountant	
<b>Public Procurement and Disposal of Assets (PPDA) Authority</b>		
Miriam Salika	Assistant Director	
Ndida Mukhito	Procurement Specialist	
<b>National Audit Office (NAO)</b>		
Thomas Makiwa	Deputy Auditor General	
Charles Maseya	Assistant Auditor General	

<b>Ministry of Transport and Public Works</b>		
Madalo Nyambose	Director - Planning	
Lloyd Banda	Deputy Director	Marine Department
Rudo C. Kayira	Deputy Director	
Solomon Chirambo	SE	
Diana Mkandawire	APO	Buildings Department
Rachel Mwepa	Assistant Procurement Officer	
H. Gondwe	PPO	
W.J. Jerenje	Accountant,	Buildings Department
J.K. Mhango	SDDMS,	Marine Department
T. Kananji	PAS/P	
Joel Kossam	Statistician	
Andrew Mthiko	Economist	
Ganizani Liwewe	Principal Economist	
Maggie Makweti	Chief Accountant	
Gerald Msowoya	Chief Internal Auditor	
John B.M. Phiri	Deputy Director	
Hastings K. Ngoma	Chief Economist	
Scholastica Chidyawonga	Director of Administration	
John Ndola	Chief Civil Engineer	
<b>Reserve Bank of Malawi</b>		
Dr. Grant Kabango	Deputy Governor	Economics & Regulation
Molly Stambuli	Director	Accounting and Finance
Kisu simwaka	Director	Research
Fredrick Thengeza	Manager	Banking
Gift Matabwa	Analyst	Banking
Boston Banda	Manager	Accounting and Finance
<b>Ministry of Health and Population</b>		
Gerald Manthalu	Deputy Director Planning	Planning & Budgeting
Sakshi Mohan	ODI Fellow	Planning & Budgeting
Jerome Kambauwa	Physical Assets Management	
Rabson Chomba	Chief Accountant	Finance
Austin Kumwenda	Head of Internal Audit	Internal Audit
<b>Ministry of Education Science and Technology</b>		

Precious Mtotha	Director of Finance	
Rodwell Mzonde	Director of Planning	
Rose Kaphaizi	Director of Human Resources	
Daniel Matimba	Deputy Director	
John Chizonga	Senior Economist	
Bryson Kagwamminga	Audit	
<b>National Local Government Finance Committee</b>		
Charles Mandala	Executive Director	
Steven Mchenga	Director of Finance	
Linda Kapanda	Finance Manager	
Patricia Banda	Senior Budget Analyst	
Syk. Mwamondwe	Chief Financial Management Analyst	
Erasmus Chikupita	IT officer	
<b>Malawi Economic Justice Network (MEJN)</b>		
Dalitso Kubalasa	Executive Director	
Kelvin Chirwa	Programme Manager	
<b>Malawi Chamber of Commerce and Industry (MCCI)</b>		
Mada Kazembe	Director of Business Information	
Marian Mkomba	Training Officer	
<b>Ministry of Lands, Housing and Urban Development</b>		
Jacob Mdumuka	Assistant Lands Officer	
<b>National Assembly</b>		
Collins Kajawa	Chairperson	Budget Committee
Alekeni W. Menyani	Chairperson	Public Accounts Committee
Fredrick Kamwani	Clerk	Public Accounts Committee
Lawson Chitseko	Clerk	Budget Committee
<b>Road Fund Administration</b>		
Alex Makhwatha	Director of Finance	
Francis Haiya	Director of Audit	
James Dzonzi	Chief Accountant	
Jacob Mtambalika	Accounts	
<b>Department of Human Resources Management &amp; Development (DHRMD)</b>		
B. Gondwe	Chief Systems Analyst	
Diverson Chonde	Principal Systems Analyst	

Eluby Chirwa	Senior Deputy Director	
<b>Blantyre City Council</b>		
Dr Alfred Chanza	Chief Executive Officer	
Richard Chakhala	Director of Finance	
Andrew Phiri	Procurement	
<b>Mulanje District Council</b>		
Charles Makanga	District Commissioner	
Martin Mbaya	Accountant	
<b>Development Partners</b>		
Greg Toulmin	Country Manager, Malawi	World Bank
Saidu Goje	Senior Financial Management Specialist	World Bank
Trust Chimaliro	Financial Management Specialist	World Bank
Jiwanka Wickramasinghe	Senior Financial Management Specialist	World Bank
Jack Joo Kyung Ree	Resident Representative Malawi	IMF
Paul Seeds	Fiscal Affairs Department	IMF
Yuen Chikado	Program Management Specialist	USAID
Alan Whitworth	Senior Economic Adviser	DFID/UK
Andrew Bowden		DFID/UK
Luis Navarro	Head of Cooperation	European Union
Janet Mortoo	Programme Manager	European Union
Rolf Drescher	TTL PFE II	GIZ, Germany
Bent Bakken	First Secretary	NORAD, Norway
Ishmael Munthali	Governance Adviser	Irish Aid

## Annex 3B: Sources of Information for each Indicator

Sources used for chapters 2, 4 and 5 and in annexes 2, 6 and 7 are referred to in footnotes in the respective sections

Indicators	Source of Information
PI-1 Aggregate expenditure outturn	(a) 2016-17 Draft Financial Statement, Table 1 (b) 2017-18 Approved Financial Statement, Table 1 (c) 2018-19 Draft Financial Statement, Table 1 (d) Draft Consolidated Annual Appropriation Account For The Year Ended 30 June 2015
PI-2 Expenditure composition outturn	(a) Draft Consolidated Annual Appropriation Account For The Year Ended 30 June 2015 (b) Table 5: Recurrent and Development Expenditure as at 30 June 2016 (c) Table 5: Recurrent and Development Expenditure as at 31 June 2017 (d) Annual Economic Report 2015, 2016, 2017, 2018
PI-3 Revenue outturn	(a) .Draft Financial Statement 2015-16 (Table 1); (b) Draft Financial Statement 2016-17 (Table 1 and Annex 9) (c) Approved Financial Statement 2017-18 (Table 1 and Annex 9) (d) Draft Financial Statement 2018-19 (Table 1 and Annex 9) (e) MRA Revenue Performance Reports for June 2015, June 2016 and June 2017
PI-4 Budget classification	(a) <a href="https://www.finance.gov.mw/">https://www.finance.gov.mw/</a> (b) 2017/18 Budget Review Statements (c) Consultations with Budget Department (d) Chart of Accounts – Accountant General Department (e) GoM – New Chart of Accounts Approved by Client
PI-5 Budget documentation	(a) 2018/19 Budget Statement, delivered in the National Assembly by the Minister of Finance on 18 May 2018, (b) Annual Economic Report 2018 (c) Draft Financial Statement 2018/19, (d) Draft Estimates of Expenditure on Recurrent and Capital Budget for the Financial Year 2018/2019 (e) Program Based Budget 2018/19 in two volumes (f) Economic and Fiscal Policy Statement, April 2018.
PI-6 Central government operations outside financial reports	(a) MoFEPD: Annual Economic Reports 2018 and 2017. (b) MoFEPD: Financial Statements 2018/19 (draft) and 2017/18 (approved) (c) PMPB reports 2018/19 (d) Data on selected EBUs provided by PFMSD/PERMU. (e) DAD: Malawi Development Cooperation Atlas 2012/13FY, 2013/14FY, and 2014/15FY (f) RPD: Revenue and Expenditure Projections for Treasury Funds (g) Interviews with RPD, DAD, PERMU, PFMSD, RFA, MRA, RBM
PI-7 Transfers to subnational governments	(a) Report on Consultative Meetings with Sectors on Updating Inter-Governmental Fiscal Transfer Formula – May 2016 (b) NLGFC: 2017/2018 Consolidated Third Quarter Financial Report (c) Interviews with NLGFC, Blantyre City Council, Mulanje District Council (d) Local Government Act 1998. (e) Guidelines For The Preparation Of The 2018/19 Budget
PI-8 Performance information for service delivery	(a) Program Based Budget 2018/19 in two volumes (b) Performance audit reports at <a href="http://www.nao.gov.mw">www.nao.gov.mw</a> (c) Examples of itemized expenditure reports from MoHP

Indicators	Source of Information
	(d) GoM, Health Sector Resource Mapping FY 2017/18 – FY 2019/20 (e) Interviews with MoHP, MoTPW, RFA, EP&D M&E Division
PI-9 Public access to fiscal information	(a) <a href="http://www.finance.gov.mw">www.finance.gov.mw</a> (b) <a href="http://www.nao.gov.mw">www.nao.gov.mw</a> (c) 2018/19 Fiscal Year Budget In Summary (d) Open Budget Survey 2017, Malawi summary and detailed report (e) Interview with MEJN
PI-10 Fiscal risk reporting	(h) Annual Economic Reports 2018 and 2017. (i) Financial Statements 2018/19 (draft) and 2017/18 (approved) (j) 2016/17 Public Debt Report (k) Websites of public corporations (l) PMPB reports 2018/19 (m) Data on selected PCs and EBUs provided by PFMSD/PERMU (n) IMF, East AfriTAC: Aide-Mémoire, MALAWI Strengthening Oversight of Statutory Bodies, June 2018 (o) Local Government Act of 1998 (p) PFM Act 2003 (q) Report Of The Auditor General On The Accounts Of The City And District Councils For The Years Ended 30th June, 2015 and 2016 (r) NLGFC: Final Accounts Status For Local Authorities As At 30/06/2018 (s) NLGFC: 2017/2018 Consolidated Third Quarter Financial Report (a) Malawi Public Private Partnership Policy Framework, Approved by Cabinet on 18 May 2011 (b) PPPC website (c) Interviews with PERMU, NLGFC, Blantyre City Council, Mulanje District Council, MoTPW
PI-11 Public investment management	(a) Budget Books for 2017/18, 2018/19 (b) Public Sector Investment Program (PSIP) Preparation Guidelines (August 2016) (c) PSIP Process Management and Appraisal Manual (d) Malawi National Transport Master Plan – Final Report (December 2017) (e) Malawi Technical Assistance Report – Public Investment Management Assessment (PIMA), IMF Country Report No. 18/259 (August 2018) (f) Public Sector Investment Program (PSIP) Preparation Handbook – August 2018 (g) PSIP Project Summary report – 2017/18 (h) <a href="https://psip.malawi.gov.mw/index.php">https://psip.malawi.gov.mw/index.php</a> (i) Mid-year Review Report on Development Projects under Public Sector Investments Program (PSIP) – February 2013 (j) Monitoring Report For Development Projects Under The Special Cabinet Committee On Projects, EP&D/PSIP June 2018 (k) Consultations with MoHP and MoTPW (l) Consultations with EP&D (PSIP Unit), MoFEPD
PI-12 Public asset management	(a) Consultations with the AGD and MoTPW (b) Asset records at Lands Registry (Ministry of Lands) (c) Malawi SOE Financial Oversight tool (June 2018)

