Public finance management assessment for Malawi based on the public expenditure financial accountability framework (PEFA)

FWC BENEF Lot 11

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Final Report

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Currency and indicative exchange rates

Local currency unit = Malawi Kwacha (MKW)

1 EURO = MKW 217.9 (Mar 27th, 2011)

1 US dollar = MKW154.6 (Mar 27th, 2011)

Fiscal Year

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ABBREVIATIONS AND ACRONYMS

AG	Auditor General
AGD	Accountant General's Department
CABS	Common Approach to Budget Support
CCA	Credit Ceiling Authorisation
CIA	Central Internal Audit (Ministry of Finance)
COA	Chart of Accounts
COFOG	Classifications of Functions of Government
CS DRMS	Commonwealth Secretariat Debt Recording and Management System
C&E	Customs and Excise Department
DAD	Debt and Aid Department
DPSM	Department for Public Services Management
DHS	Demographic Health Survey
DPP	Democratic Progressive Party
DSA	Debt Sustainability Analysis
EC	European Commission
ECF	Extended Credit Facility
EDF	European Development Fund
EPICOR	Integrated Financial Management System
EU	European Union
EUD	European Union Delegation
FAD	(IMF) Fiscal Affairs Department
GDP	Gross Domestic Product
GFS	Government Financial Statistics
GFSM	Government Financial Statistics (Manual)
GoM	Government of Malawi
HDI	Human Development Index (UNDP)
HIES	Household Income & Expenditure Statement
HRMIS	Human Resources Management Information System (replaced PPPAI system)
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPC	Internal Procurement Committee
IPSAS	International Public Sector Accounting Standards
IR	Inland Revenue Department
LGA	Local Government Act
LGE	Local Government Elections
LPO	Local Purchase Order
MCP	Malawi Congress Party
MEPD	Ministry of Economic Planning & Development
MDG	Millennium Development Goals
MDA	Ministries, Departments and Agencies
MGDS	Malawi Growth and Development Strategy
MoF	Ministry of Finance
NLGFC	National Local Government Finance Committee
MPRS	Malawi Poverty Reduction Strategy
MRA	Malawi Revenue Authority
MTEF	Medium Term Expenditure Framework
MTFS	Medium Term Financial Strategy
MYBF	Multi-Year Budget Framework
NAO	National Audit Office
NAO	National Authorizing Officer
ODPP	Office of the Director of Public Procurement
OECD	Organisation for Economic Co-operation and Development
OPC	Office of the President and Cabinet
ORT	Other Recurrent Transactions
PAA	Public Audit Act 2003
PAC	Public Accounts Committee

PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PERMU	Public Enterprises Reform Monitoring Unit
PEFA	Public Expenditure and Financial Accountability
PEFM	Public Expenditure and Financial Management
PFM	Public Financial Management
PFMA	Public Financial management Act (2003)
PFM-PR	PFM Performance Report
PI	Performance Indicator
PIU	Project Information Unit
PPA	Public Procurement Act 2003
PSIP	Public Sector Investment Programme
RBM	Reserve Bank of Malawi
SNG	Sub National Government
SOA	Statement of Accounts
STA	Single Treasury Account
SWG	Sector Working Groups
TPIN	Tax Payer Identification Number
TOR	Terms of Reference
UDF	United Democratic Front
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax
VFM	Value for Money
WB	World Bank

SUMMARY ASSESSMENT

Objectives

The European Union is a member of the Common Approach to Budget Support (CABS) donors in Malawi[1]. This group has been providing budget support to Malawi since 2005. The provision of budget support depends, to a significant degree, on the status of Public Finance Management (PFM) reforms and the performance of the PFM system in the country. In this context, CABS donors in collaboration with the Government of Malawi (GoM) have conducted the Public Expenditure Financial Accountability Assessments (PEFA) in 2005 (a pilot assessment), 2006 and 2008. The PEFA assessments have made an important contribution to the shaping and implementing of a number of reforms and improvements to the PFM system. The present PEFA assessment is therefore the latest in a series of snapshots of the performance of the PFM system in Malawi.

Scope and methodology

The Performance Measurement Framework consists of an evidence-based methodology that measures the status of a country's PFM systems and practices at a given point in time. It attempts to capture the status of a country's PFM through 31 indicators during the period under review. 28 of these indicators relate specifically to all major aspects of a country's PFM system with the remaining 3 dealing with related donor practices. An important principle to appreciate in carrying out a PEFA assessment is that the methodology is based on the use of high-level performance indicators to assess PFM performance. It is important to ensure that there is no bias in scoring that might result from the generalisation and standardisation of the PEFA methodology. This requires that quantitative data is supplemented by qualitative assessments. It is useful to apply the practice of triangulation so as to ensure that information obtained from one source is confirmed through other sources to provide a more complete and balanced context for evaluating the scorings obtained.