Indicators	Source of Information
PI-13 Debt management	<ul style="list-style-type: none"> <li>(a) 2016/17 Annual Debt Report –September 2017</li> <li>(b) Annual Debt Report - 2013/14</li> <li>(c) Domestic Borrowing Research Write-up April 2018 (Policy Research Planning, Monitoring and Evaluation Section (EAD))</li> <li>(d) Medium Term Debt Strategy – May 2013</li> <li>(e) Medium Term Debt Management Strategy 2017-2020</li> <li>(f) Public Debt Position – December 2017 (power point presentation)</li> <li>(g) Consultation with DAD</li> <li>(h) Public Finance Management Act of 2003</li> <li>(i) <a href="https://www.finance.gov.mw/">https://www.finance.gov.mw/</a></li> </ul>
PI-14 Macroeconomic and fiscal forecasting	<ul style="list-style-type: none"> <li>(a) AER May 2018</li> <li>(b) EFPS April 2018</li> <li>(c) Financial Statements for 2016/17, 2017/18 and 2018/19</li> <li>(d) Interviews with EAD, EP&amp;D, RBM, MCCI, MEJN</li> </ul>
PI-15 Fiscal strategy	<ul style="list-style-type: none"> <li>(a) RPD: Proposed Tax and Non-Tax Measures for the 2018-2019 Fiscal Year.</li> <li>(b) IMF: Malawi, Ninth Review Under The Extended Credit Facility Arrangement, July 2017</li> <li>(c) IMF/FAD: Malawi PIMA report, June 2018</li> <li>(d) Interviews with RPD and EAD</li> </ul>
PI-16 Medium-term perspective in expenditure budgeting	<ul style="list-style-type: none"> <li>(a) Draft Financial Statement for 2018/19 and 2017/18.</li> <li>(b) Other budget documents for the same two years</li> <li>(c) MoFEPD ceiling letters to MoHP and Department of Asset Declaration of 16 February and 20 April 2018</li> <li>(d) National Agricultural Investment Plan 2017/18-2022/23</li> <li>(e) Health Sector Strategic Plan II 2017-2022</li> <li>(f) Ministry of Transport and Public Works Strategic Plan 2013 – 2018</li> <li>(g) MGDS III November 2017</li> <li>(h) IMF: Ninth ECF Review, July 2017</li> <li>(i) Interviews with ST, BD, EAD, MoHP and MoTPW</li> </ul>
PI-17 Budget preparation process	<ul style="list-style-type: none"> <li>(a) Budget Division: Generic Budget Calendar</li> <li>(b) Budget Preparation Guidelines for the budget year 2018/19.</li> <li>(c) Budget Statements for 2018/19, 2017/18, 2016/17 and 2015/16</li> <li>(d) Indicative ceilings letters to MoHP and Office of Asset Declaration (February 2018)</li> <li>(e) Final ceilings letters from MoFEPD to MoHP and Office of Asset Declaration (April 2018)</li> <li>(f) Interviews with ST, BD, MEJN, MoHP, MoTPW.</li> </ul>
PI-18 Legislative scrutiny of budgets	<ul style="list-style-type: none"> <li>(a) National Assembly: List of approval dates for Appropriations Bills.</li> <li>(b) Interview of MEJN, BFC and PAC.</li> <li>(c) PFM Act 2003</li> <li>(d) MoFEPD: 2017/18 Mid-Year Budget Review</li> <li>(e) Schedule to 2017/18 Revised Appropriations Bill (February 2018)</li> </ul>
PI-19 Revenue administration	<ul style="list-style-type: none"> <li>(a) Domestic Revenue Collection Report 2017/18 (MoFEPD)</li> <li>(b) Proposed Tax Measures 2018/19 Fiscal Year (MoFEPD).</li> <li>(c) Customs and Excise Act Chapter 42:01 (Malawi)</li> <li>(d) Gazette Notice Number 36 of 2017</li> <li>(e) Malawi Revenue Authority Act (Chapter 39:07)</li> <li>(f) Malawi Gazette -25 June 2015</li> </ul>

Indicators	Source of Information
	(g) Revenue Arrears Performance Report 2015-2018 (Malawi Revenue Authority (MRA)). (h) Structure of the Commissioner General's Office -MRA (Malawi) (i) VAT Act Regulations Government Notice No.13 of 2016 (j) <a href="http://mra.mw/">http://mra.mw/</a> (k) Consultation with AGD, MRA and RBM
PI-20 Accounting for revenues	(a) <a href="http://www.mra.mw/">www.mra.mw/</a> (b) Consultation with AGD, MRA and RBM
PI-21 Predictability of in-year resource allocation	(a) Cash Management Manual (August 2017) (b) Consultation with Cash Management Unit (MoEFPD), MoEST, RBM
PI-22 Expenditure arrears	(a) Consolidated Report on the Verification of Arrears for the Five Years' period to 31 <sup>st</sup> December 2017 (b) Interviews with the Acting Auditor General; Budget Division of MoEFPD; Ministry of Education, Science & Technology
PI-23 Payroll controls	(a) Head Count Review and Feedback Report by NAO (b) Interviews with DHMRD; MoEST; Acting Auditor General
PI-24 Procurement management	(a) Methodology for Assessing Procurement Systems (MAPS) Report (b) Public Procurement and Disposal of Public Assets Act 2017 (c) Public Procurement Act 2003 (d) Thresholds 2017/18 Tables Only (e) Report on Procurement Post Review of LDF Procurements in Twenty Four District, Town, Municipal and City Councils FY2015/16 (f) Selected contracts and publications on <a href="http://www.odpp.mw">www.odpp.mw</a> (g) Interviews with PPDA (ODPP); Acting Auditor General
PI-25 Internal controls on non-salary expenditure	(a) Auditor General's report for the year ended 30 <sup>th</sup> June 2017 (b) PFMA 2003 (c) Interviews with ST, Acting Auditor General, AGD, MoTPW, CIAU
PI-26 Internal audit	(a) Internal Audit Service Annual Report (b) Internal Audit Service Charter (c) Internal Audit Service Strategic Plan (d) Internal Audit Manual (e) Report on Follow-Up of Outstanding Findings in Ministries as at 1 <sup>st</sup> December 2017 (f) Audit Committees Current Status Assessment – Draft) (g) Interviews with ST, CIAU, MoH (Internal Audit Unit), MoEST (Internal Audit Unit), MoTPW (Internal Audit Unit) (h) CIAU: Performance on Planned Assurance Audit Assignments and Staffing Levels 2017/18
PI-27 Financial data integrity	(a) Advances Report – June 2018 (MoTPW) (b) Advances Report – June 2018 (MoEST) (c) Bank Reconciliation Statement (Dev) – April 2018 (MoEST) (d) Bank Reconciliation Statement (ORT) – May 2018 (MoEST) (e) IFMIS Status Report (Malawi), AGD (MoEFPD) (f) SAP Audit Report MRA (November 2017) (g) Ways and means (GoM Bank Accounts Listing) MoEFPD February 2018 (h) Consultations with MRA and AGD
PI-28 In-year budget reports	(a) The 2017/18 Budget Review (GoM)- MoEFPD February 2018 (b) 2017/18 Budget Performance Quarterly Report (Q1) October 2017 (c) 2017/18 Budget Performance Quarterly Report (Q2) November 2017 (d) 2017/18 Consolidated Commitment for the month of April 2018



Indicators	Source of Information
	<ul style="list-style-type: none"> <li>(e) Financial Statement Discussion and Analysis for the Quarter ended 31 December 2018</li> <li>(f) Report on Financial Transactions Report from the MDAs for the month of March 2017 (April 2017).</li> <li>(g) Monthly Vote Wise Expenditure – January 2018 (MoFEPD)</li> <li>(h) Quarterly Report First Quarter 2017/18 (MoFEPD).</li> <li>(i) Quarterly Report – Second Quarter 2017/18 (MoFEPD)</li> <li>(j) Consultations with AGD</li> </ul>
PI-29 Annual financial reports	<ul style="list-style-type: none"> <li>(a) Public Finance Management Act of 2003</li> <li>(b) Constitution of Malawi</li> <li>(c) Approved Financial Statements 2016/17 (GoM)</li> <li>(d) MRA Annual Financial Statements 2016/17</li> <li>(e) Submission of Reports for Audit 2016/17 Accounts –MRA</li> <li>(f) Submission of Accounts to Audit 2016/17 (AGD and Secretary to the Treasury) October 2017</li> <li>(g) Chart of Accounts</li> <li>(h) Consultations with AGD</li> </ul>
PI-30 External audit	<ul style="list-style-type: none"> <li>(a) Auditor General’s Reports at <a href="http://www.nao.gov.mw">www.nao.gov.mw</a></li> <li>(b) Public Audit Act 2003</li> <li>(c) Public Audit (Amendment) Act 2018</li> <li>(d) NAO Strategic Plan 2015-2019</li> <li>(e) NAO IT Strategy</li> <li>(f) NAO Training Strategy</li> <li>(g) NAO Regularity Audit Manual</li> <li>(h) Interviews with ST, Acting Auditor General, PAC</li> </ul>
PI-31 Legislative scrutiny of audit reports	<ul style="list-style-type: none"> <li>(a) Auditor General’s Reports at <a href="http://www.nao.gov.mw">www.nao.gov.mw</a></li> <li>(b) Dates of receipt of Consolidated Annual Appropriation Accounts FY2015, 2016 &amp; 2017</li> <li>(c) Interviews with Acting Auditor General; PAC</li> </ul>

#### Annex 4. Comparison of 2011 and 2018 Assessments - Based on the 2011 PEFA Framework

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
<b>A. PFM-OUTTURNS: Credibility of the Budget</b>				
<b>PI-1 Aggregate expenditure outturn compared to original approved budget</b>	<b>B</b>	<b>B</b>	Excluding donor financed development expenditure (Part I), deviations from the original approved budget were 3.2%, 6.8% and 11.3% in 2014/15, 2015/16 and 2016/17 respectively; i.e. in no more than one of the last 3 years did the deviation exceed 10%.	<b>No change.</b>
<b>PI-2 Composition of expenditure outturn compared to original approved budget</b>	<b>C+</b>	<b>D+</b>	<b>Dimensions combined by Method M1</b>	<b>Deterioration. Compositional variance of primary expenditure has significantly increased.</b>
(i) Extent of the variance in expenditure composition during the last 3 years, excluding contingency items.	<b>C</b>	<b>D</b>	Variance in primary expenditure composition by administrative classification (excluding Development Part 1) was 22.4% in 2014/15, 22.6% in 2015/16 and 39.3% in 2016/17 i.e. exceeded 15% in all of the last three years.	Deterioration. Compositional variance has increased significantly.
(ii) The average amount of expenditure actually charged to the contingency vote over the last 3 years.	<b>A</b>	<b>A</b>	Expenditure charged to the contingency vote (vote 278 Unforeseen) was 0.2-0.3% in each of the last three years (reported as close to nil in the 2011 assessment).	No significant change.
<b>PI-3 Aggregate revenue outturn compared to original approved budget revenue outturn</b>	<b>D</b>	<b>B</b>	Outturns on total domestic revenue collection were 98.5 in 2014/15; 95.3% in 2015/16 and 107.0% in 2016/17 (and 95.4% in 2017/18); i.e. between 94% and 112% in all of the last	<b>Improvement. Between 2007/08 and 2009/10 deviations from budget were much</b>

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.			three completed fiscal years (irrespective of whether 2017/18 or 2014/15 is included).	<b>higher at 11-21% above budget.</b>
<b>PI-4 Stock and monitoring of expenditure payment arrears</b>	<b>NR</b>	<b>NR</b>	<b>Dimensions combined by Method M1</b>	<b>No change</b>
(i) The stock of expenditure payment arrears (as a percentage of the actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	NR	NR	Data on expenditure arrears during and as at end of fiscal year 2017/18 was not available. The latest data for arrears to suppliers of goods and services is from June 2017, at 10.4% of total expenditure for 2016/17. To this should be added some (probably minor) amounts of arrears on pensions and PE.	No change evidenced. Reliable data for the end of last completed fiscal year is not available.
(ii) Availability of data for monitoring of the stock of expenditure payment arrears.	D	D	No comprehensive and reliable system for recording and monitoring expenditure arrears is in place.	No change
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>				
<b>PI-5 Classification of the budget</b> (i) The classification system used to formulate, execute, and inform about the central government budget.	<b>A</b>	<b>A</b>	Comprehensive budget classification by vote, expenditure type, cost centre, program and sub-program. Consistent with GFS standards (GFS 2001)	<b>No change</b>

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
<p><b>PI-6 Comprehensiveness of information included in budget documentation</b></p> <p>(i) Number of the nine information benchmarks listed below that are included in the budget documentation most recently issued by the central government</p>	A	B	<p>The budget documents fulfil six of the nine criteria, namely nos. 1, 2, 3, 4, 7 and 8, but not nos. 5, 6 and 9.</p>	<p>Deterioration as the previous year's budget outturn data (i.e. for 2016/17) is no longer presented in the same format as the proposed budget estimates (for 2018/19).</p>
<p><b>PI-7 Extent of unreported government operations</b></p>	NR	NR	<p>Dimensions combined by Method M2</p>	<p>Improvement, but not enough to change the score.</p> <p>Reporting has improved on both Treasury/Trust Funds and donor-funded projects.</p>
<p>(i) Level of extra-budgetary expenditure (other than donor-funded projects), which is unreported, that is not included in fiscal reports.</p>	B	NR	<p>No extra-budgetary expenditure (other than off-budget donor funded expenditure) was identified as unreported. EBU expenditure amounts to 14% of total CG expenditure and practically all EBUs submit financial reports, though often with up to 12 months' delay. It is not clear, however, to what extent EBUs implement projects that are not covered by their financial reports.</p>	<p>Improvement in that Treasury and Trust Funds are regularly reported and included in PBB as from 2018/19. The 2011 assessment ignored expenditure by EBUs.</p>
<p>(ii) Income and expenditure information on donor-funded projects that is included in fiscal reports.</p>	NR	NR	<p>All loan funded donor projects are included under Development Expenditure Part 1 in the budget estimates. Corresponding actuals are included in the annual AER report..</p>	<p>Improvement, but not enough to change the score.</p>

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
			A substantial number of grant funded donor projects are listed in annex to Financial Statement with budget estimates, but the list appears significantly incomplete when compared to information on DP operations from some major sectors, and reporting on actual expenditure on those projects(through the AMP) is incomplete, unreliable and with long delays. Consequently the share of grant funded project expenditure that is off-budget could not be estimated.	More information on donor-funded projects is now available.
<b>PI-8 Transparency of intergovernmental fiscal relations.</b>	<b>B+</b>	<b>C+</b>	<b>Dimensions combined by Method M2</b>	<b>Deterioration. Allocation formulas for some sectors not yet done and submission of councils' annual accounts less timely</b>
(i) Transparent and rules based system in the horizontal allocations among lower level governments of unconditional and conditional transfers from higher level government (both budgeted and actual allocations)	A	B	The horizontal allocation of transfers to local councils from central government is determined by rules based formulas approved by Parliament for 62% of total cash transfers.	Deterioration. The coverage of transparent and rules based allocation formulas have decreased.

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(ii) Timeliness and reliable information to lower level governments on their allocations from higher level government for the coming year.	C	C	Information on annual transfers to local councils is issued before the start of the local councils' fiscal year, which could be after budget plans are decided.	No change
iii. Extend to which unconsolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	A	C	NLGFC consolidates financial information from local councils into reports, but the reports are incomplete due to late submission by some or non- submission by other councils. Final accounts of 13 councils for 2015/16 and 2016/17 were still outstanding at end of June 2018 i.e. about 35% of councils' total expenditure. They are not consolidated with central government information.	Deterioration. Compliance with submission of annual accounts by councils has apparently declined.
<b>PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions.</b>	C+	C	<b>Dimensions combined by Method M2</b>	<b>Deterioration. Timeliness and completeness of financial monitoring of EBUs and public corporations may have deteriorated.</b>
(i) Extent of government monitoring Autonomous Government Agencies and Public Enterprises.	B	C	Practically all EBUs and public corporations submit annual financial reports to their parent ministries, but often with substantial delays; subsequently the reports are received by MoFEPD which consolidates information for about half of the entities (by turnover) in an analysis in the AER.	Deterioration. Timeliness of report submissions and completeness of the consolidated overview prepared by MoFEPD appear to have decreased.

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(ii) Extent of government monitoring SN (urban and rural local bodies) governments' fiscal positions.	C	C	NLGFC monitors the fiscal position of local councils on a quarterly basis and the Auditor General issues an audit report on the annual accounts of local councils. However, NLGFC's consolidated reports on the fiscal position of the councils are substantially incomplete due to long delays in submissions from many of the councils.	No apparent change.
<b>PI-10 Public access to key fiscal information</b> (i) Number of the six elements listed with public access.	C	C	The government makes available to the public two of the six listed types of key fiscal information, namely annual budget documentation and the external audit report on the consolidated government operations.	<b>No significant change. Two elements fulfilled in both years. Improvement on external audit report whilst publishing in-year budget execution reports has deteriorated.</b>
<b>C. BUDGET CYCLE</b>				
<b>C(i) Policy-Based Budgeting</b>				
<b>PI-11. Orderliness and participation in the annual budget process</b>	<b>B</b>	B+	<b>Dimensions combined by Method M2</b>	<b>Improvement; in timeliness of budget approval.</b>
(i) Existence of and adherence to a fixed budget calendar	C	C	A clear and comprehensive budget calendar exists, but is implemented with substantial delays and allows MDAs only about three weeks to completed their proposals after issue of the ceilings.	No change. The calendar is still implemented with substantial delays and gives MDAs insufficient time.

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(ii) Clarity/ comprehensiveness of and political involvement in the guidance on the preparation of budget submissions	A	A	Comprehensive Budget Preparation Guidelines are circulated to all MDAs followed by two sets of individual letters initial and final ceilings respectively, as approved by the Minister for Finance after discussions in Cabinet.	No change. However, there are now two stages of issuing ceilings letters.
(iv) Timely budget approval by the legislature or similar mandated body	C	A	The National Assembly has approved the budget and passed the Appropriations Bill before the start of the fiscal year in each of last three years.	Improvement. The National Assembly is now consistently able to pass the Appropriations Bill before the start of the fiscal year.
<b>PI-12 Multiyear perspective in fiscal planning, expenditure policy, and budgeting</b>	<b>C+</b>	<b>C+</b>	<b>Dimensions combined by Method M2</b>	<b>Improvement in DSA preparation and linking funded projects to sector plans.</b>
(i) Preparation of multiyear fiscal forecasts and functional allocations.	C	C	Forecasts of fiscal aggregates are prepared on a rolling basis for the budget year and two outer years with breakdown by the main categories of administrative, economic and program classification. However, the links between outer year projections and ceilings set for the subsequent budget year are not clear and changes are not explained.	No change. Linking one year's MTEF estimates to the subsequent year's budget ceilings and MTEF update remains weak.
(ii) Scope and frequency of DSA.	A	A	DSA for external debt has been undertaken and updated annually by the government and is presented in the Annual Debt Report as well as in the Financial Statement. In addition IMF staff is undertaking a separate analysis of both external and domestic debt as part of	Improvement. Government is now undertaking partial DSA itself.