An important issue to bear in mind in relation to PEFA assessments relates to the inter-linkages that exist between the PFM indicators that in turn reflect the underlying inter-linkages in the PFM functions. This aspect has important consequences in the methodological approach that needs to be adopted. Measures of performance in one dimension may depend upon the reliability of the measure of another dimension, and hence it is crucially important to gain a good understanding of the reliability and accuracy of financial data used in arriving at indicator results which are based upon quantitative calculations. Accuracy of scoring is particularly important given that i) the assessment follows previous PEFA assessments and will therefore be used to evaluate performance progress over time; ii) it will assist Government and its partners to assess the impact of previous PFM reforms and iii) it will serve as a baseline for identifying potential PFM areas where (further) institutional support is required and monitoring their results.

Background

Malawi remains one of the poorest countries in the world with per capita gross national income at approximately USD 250 in 2007. The UNDP describes the poverty situation in Malawi as "still dire". Over 40% of the people, the majority being women and female-headed households, live below the poverty line. According to the 2010 National MDG report, the country is poised to meet 5 MDGs, namely Goal 1 (extreme poverty); Goal 4 (reducing infant mortality); Goal 6 (combating HIV and AIDS, malaria and other diseases); Goal 7 (ensuring environmental sustainability); and Goal 8 (developing global partnership for development), while Goal 2 (universal primary education); Goal 3 (reducing gender inequality) and Goal 5 (maternal mortality) are unlikely.

Despite the significant fall in the poverty head count from 52% in 2005 to 40% in 2008, the 2010 Household Income and Expenditure Statement (HIES) and 2011 Demographic Health Survey (DHS) will only show how Malawi has progressed against the global poverty reduction benchmarks. Overall progress has been slow and significant additional efforts are required to secure the achievement even for the MDGs with on-track projection. It is notable that all MDGs with poor performance encompass

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[1] The other CABS donors are the African Development Bank, the Department for International Development (DFID), UK, Germany, Norway and the World Bank with the International Monetary Fund (IMF) and United Nations Development Programme (UNDP) as observers.

very pronounced gender connotations. Progress on gender equality and women's empowerment with accelerated gender-focused interventions will be a critical factor to achieve MDGs by 2015.

In terms of the UNDP's Human Development Index (HDI), which represents a broad definition of well-being and provides a composite measure of three basic dimensions of human development — health, education and income, Malawi ranks 153 out of 169 countries with comparable data. Between 1980 and 2010 Malawi's HDI rose by 1.3% annually from 0.258 to 0.385 today, The HDI of Sub-Saharan Africa as a region increased from 0.293 in 1980 to 0.389 today, placing Malawi below the regional average.

I. INTEGRATED ASSESSMENT OF PFM PERFORMANCE

The PFM analysis has been carried out for the period 2007/08 to 2009/10 based on a review of a wide range of documentation, reports and many interviews with key stakeholders. The results of the analysis are set out in Table 1 below, with comparative scores shown for the 2008 assessment.

Table 1: Performance Indicators Scores for the PFM System in 2008 and 2011

PFM Performance Indicators		2008	2011	Scoring Method	Comparable Scores	Change since PA
A. PFM OUT-TURNS: I. Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	B	M1	Yes	Performance unchanged
PI-2	Composition of expenditure out-turn compared to original approved budget	C	C+ (i) C (ii) A	M1	No; changed methodology	Not directly comparable
PI-3	Aggregate revenue out-turn compared to original approved budget	A	D	M1	Yes, despite changed methodology	Underlying situation has effectively deteriorated as size of favourable variances has increased (2008 score would have been B under new methodology).
PI-4	Stock and monitoring of expenditure payment arrears	NR (i) NR (ii) D (iii) NR	NR (i) NR (ii) D	M1	Yes	Performance unchanged
B. KEY CROSS-CUTTING ISSUES: II. Comprehensiveness and Transparency						

PI-5	Classification of the budget	B	A	M1	Yes	Performance improvement
PI-6	Comprehensive-ness of information included in budget documentation	B	A	M1	Yes	Performance improvement
PI-7	Extent of unreported government operations	NR i) ii)	NR (i) B (ii) NR	M1	Yes	Performance unchanged
PI-8	Transparency of Inter-Governmental Fiscal Relations	B+ i) ii) iii)	B+ (i) A (ii) C (iii) A	M2	Yes	Performance unchanged
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+ i) ii)	C+ (i) B (ii) C	M1	Yes	Performance unchanged
PI-10	Public Access to key fiscal information	C	C	M1	Yes	Performance unchanged.
C. BUDGET CYCLE						
III. Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	C+ i) ii) iii)	B (i) C (ii) A (iii) C	M2	Yes	Performance improvement
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B i) ii) iii) iv)	C+ (i) C (ii) A (iii) C (iv) D	M2	Yes	Performance deterioration
IV. Predictability & Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	B i) ii) iii)	B (i) C (ii) B (iii) B	M2	Yes	Performance unchanged

PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+ i) ii) iii)	D+ (i) C (ii) C (iii) D	M2	Yes	Performance deterioration
PI-15	Effectiveness in collection of tax payments	D+ i) ii) iii)	NR (i) NR (ii) B (iii) C	M1	Yes	Performance changed; now not rated
PI-16	Predictability in the availability of funds for commitment of expenditures	B i) ii) iii)	B (i) B (ii) B (iii) B	M1	Yes	**Performance unchanged**.
PI-17	Recording and management of cash balances, debt and guarantees	A i) ii) iii)	B+ (i) A (ii) A (iii) C	M2	No	Performance deterioration
PI-18	Effectiveness of payroll controls	C+ i) ii) iii) iv)	B+ (i) A (ii) B (iii) A (iv) B	M1	Yes	Performance improvement
PI-19	Competition, value for money and controls in procurement	NR i) ii) iii)	C (i) B (ii) D (iii) D (iv) B	M2	No	Performance change uncertain due to changed methodology.
PI-20	Effectiveness of internal controls for non-salary expenditures	C+ i) ii) iii)	C+ (i) B (ii) B (iii) C	M1	Yes	Performance unchanged.
PI-21	Effectiveness of internal audit	D+ i) ii) iii)	D+ (i) C (ii) C (iii) D	M1	Yes	Performance unchanged
V. Accounting, Recording and Reporting						

PI-22	Timeliness and regularity of accounts reconciliation	B+ i) ii)	D (i) D (ii) D	M2	Yes	Performance deterioration
PI-23	Availability of information on resources received by service delivery units	D	D	M1	Yes	Performance unchanged.
PI-24	Quality and timeliness of in-year budget reports	C+ i) ii) iii)	C+ (i) C (ii) A (iii) B	M1	Yes	Performance unchanged
PI-25	Quality and timeliness of annual financial statements	C+ i) ii) iii)	C+ (i) C (ii) A (iii) C	M1	Yes	Performance unchanged.
VI. External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	D+ i) ii) iii)	D+ (i) C (ii) B (iii) D	M1	Yes	Performance unchanged
PI-27	Legislative scrutiny of the annual budget law	B i) ii) iii) iv)	D+ (i) B (ii) C (iii) D (iv) C	M1	Yes	Performance deterioration
PI-28	Legislative scrutiny of external audit reports	D+ i) ii) iii)	D+ (i) C (ii) B (iii) D	M1	Yes	Performance unchanged
D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	NR i) ii)	NR (i) A (ii) NR	M1	Yes	Performance unchanged

D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C i) ii)	C (i) C (ii) C	M1	No	Performance unchanged
D-3	Proportion of aid that is managed by use of national procedures	C	C	M1	Yes	Performance unchanged

A summary of changes since 2008 is shown in Table 2 below.

Table 2: Summary of Changes in Scores Since 2008

Score	PEFA 2011	PEFA 2008	Net Change	Comments
A	2	3	-1	PI-3 methodology change causes lower score
B/B+	8	8	0	
C/C+	9	11	-2	
D/D+	8	5	+3	
No Score	4	4	0	Information pending on PIs 4,7,15 and D-1
Total	31	31	0	

A broad narrative summary of the key findings of the 2011 assessment is set out in the following paragraphs. This begins with a tabular summary of performance across the six key dimensions of PFM including a comparison with 2008.

Table 3 below compares "average" scores for the six core dimensions of PFM during both assessment periods. This involves assigning the following numerical scores to each indicator before converting the averages back to the normal "alpha" scale.

A = 7, B+ = 6, B = 5, C+ = 4, C = 3, D+ = 2, D = 1, NS = 0.

Table 3 Comparison of average scores for core PFM dimensions in 2011 and 2008

Dimension of PFM	PEFA 2011			PEFA 2008		
	Numeric total of indicator scores	Numeric Average	Average PI score	Numeric total of indicator scores	Numeric Average	Average PI score
Budget Credibility	10	2.5	C/D+	15	3.75	C+
Comprehensiveness and Transparency	27	4.5	B/C+	23	4	C+
Policy-Based Budgeting	9	4.5	B/C+	9	4.5	B/C+
Predictability and Control in Budget	33	3.7	C+	35	3.9	C+

Execution						
Accounting, recording and reporting	10	2.5	D+/C[2]	15	3.75	C+
External scrutiny and audit	6	2	D+	11	3.7	C+
Overall	95	3.4	C/C+	108	3.8	C+

The table suggests that overall, there has been something of a deterioration in PFM performance since 2008[3]. This change is most marked in the areas of budget credibility; accounting, recording and reporting; and external scrutiny and audit. There has been, however, improvement in comprehensiveness and transparency. The following sections discuss the dimensions of PFM in more detail.

Credibility of the budget

The 2008 PEFA assessment found that the Budget as presented was a predictor of actual expenditure. In the period under review, however, the aggregate variance in primary expenditure was less than 5% in only one year (2009/10). The middle year (2008/09) recorded a particularly high adverse variance with actual expenditure exceeding the originally-approved budget by over 20%. The Ministry of Agriculture and Food Security actually spent over 60% more than budget due to the imported purchase of large quantities of expensive fertilisers. The period as a whole was characterised by persistent over-spending in comparison to original budget although it should be noted that the GoM does go through a thorough mid-year review process involving parliamentary approval of revised estimates. This contrasts with the previous three years each of which reported under-spending.