<b>Indicators/Dimension</b>	<b>2011 Score Using 2011 PEFA Framework (Previous Assessment)</b>	<b>2018 Score Using 2011 PEFA Framework (Current Assessment)</b>	<b>Explanation of Score in the Current Assessment</b>	<b>Explanation of Change</b>
			ECF monitoring, the findings of which are adopted by the Government.	
(iii) Existence of sector strategies with multiyear costing of recurrent and investment expenditure.	C	C	Sector strategies have been prepared for all sectors covered by MGDS III and are generally costed, but they are aspirational as they do not reflect the financial realities of the government.	No change
(iv) Linkages between investment budgets and forward expenditure estimates.	D	C	Before inclusion into the budgets, projects are supposed to fit into the MGDS III and linked to sector plans. For major investment projects total costs of the projects are computed and known especially those funded by external funders and donors.	Improvement.
<b>C(ii) Predictability and Control in Budget Execution</b>				
<b>PI-13 Transparency of taxpayer obligations and liabilities</b>	<b>B</b>	<b>A</b>	<b>Dimensions combined by Method M2</b>	<b>Improvement.</b>
(i) Clarity and comprehensiveness of tax liabilities	C	A	Tax legislation is comprehensive and clear and is freely available for users online and supplemented by print and broadcast media. No concerns regarding discretionary powers of tax officers were raised.	Improved.
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	B	A	A concise and comprehensive charter covering taxpayer rights and obligation is available freely online to user. Taxpayer education meetings. Online information is readily available with examples on how taxpayers can compile respective tax liabilities.	Improved

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(iii) Existence and functioning of a tax appeals mechanism.	B	B	A tax appeals mechanism is in existence which includes 3 tiers from the local tax office, through an Appeals Committee at MRA Hq to the Tax Division of the High Court. There are issues concerning its effectiveness and efficiency.	No change
<b>PI-14 Effectiveness of measures for taxpayer registration and tax assessment</b>	<b>D+</b>	<b>B</b>	<b>Dimensions combined by Method M2</b>	<b>Improvement</b>
(i) Controls in the taxpayer registration system.	C	B	Customs and excise division is now automated and there are concerted efforts to automate the domestic taxes.	Improved due to system development
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	C	B	Penalty collections improved following the automation of tax payments and removal of cheques as a mode of payment except the bank certified cheques.	Improved
(iii) Planning and monitoring of tax audit programs	D	C	The majority of planned audits and investigations are completed during the year using documented compliance control procedures.	Improved
<b>PI-15 Effectiveness in collection of tax payments</b>	<b>NR</b>	<b>NR</b>	<b>Dimensions combined by Method M1</b>	<b>Change cannot be established due to lack of arrears data, though revenue transfers and reconciliation frequency improved.</b>

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(i) Collection ratio for gross tax arrears.	NR	NR	The stock of revenue arrears as at 30 June 2017/18 was significant at 12% of the total revenue collection. Two thirds of those arrears had been outstanding for more than a year. Arrears collection ratio for the previous year could not be calculated.	Stock of tax arrears increased from 4% in 2009/10 to 12% in 2017/18. Data is insufficient to calculate average arrears collection ratio for two years.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	B	A	All tax revenue collections are made by MRA and transferred daily into Treasury Accounts.	Improvement, reduced delay in transfer from taxpayer to Treasury account.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury.	C	A	Complete reconciliation of assessment is done for assessments, collections, arrears and transfers to Treasury by MRA on a monthly basis and quarterly reports are also prepared.	Improvement in frequency and timeliness of reconciliations
<b>PI-16 Predictability in the availability of funds for commitment of expenditures</b>	<b>B</b>	<b>C+</b>	<b>Dimensions combined by Method M1</b>	<b>Deterioration in information available for commitment planning</b>
(i) Extent to which cash flows are forecast and monitored.	B	A	A comprehensive cash flow forecast is produced for the fiscal year and updated monthly on the basis of actual revenue collections and take into consideration expenditure commitments and actual payments.	Improvement. More frequent updating of forecasts
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	B	C	Reliable information on funds available for commitment is not provided to budgetary units.	Decline in performance due to cash rationing which has been implemented to

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
				accommodate the size of the resource envelope.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MPSAs.	B	B	Significant in-year budget adjustments to allocations took place in 2018 and were fairly transparent.	No change.
<b>PI-17 Recording and managing cash balances, debt and guarantees.</b>	<b>B+</b>	<b>C</b>	<b>Dimensions combined by Method M2</b>	<b>Minor deterioration in debt reporting</b>
(i) Quality of debt data recording and reporting	A	B	Domestic and foreign debt records and guarantees are complete, accurate and updated at least quarterly. Comprehensive management and statistical reports are produced at least annually and presented to the Parliament.	Decline in performance. After 2011 the debt management system experienced a crash and the records had to be reconstructed using information from RBM systems. This also affected the overall position on record keeping.
(ii) Extent of consolidation of the government's cash balances	A	D	All cash balances are consolidated by AGD on an <i>annual</i> basis and information is included in the financial reports.	No change apparent. 2011 report assessed performance of RBM; not systems at AGD/MoF.
(iii) System for contracting loans and issuance of guarantees.	C	C	The Constitution of Malawi and the PFMA authorizes only the Minister for Finance to contract debt and guarantees on behalf of the government subject to the approval of	No change

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
			Parliament. Issue of guarantees is not governed by any ceilings in law or emanating from DSA.	
<b>PI-18 Effectiveness of payroll controls</b>	<b>B+</b>	<b>C+</b>	<b>Dimensions combined by Method M1</b>	<b>Change cannot be established due to lack of detail in the 2011 assessment</b>
(i) Degree of integration and reconciliation between personnel records and payroll data.	A	C	Approved staff list, personnel database, and payroll are directly linked, but there is a major backlog in monthly reconciliation. Appointments and promotions are controlled against approved staff establishment	Change cannot be established due to lack of detail in the 2011 assessment
(ii) Timeliness of changes to personnel records and the payroll	B	A	Payroll data is updated monthly and concluded by 5 <sup>th</sup> of the month to facilitate payroll processing by Treasury at the end of the month. Retroactive adjustments are rare.	Improvement. Government undertook payroll audit and tightened internal controls over payroll processing.
(iii) Internal controls of changes to personnel records and the payroll	A	C	Changes to the payroll and HRMIS database are well documented. Segregation of roles and responsibilities together with system access rights supported by strong password protection are well defined and provide audit trails within both HRMIS and IFMIS, but data integrity is at risk due to manual data transfers between the two systems and a backlog in reconciliation.	Change cannot be established due to lack of detail in the 2011 assessment
(iv) Existence of payroll audits to identify control	B	B	A payroll audit covering 99.5% of all central government entities (weighted by amounts of	No change

<b>Indicators/Dimension</b>	<b>2011 Score Using 2011 PEFA Framework (Previous Assessment)</b>	<b>2018 Score Using 2011 PEFA Framework (Current Assessment)</b>	<b>Explanation of Score in the Current Assessment</b>	<b>Explanation of Change</b>
weaknesses and/or ghost workers			personal emoluments) has been completed in stages within the last three years	
<b>PI-19. Competition, value for money, and controls in procurement</b>	<b>C</b>	<b>C+</b>	<b>Dimensions combined by Method M2</b>	Improvement in content of the legal framework.
(i) Transparency, comprehensiveness, and competition in the legal and regulatory framework.	B	A	Legal framework meets all six of the listed requirements	Improving
(ii) Use of competitive procurement methods.	D	D	Reliable data is not available on which to judge the extent to which various procurement methods are used for award of contracts	No change
(iii) Public access to complete, reliable and timely procurement information.	D	D	Key procurement information is not made available to the public. The government does not have a functional system to generate substantial and reliable coverage of key procurement information and does not systematically make key procurement information available to the public.	No change
(iv) Existence of an independent administrative procurement complaints system.	B	B	The procurement complaint system meets criterion (i), (ii) and three of the other five	No change
<b>PI-20. Effectiveness of internal controls for non-salary expenditure</b>	<b>C+</b>	<b>D+</b>	<b>Dimensions combined by Method M1</b>	<b>Deterioration in systems for commitment control and compliance with</b>

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
				<b>internal control procedures.</b>
(i) Effectiveness of expenditure commitment controls.	B	C	Expenditure commitment control procedures exist which provide partial coverage and are partially effective. The IFMIS based expenditure commitment control system relates to ORT only and limits the commitment control mechanism to in-year commitments. Multi-year commitments are done outside IFMIS using manual ledgers which are not well maintained and up to date	Deterioration.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	C	Basic set of rules for processing and recording transactions exist	Deterioration
(iii) Degree of compliance with rules for processing and recording transactions.	C	D	Core set of rules are not complied with as reported in the internal and external audit reports	Deterioration. Degree of non-compliance has worsened as reported in the Auditor General's Reports. Laxity by Controlling officers in complying with rules and regulations.
<b>PI-21. Effectiveness of internal audit</b>	<b>D+</b>	<b>D+</b>	<b>Dimensions combined by Method M1</b>	<b>Minor improvement in IA reporting</b>
(i) Coverage and quality of the internal audit function.	C	D	Internal audit is weak as internal audit units in most central government entities, including most EBUs, are constrained by high vacancy rates, low funding and absence of audit	No apparent change. 2011 may have been rated on the design rather than the

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
			committees. Audits are mostly focused on compliance.	actual operation of the service.
(ii) Frequency and distribution of reports.	C	B	Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.	Improving
(iii) Extent of management response to internal audit findings.	D	D	Response to internal audit recommendations is weak as evidenced by recurring findings.	No change
<b>C(iii) Accounting, Recording, and Reporting</b>				
<b>PI-22. Timeliness and regularity of accounts reconciliation</b>	<b>D</b>	<b>D+</b>	<b>Dimensions combined by Method M2</b>	<b>Improvement on advance account reconciliation and bank account reconciliation at AGD level.</b>
(i) Regularity of bank reconciliations	D	D	Bank accounts for key treasury accounts are reconciled on a quarterly basis, whereas in some line Ministries this is not consistently done even on a quarterly basis. A number of outstanding items still appearing as reconciling items yet these are unprocessed transactions for MDAs.	Improvements on reconciliation at the level of AGD, but still many remaining reconciliation problems as concerns MDAs' accounts, so not enough to change the score.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	D	C	No suspense accounts are utilised, instead there is a tendency to ignore their use and leave outstanding items within other bank reconciliation statements for quite a long time. Unprocessed bank credits and bank debits on Bank statements are left unattended to for a long period of time.	Improvement on advance accounts reconciliation. No change on suspense accounts.



Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
<p><b>PI-23 Availability of information received by service delivery units.</b></p> <p>(i) Collection and processing of information to demonstrate the resources that were actually received by most common frontline service delivery units.</p>	D	D	The chart of accounts now includes cost centres and IFMIS produces reports on expenditure by cost centre, but the data excludes the very substantial off-budget resources provided in the major sectors such as health, education and transport infrastructure, and IFMIS data on schools and health centres under local government is still scanty.	<b>Some improvement, but not enough to change the score.</b>
<p><b>PI-24. Quality and timeliness of in-year budget reports</b></p>	C+	C+	<b>Dimensions combined by Method M1</b>	<b>No change overall.</b>
(i) Scope of reports with regard to coverage and compatibility with budget estimates	C	B	Quarterly budget execution reports allow comparison to the original budget with some aggregation. Expenditure reflects the payment and commitment stage, though in separate reports.	No change evidenced. The previous assessment scored on the basis of less comprehensive the monthly reports
(ii) Timeliness of the issue of reports	A	B	Quarterly in year-budget execution reports are issued internally within a period of approx. eight weeks.	No change evidenced. The previous assessment scored on the basis of the more timely monthly reports.
(iii) Quality of information	B	C	Due to issues with bank reconciliations and complete capture of donor funded projects (Part II), there are some concerns over data quality, but overall the reports are considered useful for monitoring purposes.	No change evidenced. Previous assessment appears to have been too optimistic.
<p><b>PI-25. Quality and timeliness of annual financial statements</b></p>	C+	C+	<b>Dimensions combined by Method M1</b>	No change

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
(i) Completeness of the financial statements	C	C	Financial reports are prepared on an annual basis. They cover items of income, expenditure and cash balances and limited information on other financial assets and liabilities.	No change
(ii) Timeliness of submission of the financial statements	A	A	The financial reports for FY2016/17 were submitted for external audit four months after the end of the fiscal year.	No change.
(iii) Accounting standards used	C	C	The accounting standards used in preparing the financial reports are disclosed and ensure a consistent format from year to year.	No change.
<b>C(iv) External Scrutiny and Audit</b>				
<b>PI-26. Scope, nature, and follow-up of external audit</b>	<b>D+</b>	<b>C+</b>	<b>Dimensions combined by Method M1</b>	<b>Overall little change. Longer delay in completion of audit report but improved responses to recommendations.</b>
(i) Scope/nature of audit performed (including adherence to auditing standards).	C	C	Financial reports of central government are audited by the Auditor General using ISSAIs covering 61% of votes; material risks and internal control issues are highlighted for most of the government expenditures and revenues	No change
(ii) Timeliness of submission of audit reports to legislature.	B	B	Auditor General's reports were submitted to the legislature within six months from receipt of the financial reports by the Auditor General for the last annual audit of financial statements	Deteriorating Delay in submission of Auditor General's report slipped from just over 4 months in 2011 to 6 months

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
				in 2018 due to state of supporting documents.
(iii) Evidence of follow up on audit recommendations.	D	C	Responses are not comprehensive or timely (indicated by the weaknesses recurring in successive years' audit reports) despite having a system in place where formal responses were made by audited entities during 2014, 2015, 2016 and 2017 on the audit observations for which follow up is expected.	Improving degree of responses
<b>PI-27. Legislative scrutiny of the annual budget law</b>	<b>D+</b>	<b>C+</b>	<b>Combined by means of method M1</b>	Improvement. More timely submission of budget proposals to the Assembly in 2018, enhanced technical support to review and possibly improved adherence to procedures.
(i) Scope of the legislature's scrutiny.	B	C	The National Assembly's review covers details of revenue and expenditure estimates at the stage where detailed proposals have been finalized. Fiscal policies are not being debated and approved.	Change uncertain. Apparent deterioration, though 2011 assessment offers too few details to know if fiscal policies were effectively scrutinized at the time.
(ii) Extent to which the legislature's procedures are well established and respected.	C	B	Simple procedures exist for the Assembly's budget review. They include specialized review committees and limited negotiation	Improvement. Adherence to procedures may have improved and technical support has been

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
			procedures, but independent technical support is not yet firmly established.	enhanced even if it is still limited.
(iii) Adequacy of time for the legislature to provide a response to budget proposals on 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).	D	B/C	The Assembly has 5-6 weeks to review the budget proposals prior to the start of the fiscal year.	Improvement. In 2009 the budget was submitted to the Assembly for review after the start of the fiscal year.
(iv) Rules for in-year amendments to the budget without ex ante approval by the legislature.	C	B	There are clear rules for in-year budget amendments by the executive, which are usually respected, but they allow for extensive administrative reallocation within the overall aggregate of appropriations.	No apparent change. There is no indication that rules have changed, and no evidence in 2011 that rules were not adhered to.
<b>PI-28. Legislative scrutiny of external audit reports</b>	<b>D+</b>	<b>C+</b>	<b>Combined by means of method M1</b>	<b>Improvement in extent of responses to PAC recommendations</b>
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last 3 years).	C	C	Scrutiny of audit reports on annual financial reports is completed within twelve months from receipt of reports. Using data from the last three years for which the process has been completed puts the average process period of the scrutiny at 8 months.	No change
(ii) Extent of hearings on key findings undertaken by the legislature.	B	B	PAC conducts in-depth public hearings on the audit reports by summoning all responsible central government controlling officers whose findings have been highlighted in the	Change uncertain as 2011 assessment offers too few details to know the extent

Indicators/Dimension	2011 Score Using 2011 PEFA Framework (Previous Assessment)	2018 Score Using 2011 PEFA Framework (Current Assessment)	Explanation of Score in the Current Assessment	Explanation of Change
			Auditor General's report. However, audit reports for Extra Budgetary Units (EBUs) are not submitted to Parliament for scrutiny and data regarding number of EBUs which received qualified or adverse audit opinions was not provided	of hearings on key findings at the time.
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	C	Actions are recommended to the executive, some of which are implemented according to evidence. But responses are not comprehensive or timely (indicated by the weaknesses recurring in successive years' audit reports)	Improving System of following up on recommendations now in place with PAC and Auditor General closely monitoring.

## **Annex 5. PEFA Assessment Management Organization**

### **PEFA Steering Committee/Oversight Team:**

#### ***Chairperson:***

- Secretary to the Treasury –Ben Botolo

#### ***Members:***

- Director of Budget – MoF: Peterson Ponderani
- Accountant General: Chrighton Chimombo
- Malawi Revenue Authority (Commissioner General): Stuart Malata
- World Bank: Trust Chimaliro (Financial Management Specialist), Saidu Dani Goje (Senior FMS), Srinivas Gurazada Senior FMS)
- EU: Janet Mortoo
- DFID: Andrew Bowden
- Irish Aid: Ishmael Munthali
- Norad/Norway: Bent Bakken
- GIZ Germany: Rolf Drescher

### **Assessment Managers:**

- Government team: Hetherwick Njati (Director of Public Finance Management Systems Division) and Chrighton Chimombo (Accountant General)
- World Bank team: Trust Chimaliro (Financial Management Specialist), Saidu Goje (Senior Financial Management Specialist), Srinivas Gurazada (Senior Financial Management Specialist)

### **Technical Assessment Team Members:**

#### **Government team:**

- Monaosyile Mhango (Deputy Director/Chief Accountant/PFMSD) - PEFA Coordinator
- Mr. Daisi Kachingwe Phiri, Deputy Director – PFMSD
- Mr. Temwani Kumwenda, Economist-PFMSD
- Mr. Eliam Kadewele, Economist – PFMSD
- Mrs. Jeanne Munyenyembe, Director (BAM-AGD)
- Mr. Abel Mwambinga, Director (AS-AGD)
- Ms. Sutene Mwakalagho, Principal Accountant (AS-AGD)
- Mr Charles Maseya, Assistant Auditor General (NAO)

#### **World Bank team:**

- Frans Ronsholt (Consultant and team leader),
- Isaac Kurewa (Consultant),

- Alex Mkandawire (Consultant).

### Review of Concept Note:

- Draft Concept Note cleared by GoM: April 14, 2018
- Review conducted: May-June 2018
- Final Concept Note approved: July 18, 2018

<b>Review of Concept Note</b>			
Draft Concept Note distributed May 22, 2018 to all peer reviewers			
<b>Peer Reviewer</b>		<b>Date Comments submitted</b>	<b>Date of response</b>
PEFA Secretariat, Helena Ramos, Senior Public Finance Specialist		06/06/2018	06/06/2018
World Bank	Donald Mphande, Lead Financial Management Specialist	05/24/2018	05/31/2018
	Aleksander Kocevski, Operations Officer	05/24/2018	07/11/2018
	Oleksii Balabushko, Senior Public Finance Specialist	05/22/2018	05/22/2018
Development Partners	DFID/UK: Alan Whitworth, Senior Economic Adviser	06/02/2018	07/11/2018
	European Union: Janet Mortoo, Programme Manager	06/05/2018	06/06/2018
Additional reviewer: Enagnon Ernest Eric Adda, Senior Financial Management Specialist, WB		05/22/2018	05/23/2018

### Review of the Assessment Report

<b>Review of Draft Report of September 24, 2018</b>			
Draft Report distributed September 25, 2018 to all peer reviewers			
<b>Peer Reviewer</b>		<b>Date Comments submitted</b>	<b>Date of response</b>
MoFEPD, coordinated by PFMSD		10/09/2018	10/19/2018
PEFA Secretariat, Helena Ramos, Senior Public Finance Specialist		10/11/2018	10/19/2018
World Bank	Aleksander Kocevski, Operations Officer	09/28/2018	10/19/2018
	Oleksii Balabushko, Senior Public Finance Specialist	09/27/2018	10/19/2018
Development Partners	DFID/UK: Alan Whitworth, Senior Economic Adviser	10/01/2018	10/19/2018
	USAID, Stephen Scott	10/03/2018	10/19/2018
	European Union: Janet Mortoo, Programme Manager	10/04/2018	10/19/2018

Final draft report issued October 19, 2018

Decision review meeting: October 30, 2018 (attended by World Bank, The Government, and European Union)

Final changes introduced to the final draft, which was submitted for endorsement by all peer reviewers and PEFA Secretariat: November 2018.

Endorsement of Final Report by Government-Donor Oversight Team: October 10, 2018

Issue of PEFA Check: December 18, 2018



## Annex 6. Data Tables

### Annex 6A Calculation Sheet for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3

#### 6A.1 By *functional classification* including development expenditure part I

(source: AER 2015, 2016, 2017, 2018)

functional category	Data for year = 2014/15		Unit = MK million		absolute deviation	percent
	budget	actual	adjusted budget	deviation		
General Administration	157,844	122,922	157,879	(34,957)	34,957	22.1%
Defense Affairs	17,969	19,706	17,973	1,732	1,732	9.6%
Public Order and Safety	27,966	42,926	27,972	14,954	14,954	53.5%
Education Affairs and Services	122,332	130,582	122,359	8,224	8,224	6.7%
Health Affairs and Services	65,676	54,953	65,690	(10,738)	10,738	16.3%
Social Security and Welfare Services	31,434	54,413	31,441	22,971	22,971	73.1%
Housing and Community Amenity Services	16,648	13,345	16,651	(3,306)	3,306	19.9%
Recreational, Cultural, Tourism & other Social Services	2,762	7,222	2,762	4,460	4,460	161.5%
Mining, Manufacturing and Environmental Protection	4,944	5,868	4,945	923	923	18.7%
Agriculture and Natural Resources	163,778	123,813	163,814	(40,000)	40,000	24.4%
Transport and Communication Services	38,256	59,975	38,265	21,710	21,710	56.7%
General Economic, Commercial and Labour Affairs	6,373	9,735	6,374	3,360	3,360	52.7%
R&D Economic Affairs	784	11,450	784	10,666	10,666	1360.2%
21 (= sum of rest)			-	-	-	
allocated expenditure	656,765	656,910	656,910	0	178,002	
interests (vote 040 Debt Service Charges)	80,360	114,947				
contingency (vote 278 Unforeseen exp)						
total expenditure	737,125	771,857				
aggregate outturn (PI-1)						104.7%
composition (PI-2) variance						27.1%
contingency share of budget						0.0%