There were also significant budget reallocations in all three years considered although the situation improved compared to the previous three years. The expenditure composition variance was less than 10% in only one of the three years and over 20% in one year (again 2008/09). This indicates that the has been ineffective as a tool for allocating scarce resources in line with policy priorities as set out in the Malawi Growth and Development Strategy (MGDS).

On the revenue side, actual revenue was consistently above budget, as it had been in the previous three years. However, the size of the positive variances is such that, under the revised scoring methodology, a rating of D has been recorded. Again, therefore, the credibility of the budget is called into question — this time in terms of its ability to provide a reliable indication of the GoM resource envelope.

Uncertainties over the amount and longevity of payment arrears also undermine budget credibility. It is likely that payment arrears represent only a small per centage of total expenditure, but there is no readily available information about the volume of payments which are actually overdue or the length of time they have remained outstanding.

Comprehensiveness and transparency

Malawi scores well in a number of areas associated with comprehensiveness and transparency. Recent budget reforms have strengthened the budget classification system so that it is now GFS-compliant and a new Chart of Accounts supports a range of approaches to expenditure classification including the identification of expenditure that supports the implementation of the MGDS. Improvements in the government accounting processes have resulted in greater information being made available to parliamentarians when the annual budget is presented to the National Assembly. A considerable amount of technical work has also been undertaken under the auspices of the Local Government Finance Committee to develop an objective and transparent rules-based system of resource transfers to sub-national government although this still requires political ratification by the

[2] Lower score essentially attributable to bank reconciliation problem

[3] Although non-rated indicators may cloud such comparisons

National Assembly. This is of particular importance given that 14 areas of government activity have now been decentralised to the District, City and Municipal Assemblies.

But there remain various issues in terms of comprehensiveness and transparency. Certain types of government operation such as Treasury Funds are not reported in the Estimates and only appear in the Annual Appropriation Accounts as net figures. Public Enterprises do submit regular in-year and annual financial and operational reports but the external audit of some such bodies appears not be timely. And there is significant room for improvement in terms of public access to key fiscal information such as contract awards and the resources available to service delivery units, although the situation looks promising for future progress in the availability of annual financial statements and audit reports.

Policy-based budgeting

While the orderliness of the annual budget process has improved relative to the last PEFA assessment, the Ministry of Finance acknowledges that the multi-year planning and budgeting process is still under development. The fiscal framework will for the first time guide multi-year planning and budgeting from the fiscal exercise 2011/2012. By implication, the allocative effectiveness in the budget process in recent years has been limited. While the revenue forecasting process seems to be working relatively well, the Medium Term Expenditure Framework has not been in place. The expenditure planning and resource prioritisation processes have not been properly aligned with the priorities expressed in the MGDS, nor has the PSIP worked as intended as a guiding instrument for investments in the sectors. In particular, the sectors have been experiencing a lack of coherence between their internal planning processes and the annual budget process managed by the Ministry of Finance.

A number of challenges lie ahead. Firstly, the new MGDS II has yet to be concluded. Secondly, the MTEF will have to be aligned with the new priorities in the MGDS II. Thirdly, the Ministry of Finance and the Ministry of Development Planning and Cooperation will have to develop consultative mechanisms and procedures to include and reflect the internal planning of sectors in the multiyear planning process. And fourthly, the quality of sector plans should improve in terms of comprehensiveness and costing.

Predictability and control in budget execution

Reforms are on-going in the Malawi Revenue Authority and when properly implemented, they will undoubtedly improve and increase revenue collection to the benefit of budget execution as more financial resources more rapidly can be made available for expenditure. The Ministry of Finance has improved the cash management process to the point where sectors express confidence in the predictability of the cash disbursement limits agreed with the Ministry of Finance, at least for the first 3 quarters of the fiscal year. However, more can be done in terms of improving the cash management process. Debt management is being operated efficiently, however, there is an awareness that debt could be become unsustainable, providing incentives to change the composition of debt with more emphasis on concessional loans. A payroll audit has been carried out carrying some evidence of a well working payroll system with only 708 identified ghost workers. The current initiative to switch to salary payments through the banking system is laudable. The Procurement system continues to be unable to provide statistics with regard to the implementation and comprehensiveness of competitiveness in public procurement and the procurement audit of 2008 has not yet been made available to the PEFA assessment team. The IFMIS rollout process has been concluded to the central government and to half the Local Authorities. More modules are under implementation and undoubtedly further roll-out and more functionality will improve overall PFM in the Government. Although awareness seems to be rising with regard to internal control, the evidence does not yet support the finding of improved control and internal audit procedures and processes being implementing and taking effect.

Accounting, recording and reporting

Progress in the period under review has featured the improved timeliness of the closure of the accounts and the production of the financial statement for audit. Also, in-year budget execution reports are produced on a timely basis and with some improvements in quality. However, management information at service delivery units stills needs to improve.

A serious control concern identified is the backlog in bank reconciliations since July 2010. Timely bank reconciliation is an essential discipline in the on-going checking and verification of accounting practices across Government and it also provides assurance as to the integrity of data used for reporting.

External scrutiny and audit

The period covered by this assessment has seen a backlog of external audits and PAC scrutiny cleared. However, there are still weaknesses in the actions and follow up based on the recommendations of the NAO and PAC. In summary, NAO and PAC scrutiny has been characterised by periods when there has been no public scrutiny followed by intense activity to clear backlogs. In respect the Parliamentary Finance Committee, there is more opportunity for scrutiny of the draft budget than for budget execution.

Donor Practices

The regular collection and improved analysis of information related to donor activities is an obvious improvement in the past three years. On an annual basis, direct budget support predictability has improved after the exceptional years prior to 2007/08 when budget support was suspended and then there were inadequate records over the previous three year period to score. Predictability on a quarterly basis remains to be scored once the information is made available. Information on donor funded projects and actual disbursements on a monthly basis are significantly better. The calculation basis for the use of country systems by donors would benefit from further refinement as available monitoring information improves.

II. ASSESSMENT OF THE STRENGTHS AND WEAKNESSES AND THEIR IMPACT ON PFM

(a) Aggregate fiscal discipline

The IMF reported in 2010 that there had been a "loosening of fiscal and monetary policies" during the run-up to the May 2009 elections which had led to high government domestic borrowing in fiscal year 2008/09 (ending in June 2009), and rapid money and credit growth. However, the fiscal year 2009/10 budget reflected a prudent fiscal stance, targeting a repayment of net domestic borrowing in line with the medium-term objectives to maintain a low deficit and create room for private sector credit. The PFM systems, and in particular the EPICOR electronic environment in which budget planning and execution takes place, and the generally effective assessment and collection of taxes, should, in the absence of unusual events, make possible the maintenance of fiscal discipline. The improved application of medium term budgeting within a clear fiscal framework should further reinforce the maintenance of fiscal discipline.

The in-year reporting on budget execution is showing some improvements in timeliness and, as IFMIS is further rolled out, in data integrity and completeness. This has the potential to continue to improve.

However, the control problem resulting in seriously delayed bank reconciliation from July 2010 to March 2011 is of major concern and indicates the potential fragility of some aspects of the PFM reforms — regular bank reconciliations are an essential discipline in the on-going checking and verification of accounting practices across Government.

The Parliamentary Finance Committee is given the opportunity to scrutinise the budget. However, the impact of this is reduced by the restricted length of time available for the scrutiny. This can be as little as 2–3 days, for the Budget and Finance Committee, with less than one month in the Assembly. This scrutiny is further challenged by the sheer volume of budget documents and level of detail provided to Parliamentarians which makes it more difficult to identify the key points for strategic review in terms of aggregate financial discipline.

(b) Strategic allocation of resources

Strategic allocation of resources in Malawi takes its lead from the MGDS, which incorporates the country's poverty reduction strategy. This forms the basis for monitoring actual resource utilisation.

Unfortunately, during the last three years, there have been significant in-year resource reallocations which have tended to undermine the GoM's ability to use the budget as a strategic resource allocation mechanism to some extent. Progress in medium term budgetary planning should facilitate a more pro-active policy towards resource allocation.

The opportunity for parliamentary scrutiny of budget execution is limited, and together with the acknowledgement above that significant in-year resource allocations do occur, both the spirit and intent of financial regulations covering virement should be respected to ensure that the budget is executed in line with its stated policies. The occurrence of frequent large deviations between approved budget and actual expenditure undermines the legislative role of Parliament in approving the annual budget law.

(c) Efficient service delivery

Malawi's overall budget planning, accounting and reporting systems work reasonably well. However, there are weaknesses in supervision of statutory bodies, public procurement and the operation of internal audit. Improvements in these areas could all contribute to more efficient service delivery. A further impetus to improvement could be given if a way could be found to make the Public Accounts Committee a more effective instrument in pressing the Executive to respond effectively to recommendations in the reports of the Auditor-General.

At key service delivery units such as health and education, there is still relatively little management information at these key cost centre levels to enable assessments of the efficiency of service delivery. Similarly, PERs could be applied more extensively in order to provide information on resources used.

A lack of good quality management information on how resources have been used for service delivery undermines the optimum planning and management of resources, and the absence of reliable information, records and other evidence to support effective audit and oversight of the use of funds can foster opaque systems which provide greater opportunity for leakage and poor procurement practices.

Overall, internal control systems remain weak and are not yet consistent. Full systems-based audits are some time away. External and internal audit reports repeatedly report on control weaknesses, lack of adherence to laws and financial management regulations, and the ineffectiveness of sanctions against such breaches. An organizational culture operates in which audit and oversight recommendations are not actioned.