Data for year = 2015/16			Unit = MK million			
functional category	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Administration	156,733	108,704	150,477	(41,773)	41,773	27.8%
Defense Affairs	19,333	19,209	18,561	648	648	3.5%
Public Order and Safety	44,592	32,314	42,812	(10,498)	10,498	24.5%
Education Affairs and Services	164,513	149,428	157,946	(8,518)	8,518	5.4%
Health Affairs and Services	88,036	90,004	84,522	5,482	5,482	6.5%
Social Security and Welfare Services	48,017	31,866	46,100	(14,234)	14,234	30.9%
Housing and Community Amenity Services	17,719	16,360	17,012	(652)	652	3.8%
Recreational, Cultural, Tourism & other Social Services	8,076	1,763	7,754	(5,991)	5,991	77.3%
Mining, Manufacturing and Environmental Protection	32,278	22,678	30,990	(8,312)	8,312	26.8%
Agriculture and Natural Resources	138,732	132,063	133,194	(1,131)	1,131	0.8%
Transport and Communication Services	69,810	37,955	67,024	(29,069)	29,069	43.4%
General Economic, Commercial and Labour Affairs	10,304	6,325	9,893	(3,568)	3,568	36.1%
R&D Economic Affairs	400	118,000	384	117,616	117,616	30626.5%
21 (= sum of rest)			-	-	-	
allocated expenditure	798,543	766,669	766,669	0	247,491	
interests (vote 040 Debt Service Charges)	125,497	125,674				
contingency (vote 278 Unforeseen exp)	1,800	1,844				
total expenditure	925,840	894,187				
aggregate outturn (PI-1)						96.6%
composition (PI-2) variance						32.3%
contingency share of budget						0.2%

Data for year = 2016/17			Unit = MK million			
functional category	budget	actual	adjusted budget	deviation	absolute deviation	percent
General Administration	201,652	210,034	189,401	20,633	20,633	10.9%
Defense Affairs	21,806	27,594	20,481	7,113	7,113	34.7%
Public Order and Safety	49,705	57,040	46,685	10,355	10,355	22.2%
Education Affairs and Services	187,111	155,523	175,744	(20,221)	20,221	11.5%
Health Affairs and Services	113,653	90,179	106,748	(16,569)	16,569	15.5%
Social Security and Welfare Services	54,477	54,126	51,167	2,959	2,959	5.8%
Housing and Community Amenity Services	20,340	78,109	19,104	59,005	59,005	308.9%
Recreational, Cultural, Tourism & other Social Services	3,297	3,516	3,097	419	419	13.5%
Mining, Manufacturing and Environmental Protection	24,863	11,962	23,353	(11,391)	11,391	48.8%
Agriculture and Natural Resources	202,512	181,561	190,209	(8,648)	8,648	4.5%
Transport and Communication Services	97,639	64,669	91,707	(27,038)	27,038	29.5%
General Economic, Commercial and Labour Affairs	18,681	7,015	17,546	(10,531)	10,531	60.0%
R&D Economic Affairs	6,581	97	6,181	(6,084)	6,084	98.4%
21 (= sum of rest)			-	-	-	
allocated expenditure	1,002,317	941,425	941,425	(0)	200,965	
interests (vote 040 Debt Service Charges)	143,519	185,141				
contingency (vote 278 Unforeseen exp)	1,800	1,782				
total expenditure	1,147,636	1,128,348				
aggregate outturn (PI-1)						98.3%
composition (PI-2) variance						21.3%
contingency share of budget						0.2%

6A.2 By administrative classification/vote excluding Development Expenditure Part I.

Source: Draft Consolidated Annual Appropriations Account for the Year Ended 30 June 2015 tables 4A and 5B; and Table 5: Recurrent and Development Expenditure as at 30 June 2016 and 2017 respectively.

administrative classification (vote)	Data for year = 2014/15		Unit = MK million			
	budget	actual	adjusted budget	deviation	absolute deviation	percent
020 Compensations and Refunds	15,701	14,580	15,680	(1,100)	1,100	7.0%
030 Pensions and Gratuity	24,881	30,901	24,847	6,054	6,054	24.4%
050 State Residences	4,176	4,527	4,170	357	357	8.6%
070 Judiciary	4,312	4,001	4,306	(305)	305	7.1%
080 National Assembly	7,096	7,957	7,086	871	871	12.3%
090 Office of the President and Cabinet	5,860	5,063	5,852	(789)	789	13.5%
101 Malawi Defense Force	16,573	20,957	16,550	4,407	4,407	26.6%
121 Local Government Finance Committee	11,393	11,585	11,377	208	208	1.8%
130 Ministry of Lands and Housing	15,919	9,663	15,897	(6,234)	6,234	39.2%
190 Ministry of Agriculture, Irrigation & Water Dev	70,119	61,916	70,024	(8,108)	8,108	11.6%
250 Ministry of Education, Science & Technology	76,039	93,985	75,936	18,049	18,049	23.8%
260 Ministry of Foreign Affairs	9,488	11,014	9,475	1,539	1,539	16.2%
271 Accountant General's Department	10,572	7,984	10,558	(2,574)	2,574	24.4%
273 Malawi Revenue Authority	14,404	17,488	14,384	3,104	3,104	21.6%
274 Road Fund Administration	16,301	15,973	16,279	(306)	306	1.9%
275 Subventions	41,829	47,135	41,772	5,363	5,363	12.8%
310 Ministry of Health	50,302	56,423	50,234	6,189	6,189	12.3%
341 Malawi Police Service	12,970	23,606	12,952	10,654	10,654	82.3%
470 Ministry of Natural Resources, Energy, Mining	4,096	3,556	4,090	(534)	534	13.1%
601-928 District Councils	21,969	21,017	21,939	(922)	922	4.2%
21 (= sum of rest)	73,141	37,120	73,041	(35,921)	35,921	49.2%
allocated expenditure	507,141	506,451	506,451	-	113,586	
interests (040 Debt Service Charges)	80,360	99,094				
contingency (278 Unforeseen exp)	1,000	1,652				
total expenditure	588,501	607,197				
aggregate outturn (PI-1)						103.2%
composition (PI-2) variance						22.4%
contingency share of budget						0.3%

Data for year = 2015/16		Unit = MK million				
administrative classification (vote)	budget	actual	adjusted budget	deviation	absolute deviation	percent
020 Compensations and Refunds	7,880	6,524	7,362	(838)	838	11.4%
030 Pensions and Gratuity	43,148	42,145	40,314	1,831	1,831	4.5%
050 State Residences	5,414	6,546	5,058	1,488	1,488	29.4%
070 Judiciary	6,331	5,430	5,915	(485)	485	8.2%
080 National Assembly	8,347	8,962	7,799	1,163	1,163	14.9%
090 Office of the President and Cabinet	5,522	4,855	5,159	(304)	304	5.9%
101 Malawi Defense Force	18,621	24,917	17,398	7,519	7,519	43.2%
121 Local Government Finance Committee	12,262	12,069	11,457	612	612	5.3%
130 Ministry of Lands and Housing	12,527	11,638	11,704	(66)	66	0.6%
190 Ministry of Agriculture, Irrigation & Water Dev	73,745	107,271	68,901	38,370	38,370	55.7%
250 Ministry of Education, Science & Technology	108,233	105,081	101,123	3,958	3,958	3.9%
260 Ministry of Foreign Affairs	13,413	16,130	12,532	3,598	3,598	28.7%
271 Accountant General's Department	11,552	10,271	10,793	(522)	522	4.8%
273 Malawi Revenue Authority	14,810	-	13,837	(13,837)	13,837	100.0%
274 Road Fund Administration	28,886	5,390	26,989	(21,599)	21,599	80.0%
275 Subventions	53,093	39,565	49,605	(10,040)	10,040	20.2%
310 Ministry of Health	73,338	70,804	68,521	2,283	2,283	3.3%
341 Malawi Police Service	24,176	27,461	22,588	4,873	4,873	21.6%
470 Ministry of Natural Resources, Energy, Mining	6,308	6,030	5,894	136	136	2.3%
601-928 District Councils	35,450	33,078	33,121	(43)	43	0.1%
21 (= sum of rest)	61,565	39,424	57,521	(18,097)	18,097	31.5%
allocated expenditure	624,621	583,591	583,591	-	131,665	
interests (040 Debt Service Charges)	125,497	115,561				
contingency (278 Unforeseen exp)	1,800	1,844				
total expenditure	751,918	700,996				
aggregate outturn (PI-1)						93.2%
composition (PI-2) variance						22.6%
contingency share of budget						0.2%

Data for year = 2016/17			Unit = MK million			
administrative classification (vote)	budget	actual	adjusted budget	deviation	absolute deviation	percent
020 Compensations and Refunds	14,667	9,691	11,626	(1,935)	1,935	16.6%
030 Pensions and Gratuity	50,155	43,146	39,756	3,390	3,390	8.5%
070 Judiciary	7,135	8,476	5,656	2,820	2,820	49.9%
080 National Assembly	9,410	10,413	7,459	2,954	2,954	39.6%
101 Malawi Defense Force	20,952	25,727	16,608	9,119	9,119	54.9%
121 Local Government Finance Committee	13,292	14,732	10,536	4,196	4,196	39.8%
130 Ministry of Lands and Housing	16,240	12,534	12,873	(339)	339	2.6%
190 Ministry of Agriculture, Irrigation & Water Dev	83,855	48,106	66,469	(18,363)	18,363	27.6%
250 Ministry of Education, Science & Technology	126,448	76,888	100,231	(23,343)	23,343	23.3%
260 Ministry of Foreign Affairs	23,661	14,311	18,755	(4,444)	4,444	23.7%
271 Accountant General's Department	11,967	4,204	9,486	(5,282)	5,282	55.7%
273 Malawi Revenue Authority	21,265	-	16,856	(16,856)	16,856	100.0%
274 Road Fund Administration	19,520	4,968	15,473	(10,505)	10,505	67.9%
275 Subventions	51,390	51,525	40,735	10,790	10,790	26.5%
310 Ministry of Health	82,106	54,420	65,082	(10,662)	10,662	16.4%
340 Ministry of Home Affairs	6,786	1,655	5,379	(3,724)	3,724	69.2%
341 Malawi Police Service	22,963	29,594	18,202	11,392	11,392	62.6%
342 Malawi Prisons Services	5,879	5,676	4,660	1,016	1,016	21.8%
470 Ministry of Natural Resources, Energy, Mining	6,991	6,773	5,542	1,231	1,231	22.2%
601-928 District Councils	40,657	98,031	32,227	65,804	65,804	204.2%
21 (= sum of rest)	87,786	52,324	69,585	(17,261)	17,261	24.8%
allocated expenditure	723,125	573,194	573,194	-	225,426	
interests (040 Debt Service Charges)	143,519	195,198				
contingency (278 Unforeseen exp)	1,800	1,782				
total expenditure	868,444	770,174				
aggregate outturn (PI-1)						88.7%
composition (PI-2) variance						39.3%
contingency share of budget						0.2%

## Annex 6B Calculation of Variance for PI-2.2 - Expenditure outturn by economic type

Data for year = 2014/15		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages (incl. pensions & gratuity)	188,202	227,911	195,984	31,927	31,927	16.3%
Goods and services (incl. arrears payment)	159,353	162,905	165,942	(3,037)	3,037	1.8%
Development (incl. MAREP)	205,209	159,914	213,694	(53,780)	53,780	25.2%
Interest	80,360	114,947	83,683	31,264	31,264	37.4%
Subsidies	56,530	57,541	58,867	(1,326)	1,326	2.3%
Grants (transfers to public entities incl. MRA)	53,475	50,638	55,686	(5,048)	5,048	9.1%
Social benefits	-	-	-	-	-	#DIV/0!
Other expenses	-	-	-	-	-	#DIV/0!
<b>Total expenditure</b>	743,129	773,856	773,856	(0)	126,383	
composition variance						16.3%

Data for year = 2015/16		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages (incl. pensions & gratuity)	271,838	268,319	263,630	4,689	4,689	1.8%
Goods and services (incl. arrears payment)	186,989	197,398	181,343	16,055	16,055	8.9%
Development	224,137	166,665	217,369	(50,704)	50,704	23.3%
Interest	125,497	132,577	121,708	10,869	10,869	8.9%
Subsidies	48,500	68,230	47,036	21,194	21,194	45.1%
Grants (transfers to public entities incl. MRA)	65,303	61,446	63,331	(1,885)	1,885	3.0%
Social benefits			-	-	-	#DIV/0!
Other expenses	225	-	218	(218)	218	100.0%
<b>Total expenditure</b>	922,489	894,635	894,635	0	105,615	
composition variance						11.8%

Data for year = 2016/17		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Salaries and wages (incl. pensions & gratuity)	322,424	317,375	315,510	1,865	1,865	0.6%
Goods and services (incl. arrears payment)	244,867	234,966	239,616	(4,650)	4,650	1.9%
Development	322,472	273,831	315,556	(41,725)	41,725	13.2%
Interest	143,519	185,141	140,441	44,700	44,700	31.8%
Subsidies	39,150	35,688	38,310	(2,622)	2,622	6.8%
Grants (transfers to public entities incl. MRA)	68,971	73,180	67,492	5,688	5,688	8.4%
Social benefits	-	-	-	-	-	#DIV/0!
Other expenses	4,349	1,000	4,256	(3,256)	3,256	76.5%
<b>Total expenditure</b>	<b>1,145,752</b>	<b>1,121,181</b>	<b>1,121,181</b>	<b>0</b>	<b>104,507</b>	
composition variance						9.3%



## Annex 6C Calculation Sheet for PI-3 Revenue composition outturn

6C.1 Based on 2016 PEFA Framework *including external grants*

Data for year = 2014/15		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	102,156	97,054	93,945	3,109	3,109	3.3%
Taxes on payroll and workforce	130,428	136,303	119,945	16,358	16,358	13.6%
Taxes on property	-	-	-	-	-	
Taxes on goods and services	207,474	188,943	190,798	(1,855)	1,855	1.0%
Taxes on international trade and transactions	50,371	46,238	46,322	(84)	84	0.2%
Tax refunds	(11,873)	(9,640)	(10,919)	1,279	1,279	-11.7%
Other taxes	3,811	3,338	3,505	(167)	167	4.8%
Social contributions						
Social security contributions	-	-	-	-	-	
Other social contributions	-	-	-	-	-	
Grants						
Grants from foreign governments + internatl org	110,317	79,392	101,450	(22,058)	22,058	21.7%
Grants from other government units	-	-	-	-	-	
Other revenue						
Property income (actuals not available)	-	-	-	-	-	
Sales of goods and services	n.a.	n.a.	-	-	-	
Fines, penalties and forfeits	468	651	430	221	221	51.3%
Transfers not elsewhere classified	-	-	-	-	-	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-	-	-	-	-	
Sum of rest (incl. property income)	69,684	67,281	64,083	3,198	3,198	5.0%
<b>Total revenue</b>	<b>662,836</b>	<b>609,560</b>	<b>609,560</b>	<b>(0)</b>	<b>48,329</b>	
overall outturn						92.0%
composition variance						7.9%

Data for year = 2015/16		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	125,650	108,303	122,749	-14,446	14,446	11.8%
Taxes on payroll and workforce	168,330	179,298	164,444	14,854	14,854	9.0%
Taxes on property	-	-	0	0	0	
Taxes on goods and services	246,944	226,815	241,243	-14,428	14,428	6.0%
Taxes on international trade and transactions	61,452	52,640	60,033	-7,393	7,393	12.3%
Tax refunds	(15,190)	(8,866)	(14,839)	5,973	5,973	-40.3%
Other taxes (other duties, turnover, dividend tax)	4,649	4,495	4,542	-47	47	1.0%
Social contributions						
Social security contributions	-	-	0	0	0	
Other social contributions	-	-	0	0	0	
Grants						
Grants from foreign governments + internatl org	97,132	131,007	94,890	36,117	36,117	38.1%
Grants from other government units			0	0	0	
Other revenue						
Property income	20,400	7,820	19,929	-12,109	12,109	60.8%
Sales of goods and services	-		0	0	0	
Fines, penalties and forfeits	571	1,967	558	1,409	1,409	252.6%
Transfers not elsewhere classified	-		0	0	0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-		0	0	0	
Sum of rest (MDA receipts, Treasury Funds, etc)	73,682	62,050	71,981	-9,931	9,931	13.8%
<b>Total revenue</b>	<b>783,620</b>	<b>765,529</b>	<b>765,529</b>	<b>0</b>	<b>116,708</b>	
overall outturn						97.7%
composition variance						15.2%

Data for year = 2016/17		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	160,832	149,823	157,704	(7,881)	7,881	5.0%
Taxes on payroll and workforce	221,424	233,373	217,117	16,256	16,256	7.5%
Taxes on property	-	-	-	-	-	
Taxes on goods and services	263,746	307,835	258,616	49,219	49,219	19.0%
Taxes on international trade and transactions	57,543	69,830	56,424	13,406	13,406	23.8%
Tax refunds	(10,635)	(17,466)	(10,428)	(7,038)	7,038	-67.5%
Other taxes	4,190	4,554	4,109	445	445	10.8%
Social contributions						
Social security contributions	-	-	-	-	-	
Other social contributions	-	-	-	-	-	
Grants						
Grants from foreign governments + internatl org	194,726	147,706	190,939	(43,233)	43,233	22.6%
Grants from other government units			-	-	-	#DIV/0!
Other revenue						
Property income	26,240	6,299	25,730	(19,431)	19,431	75.5%
Sales of goods and services	-	-	-	-	-	
Fines, penalties and forfeits	1,302	2,199	1,277	922	922	72.2%
Transfers not elsewhere classified	-	-	-	-	-	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-	-	-	-	-	
Sum of rest	70,954	66,907	69,574	(2,667)	2,667	3.8%
<b>Total revenue</b>	<b>990,322</b>	<b>971,060</b>	<b>971,060</b>	<b>0</b>	<b>160,497</b>	
overall outturn						98.1%
composition variance						16.5%

6C.2 Based on 2011 PEFA Framework *excluding external grants*

Data for year = 2014/15		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	102,156	97,054	100,665	(3,611)	3,611	3.6%
Taxes on payroll and workforce	130,428	136,303	128,525	7,778	7,778	6.1%
Taxes on property	-	-	-	-	-	
Taxes on goods and services	207,474	188,943	204,446	(15,503)	15,503	7.6%
Taxes on international trade and transactions	50,371	46,238	49,636	(3,398)	3,398	6.8%
Tax refunds	(11,873)	(9,640)	(11,700)	2,060	2,060	-17.6%
Other taxes	3,811	3,338	3,755	(417)	417	11.1%
Social contributions						
Social security contributions	-	-	-	-	-	
Other social contributions	-	-	-	-	-	
Grants						
Grants from other government units	-	-	-	-	-	
Other revenue						
Property income (actuals not available)	-	-	-	-	-	
Sales of goods and services	n.a.	n.a.				
Fines, penalties and forfeits	468	651	461	190	190	41.2%
Transfers not elsewhere classified	-	-	-	-	-	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-	-	-	-	-	
Sum of rest	55,184	67,281	54,379	12,902	12,902	23.7%
<b>Total revenue</b>	<b>538,019</b>	<b>530,168</b>	<b>530,168</b>	<b>0</b>	<b>45,860</b>	
overall outturn						98.5%
composition variance						8.7%

Data for year = 2015/16		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	125,650	108,303	119,695	-11,392	11,392	9.5%
Taxes on payroll and workforce	168,330	179,298	160,353	18,945	18,945	11.8%
Taxes on property	-	-	0	0	0	
Taxes on goods and services	246,944	226,815	235,241	-8,426	8,426	3.6%
Taxes on international trade and transactions	61,452	52,640	58,540	-5,900	5,900	10.1%
Tax refunds	(15,190)	(8,866)	(14,470)	5,604	5,604	-38.7%
Other taxes (other duties, turnover, dividend tax)	4,649	4,495	4,429	66	66	1.5%
Social contributions						
Social security contributions	-	-	0	0	0	
Other social contributions	-	-	0	0	0	
Grants						
Grants from other government units			0	0	0	
Other revenue						
Property income	20,400	7,820	19,433	-11,613	11,613	59.8%
Sales of goods and services	-	-	0	0	0	
Fines, penalties and forfeits	571	1,967	544	1,423	1,423	261.6%
Transfers not elsewhere classified	-	-	0	0	0	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-	-	0	0	0	
Sum of rest (MDA receipts, Treasury Funds, etc)	53,282	62,050	50,757	11,293	11,293	22.2%
<b>Total revenue</b>	666,088	634,522	634,522	0	74,663	
overall outturn						95.3%
composition variance						11.8%