Performance audit is in the early stages and is substantially supported by external technical assistance; the first performance audit report to Parliament is expected to be during 2011. In house capability of performance, systems and IT audit and other specialisms require further development in external audit. The internal audit function is not yet well understood or embedded.

III. PROSPECTS FOR REFORM PLANNING AND IMPLEMENTATION

Over the last few years the GoM has implemented a range of PFM reforms. A new Public Finance Management Act and a Public Audit Act were passed in 2003. Five modules of the EPICOR financial management system have been implemented and the system has been rolled out across central departments and 17 Districts. This provides reliable and timely information about all elements of budget execution throughout the government. Budget management has been improved in several ways including classification and in-year reporting. Attempts have been made to strengthen the links between policy and resource allocation through the application of a medium-term approach to financial planning (though it is recognised by GoM that this reform needs to be revitalised). The timeliness of the production and audit of the annual appropriation accounts has been improved. Controls over commitment of resources and payments have been strengthened.

The GoM expressed strong interest in using the results of the 2011 PEFA assessment to help shape its future reform agenda. A new PFM Programme, operating in the manner of a SWAp is planned to commence in July 2011, the start of the next financial year. This will undoubtedly be able to draw on the findings of this assessment to establish a baseline against which future progress and the effectiveness of the reform process may be judged. The reform programme will need to optimise the use of the IFMIS, strengthen medium-term financial planning and improve the functioning of internal audit. It will be important to ensure that effective follow-up action is taken as a result of audit reports. A comprehensive capacity development strategy will need to be developed, implemented and monitored. Above all, the reform process will require strong leadership and direction and continued support from the GoM's development partners.

1 INTRODUCTION

1.1 Objective of the Public Financial Management Performance Report (PFM-PR)

The purpose of this PEFA assessment is to provide a snapshot picture of the current performance of Malawi's Public Financial Management (PFM) system in order to support the identification of priorities for future PFM reform and to provide a common information base for dialogue between the government and its development partners. It has been sponsored by the European Commission (EC) on behalf of the Common Approach to Budget Support (CABS) donors and other international development partners with an interest in PFM in Malawi.

The TOR[4] for the current assignment identified the specific objective of the assignment as "to provide an update of the qualitative and quantitative assessment of PEFA indicators while providing an independent analysis, presenting the reasons for success or failure in achieving the indicators, including identifying any reasons that are within and/or beyond GoM control. The analysis is to provide reasons for success or failure in achieving the indicators, including identifying any reasons that are within and/or beyond Government control." The PEFA analysis is to "provide status (performance) for the PFM system by 2011 and changes in results since 2008. The assessment should identify and present changes in the performance of a PFM system over time. The analysis should be based on empirical evidence that will form the basis of scores or changes in scores and a qualitative assessment of the status and performance. The opinion of the experts will be evidence based and provided with justifications". Important results of the assessment will be to assist the Common Approach to Budget Support (CABS) donors in making an informed decision on direct budget support as well as feeding into the PFM reform planning being undertaken by the Government of Malawi (GoM) in association with its international development partners.

It should be emphasised that the PEFA PMF does not seek to assess fiscal or expenditure policy. The framework rather focuses on assessing the capacity of the elements of the system to facilitate the achievement of desired policy outcomes. Thus, this report does not articulate specific recommendations for PFM reform or an action plan. It is hoped, however, that the analysis presented will assist the Government of Malawi (GoM) to define and articulate its PFM reform priorities and reform programme. It is also important to state that what is being assessed is the performance of the PFM system, not that of individual officials working in that system.

1.2 Process of preparing the PFM-PR

A PEFA assessment has to be evidence-based. The evidence has been gathered in a number of ways. First, there have been many face-to-face interviews with senior and middle-level GoM officials[5]. These have been augmented by meetings with PFM donors (collectively and individually), the Auditor General, the Malawi Confederation of Chambers of Commerce and Industry, Local and District Assembly staff, the University of Mzuzu and PricewaterhouseCoopers. Field trips took place to Blantyre and Mzuzu. A full list of persons met is shown as Annex 2 of the report. Secondly, the consultants have reviewed and analysed a wide range of official GoM documentation that is relevant to PFM. Finally, a number of system reports have been requested and evaluated. The two field trips enabled the gathering of evidence on regional and district offices, the City of Blantyre, the Malawi Revenue Authority, the University of Mzuzu, schools and the Chamber of Commerce. All of these provided valuable insights into different aspects of PFM in Malawi. The review team are very grateful for the open and constructive spirit in which the discussions were conducted, and for the provision of much detailed information which they have sought to reflect in the draft report.

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[4] The full TOR are shown as Annex 1 to the report

[5] At this juncture the PEFA team wishes to place on record its sincere thanks and appreciation to all those GoM officials who gave generously of their time to share their knowledge, experience and perspective with the consultants. A special vote of thanks is due to Mr. Vitima Mkandawire for his efforts in setting up meetings and field visits.