Data for year = 2016/17		Unit = MK million				
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	160,832	149,823	172,120	(22,297)	22,297	13.0%
Taxes on payroll and workforce	221,424	233,373	236,965	(3,592)	3,592	1.5%
Taxes on property	-	-	-	-	-	
Taxes on goods and services	263,746	307,835	282,257	25,578	25,578	9.1%
Taxes on international trade and transactions	57,543	69,830	61,582	8,248	8,248	13.4%
Tax refunds	(10,635)	(17,466)	(11,381)	(6,085)	6,085	-53.5%
Other taxes	4,190	4,554	4,484	70	70	1.6%
Social contributions						
Social security contributions	-	-	-	-	-	
Other social contributions	-	-	-	-	-	
Grants						
Grants from other government units			-	-	-	
Other revenue						
Property income	26,240	6,299	28,082	(21,783)	21,783	77.6%
Sales of goods and services	-	-	-	-	-	
Fines, penalties and forfeits	1,302	2,199	1,393	806	806	57.8%
Transfers not elsewhere classified	-	-	-	-	-	
Premiums, fees, and claims related to nonlife insurance and standardized guarantee schemes	-	-	-	-	-	
Sum of rest	44,714	66,907	47,852	19,055	19,055	39.8%
<b>Total revenue</b>	<b>769,356</b>	<b>823,354</b>	<b>823,354</b>	<b>-</b>	<b>107,513</b>	
overall outturn						107.0%
composition variance						13.1%

## Annex 6D List of Major Investment Projects

Sector	Implementing Agent	Name Of Project	Project Status	Total Project Cost	SOURCE OF FUNDING				
					Fiscal Resources	Own Resources	Development Partners	Loan Financing	JV/PPP
				MK bill	MK bill	MK bill	MK bill	MK bill	MK bill
<b>Energy</b>	470 - Ministry of Natural Resources, Energy and Mining	1919 - Coal Fired Power Generation Programme	Implementation stage.	<b>525</b>	0.5		475		
<b>Transport and Communication</b>	420 - Roads Authority	1810 - Kaphatenga - Nkhotakota - Dwangwa rehabilitation project	Sourcing funding	<b>114</b>	114				
	420 - Roads Authority	1162 - Zomba-Jali-Phalombe-Chitakale	Ongoing	<b>58</b>	5		53		
	420 - Roads Authority	1445 - Mzlangwe-Kafukule-Ezondweni-Njakwa (Feasibility, Detailed Engineering Designs and Construction)	Feasibility report completed	<b>56</b>	56				
	420 - Road Authority	Liwonde-Mangochi	On-going	<b>32</b>	2		29		
<b>Education and Sanitation</b>	130 - Ministry of Lands, Housing and Urban Development	1904 - Construction of Residential Houses for Government Institutions	Sourcing finance	<b>100</b>	100				

	275 - Subvented Organizations	1770 - Establishment of University of Mombera	Ongoing	73	73				
<b>Agriculture and Water Development</b>	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1731 - Songwe River Basin Development Programme	Ongoing	346	1		345		
	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1925 - Lilongwe Water Project	Sourcing funding	278	278				
	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1729 - Up-Scaling Production and Marketing of Legumes, Rice and Fruits	Sourcing funding	100	100				
	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1715 - Construction of Lambilambi Dam: Implementation Phase	Implement ation phase	72	72				
	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1654 - Programme for Rural Irrigation Development (PRIDE)	Sourcing funding	61	1		61		
	190 - Ministry of Agriculture, Irrigation and Water Developmnt	1730 - Irrigation Development Programme (IDP)	Sourcing funding	55	5		50		
<b>GRAND TOTAL</b>				<b>1,870</b>	<b>807.5</b>		<b>1013</b>		





## **Annex 7. Listing of Institutional Units**

### **Annex 7A - Budgetary Central Government Units**

1. Office of the President and Cabinet (OPC)
2. Ministry of Agriculture, Irrigation and Water Development
3. Minister of Education, Science and Technology (MoEST)
4. Ministry of Finance, Economic Planning and Development (MoFEPD)
5. Ministry of Foreign Affairs and International Cooperation
6. Ministry of Gender, Children, Disability and Social Welfare
7. Ministry of Health and Population (MoHP)
8. Ministry of Home Affairs and Internal Security
9. Ministry of Information and Communication Technology
10. Ministry of Justice and Constitutional Affairs
11. Ministry of Labour, Sports, Youth and Manpower Development
12. Ministry of Lands, Housing and Urban Development
13. Ministry of Local Government and Rural Development
14. Ministry of National Defense
15. Ministry of Natural Resources, Energy and Mining
16. Ministry of Industry, Trade and Tourism
17. Ministry of Transport and Public Works (MoTPW)
18. Ministry of Civic Education, Culture and Community Development
19. The Judiciary
20. Malawi Defense Forces
21. National Statistical Office (NSO)
22. State Residences
23. Civil Service Commission
24. Office of the Director of Public Procurement (ODPP)
25. National Assembly
26. National Audit Office (NAO)
27. Asset Declaration
28. Department of Human Resources Management and Development (DHRMD)
29. National Local Government Finance Committee (NLGFC)
30. Office of the Vice President
31. Accountant Generals Department (AGD)

32. Local Development Fund (being merged with NLGFC)
33. Financial Intelligence Unit
34. Malawi Police Service
35. Malawi Prison Service
36. Immigration Department
37. Directorate of Public Prosecution and State Advocate
38. Registrar General's Department
39. Administrator General's Department
40. Legal Aid Bureau
41. Human Rights Commission
42. Electoral Commission
43. Anti-Corruption Bureau
44. Office of the Ombudsman
45. Law Commission

## Annex 7B - Data on Extra-Budgetary Units

	Name	Acronym	Total Income 2018/19 est. - MK billion	of which Treasury subvention
	<b>EBU - Subvented entities under vote 275</b>			
1	Cotton Council of Malawi	CCM	0.23	0.23
2	Competition and Fair Trading Commission	CFTC	1.26	0.67
3	Higher Education Students Loans and Grants Board	HESLGB	5.90	0.60
4	Kachere Rehabilitation Centre	KRC	0.58	0.22
5	Lilongwe University of Agriculture and Natural Resources	LUANR	17.24	10.80
6	Malawi National Examination Board	MNEB	6.25	5.86
7	Malawi Broadcasting Corporation	MBC	4.84	2.13
8	Malawi College of Health Sciences	MCHS	3.48	0.90
9	Malawi Institute of Education	MIE	2.86	1.26
10	Malawi National Council of Sports	MNCS	2.26	2.17
11	Malawi National Library Service	NLS	0.56	0.56
12	Malawi Universities Development Programme	MUDEP	3.14	3.14
13	Malawi University of Science and Technology	MUST	7.73	6.40
14	Mzuzu University	MZUNI	9.86	6.99
15	National Council for Higher Education	NCHE	0.99	0.67
16	National Commission for Science and Technology	NCST	0.52	0.34
17	National Herbarium and Botanic Gardens of Malawi	NHBG	0.87	0.85
18	Public Private Partnership Commission	PPPC	0.96	0.15
19	University of Malawi	UNIMA	54.01	29.55
20	National AIDS Commission		3.00	3.00
21	Malawi Council for the Handicapped	MACOHA	0.83	0.83
22	Malawi Investment and Trade Centre	MITC	0.85	0.85
23	Health Service Regulatory Authority/Medical Council	MCM	1.19	0.20
24	Small and Medium Enterprises Development Institute	SMEDI	1.21	1.05
25	Malawi National Commission for UNESCO		0.25	0.25

26	Technical Vocational Education and Training Authority	TEVETA	8.38	0.72
27	Greenbelt Authority		1.90	0.40
28	National Youth Council of Malawi	NYCM	1.04	0.19
	<b>Total for 28 subvented entities</b>		<b>142.17</b>	<b>80.95</b>
	<b>Other EBUs</b>		<b>2016/17 revenue, actuals, MK billion</b>	
29	Malawi Gaming Board/National Lotteries Board	MGB-NLB	0.7	
30	Malawi Revenue Authority	MRA	25.5	
31	Malawi Communications Regulatory Authority	MACRA	15.9	
32	Malawi Energy Regulatory Authority	MERA	5.5	
33	National Construction Industry Council	NCIC	1.5	
34	National Water Resources Board	NWRB	-	
35	Nurses and Midwives Council of Malawi	NMCM	0.4	
36	Pharmacy, Medicines and Poisons Board	PMPC	1.3	
37	Roads Authority	RA	30.2	
38	Road Fund Administration	RFA	4.3	
39	Tobacco Control Commission	TCC	4.0	
	<b>Total Revenue Other EBUs</b>		<b>89.3</b>	

Sources: PBB 2018/19, AER 2018, PMPB 2018/19 (for TCC), and information from PFMSD. Note: RFA excludes funds transferred to RA.

## Annex 7C - Data on Public Corporations

	Name (* indicates AFS 2016/17 submitted within 9 months)	Acronym	Total income, 2016/17, MK billion	Total income, Latest FY, MK billion
1	Agricultural Development and Marketing Corporation	ADMARC		7.8
2	Air Cargo Limited	ACL		4.0
3	Airport Development Limited*	ADL	1.9	
4	Blantyre Water Board	BWB	13.0	
5	Central Medical Stores Trust*	CMS		18.7
6	Central Region Water Board*	CRWB	3.1	
7	Copyright Society of Malawi	COSOMA		0.6
8	Electricity Generation Corporation	EGENCO	14.9	
9	Electricity Supply Commission of Malawi*	ESCOM	84.7	
10	Lilongwe Handling Company*	LIHACO	3.0	
11	Lilongwe Water Board	LWB	16.3	
12	Malawi Accountants Board	MAB		0.2
13	Malawi Bureau of Standards*	MBS	3.7	
14	Malawi College of Accountancy	MCA		1.6
15	Malawi Digital Broadcasting Network	MDBN		0.6
16	Malawi Enterprise Development Fund	MEDF	0.2	
17	Malawi Housing Corporation*	MHC	4.1	
18	Malawi Institute of Management	MIM	1.0	
19	Malawi Posts Corporation*	MPC	4.5	
20	Malawi Airlines			11.1
21	National Food Reserve Authority*	NFRA	1.9	
22	National Oil Corporation of Malawi*	NOCMA	0.6	
23	Northern Region Water Board*	NRWB	5.2	
24	Smallholder Farmers Fertilizer Revolving Fund of Malawi	SFFRF		12.5
25	Southern Region Water Board*	SRWB	7.0	
26	Sunbird Tourism Limited	SUNBIRD		15.7
27	Umodzi Holdings Limited (new, no 2016/17 accounts)	UMODZI		n.a.
28	Reserve Bank of Malawi*	RBM		72.9
	<b>Total PCs covered/not covered by AER 2018 analysis</b>	<b>16 / 11</b>	<b>165.1</b>	<b>145.7</b>
	<b>Total PCs (excl. Umodzi Holdings)</b>	<b>27</b>	<b>310.8</b>	

*Sources: AER 2018, PMPB 2018/19 submissions, corporate websites of RBM & ADMARC, and data from PFMSD*