1.3 The methodology for the preparation of the report

The assessment was prepared on the basis of the PFM Performance Measurement Framework issued by the PEFA multi-donor programme in June 2005. The PFM Performance Measurement Framework is an integrated monitoring framework that was developed as a tool to provide reliable information on the performance of PFM systems, processes and institutions. The framework relies on a set of high-level Performance Indicators. Thus, the approach has been to assess the current status of the Malawian PFM system based on the PEFA Indicators, which comprise a set of 28 Indicators that measure different aspects of the central government's PFM systems and 3 Indicators that assess the involvement of donors in the government's budgetary processes. The focus of the assessment is the central government; the report considers statutory bodies and sub-national government only to the extent that their activities may have implications for central government finance. The Performance Indicators, which are scored on a rating system from A to D, are presented along with a narrative to provide a brief description of the different PFM processes and procedures adopted by the government, and also to support and explain the ratings. Before presenting the Performance Indicator ratings, the report gives information about the country's economic situation, recent budgetary outcomes and the administrative structure in which PFM takes place.

An important consideration in scoring these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the scores. The reliability of the indicator scores can only be as good as the quality of the financial data upon which they were calculated. The review team therefore paid particular attention to the completeness and quality of financial data in assessing the PEFA indicators. Wherever possible, audited financial information has been used since this constitutes the most reliable information available. In those situations of unavailable or incomplete data, it was unfortunately necessary to report "Not Scored".

1.4 The scope of the assessment as provided by the PFM-PR

In conformity with PEFA guidelines, the assessment of Malawi's PFM concentrates on the operations of the central government, which comprises government units covered in the budget. This definition of central government includes the many tasks decentralised to the districts in Malawi. Most quantitative PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Malawi is based, where relevant, on the experience of fiscal years 2007/08, 2008/09, and 2009/10. In some cases, the experience of only 2009/10 or that of 2010/11 is relevant. The structure of the rest of the report is as follows. Section 2 provides background information on the economic, fiscal, legal and institutional context for the evaluation. Section 3 explains the scores for the 31 individual Performance Indicators. Section 4 describes the government's PFM reform efforts up to March 2011, and the prospects for further progress. A series of annexes provides more detailed reference information.

2 COUNTRY BACKGROUND INFORMATION

2.1 Description of the country economic situation

The Republic of Malawi is a landlocked country in southeast Africa. It is bordered by Zambia, Tanzania and Mozambique. The country is separated from Tanzania and Mozambique by Lake Malawi. Its size is over 118,000 km^2 (45,560 mi^2) with an estimated population of more than 15,700,000 in 2010. Its capital is Lilongwe, the second largest city is Blantyre and the third largest city is Mzuzu.

Malawi gained independence from Britain in 1964 after 73 years of colonial rule, becoming a single-party state under the presidency of Hastings Banda, who remained president until 1994, when he was ousted from power. Bingu Mutharika, elected in 2004, is the current president. Malawi has a democratic, multi-party government.

Malawi remains one of the poorest countries in the world with per capita gross national income at approximately USD 290 in 2010. The UNDP describes the poverty situation in Malawi as "still dire".

Over 40% of the people, the majority being women and female-headed households, live below the poverty line. According to the 2010 National MDG report, the country is poised to meet 5 MDGs, namely Goal 1 (extreme poverty); Goal 4 (reducing infant mortality); Goal 6 (combating HIV and AIDS, malaria and other diseases); Goal 7 (ensuring environmental sustainability); and Goal 8 (developing global partnership for development), while Goal 2 (universal primary education), Goal 3 (reducing gender inequality) and Goal 5 (maternal mortality) are unlikely. It is notable that all MDGs with poor performance encompass very pronounced gender connotations. Progress on gender equality and women's empowerment with accelerated gender-focused interventions will be a critical factor to achieve MDGs by 2015.

In terms of the UNDP's Human Development Index (HDI), which represents a broad definition of well-being and provides a composite measure of three basic dimensions of human development — health, education and income, Malawi ranks 153 out of 169 countries with comparable data. Between 1980 and 2010 Malawi's HDI rose by 1.3% annually from 0.258 to 0.385 today, The HDI of Sub-Saharan Africa as a region increased from 0.293 in 1980 to 0.389 today, placing Malawi below the regional average. Table 4 below shows some key demographic and macroeconomic indicators for Malawi.

Table 4: Indicators for Malawi

	2000	2005	2008	2009
Population (m)	11.83	13.65	14.85	15.26
Annual Popn. Growth (%)	3.2	2.8	2.8	2.8
GNI (current USD Bn.)	1.75	2.86	3.89	4.20
GNI per capita (current USD)	150	210	260	280
GDP (current USD Bn.)	1.74	2.86	4.23	4.97
GDP growth (annual %)	1.6	2.6	9.7	7.7
Annual Inflation (GDP deflator %)	30.5	15.3	9.0	8.6
Agriculture, value added (% of GDP)	40	33	34	36
Industry, value added (% of GDP)	18	21	21	21
Services, etc., value added (% of GDP)	43	47	45	44
Exports of goods and services (% of GDP	26	20	23	20
Imports of goods and services (% of GDP)	35	44	26	23
Gross capital formation (% of GDP)	14	23	27	22

Source: World Development Indicators December 2010

As the table indicates, Malawi's economy remains heavily dependent on agriculture although its relative share of GDP is in decline as the GoM seeks with some success to diversify the economy. The IMF has commented that "Malawi's agricultural-based economy weathered well the global economic storm, with record harvests in recent years leading to 9.8 per cent growth in 2008 and an estimated 7.8 per cent in 2009". It has noted that inflation has remained moderate and the financial sector well-capitalized and profitable. However, it also notes "a loosening of fiscal and monetary policies" during the run-up to the 2009 elections leading to high government domestic borrowing in fiscal year 2008/09 and rapid money and credit growth. This easing contributed to low international reserves. However, the fiscal year 2009/10 budget reflected a prudent fiscal stance, targeting a repayment of net domestic borrowing in line with the medium-term objectives to maintain a low deficit and create room for private sector credit. Finally, the Fund has identified a threat to exchange rate and price stability posed by a weak balance of payments. Overall, however, Fund staff supported the request by the Malawian authorities for a three-year arrangement under the Extended Credit Facility up to 75% of quota. This arrangement supports Malawi's efforts to sustain high growth and poverty reduction, underpinned by sound macroeconomic and exchange rate policies, in line with the MGDS which incorporates its poverty reduction strategy.

2.2 Description of budgetary outcomes

2.2.1<u>Fiscal performance</u>

In the period under review, the one financial year that witnessed a significantly increased deficit was 2008/09, which saw a spike in purchases of goods and services, especially fertilisers. This increase in the proportion of current expenditure devoted to goods and services has been maintained in the two subsequent years. As Table 5 shows, the financing requirements are being met increasingly from external resources, given the concessionary terms on which finance is provided to Malawi. From the standpoint of the economic classification of expenditure, the major trend is the increasing share of expenditure allocated to personal emoluments. Capital expenditure also started to increase its share of expenditure and this trend is expected to continue.

Table 5: Summary of Central Government operations (in billion kwacha)

	2007/08	2008/09	2009/10	2010/11(proj)
Total Revenue	165	210	258	283
Total Expenditure & Net Lending	179	248	270	313
Current Expenditure, of which:	116	201	188	213
Wages and Salaries	30	38	44	51
Goods and Services	42	87	79	90
Grants, Subventions and Transfers	30	59	44	51
Capital Expenditure	64	47	77	99
Interest Payments	12	18	20	21
Overall Balance	-15	-37	-12	-20
Financing	15	37	12	20
External	8	13	22	33
Domestic	7	24	-10	-13

Source: IMF Staff Report December 2010

2.2.2 Allocation of budgetary resources

In the last three years, the most notable feature was the sharp rise in the share of government expenditure absorbed by Agriculture and Food Security in 2008/09, which was attributable to unusually heavy expenditure on the import of fertilisers. Of the other major public services, health's share of a growing total decreased slightly, while that of education has recently increased. Both statutory expenditure (pensions, gratuities and debt servicing) and subventions have recorded significant recent increases.

Table 6: Actual budgetary allocations by function (%)

	2007/08	2008/09	2009/10
Agriculture	16.8	28.9	15.6
Health	11.5	10.1	10.5
Education	10.9	10.7	12.3
Statutory Expenditure	7.1	6.3	10.5
Subventions	6.5	5.5	7.4
Defence	3.1	2.5	3.4

Police	2.7	2.3	3.3
Transport and Public Works	2.6	1.6	1.0
Irrigation and Water Development	2.0	0.8	0,6

Source: Annual Financial Statements

2.3 Legal and institutional framework for public financial management

2.3.1Legal Framework

The Constitution

The Constitution of the Republic of Malawi provides the fundamental basis for PFM in Malawi. Chapter XX governs appointments to the civil service, including the role and powers of the Civil Service Commission. Chapter XVIII provides the basis for public financial management through the creation of the Consolidated Fund, and the requirements regarding the annual Estimates, annual and supplementary appropriations, borrowing and special funds. Section 184 provides for the appointment of the Auditor General.

The Public Finance Management Act (PFMA) of 2003

The PFMA contains detailed provisions covering public money, the Treasury system, public debt and guarantees, public accounts, and external audit. It specifies the duties and responsibilities of the Minister of Finance, all other Ministers and the Controlling Officers of Ministries and public officers in general. It contains specific parts dealing with economic, fiscal and financial policy; parliamentary appropriation and budget; public money and the Consolidated Fund; trust moneys; borrowing, loans and guarantees; statutory bodies and financial reporting. Part XI confers on the Secretary to the Treasury the power to issue Treasury Instructions setting out detailed PFM procedures and requirements.

The Ministry of Finance

The Ministry of Finance has the mandate to formulate economic and fiscal policy and manage financial and material resources of the Government of Malawi in order to realise balanced and sustainable economic growth and to reduce poverty. It is organised as follows:

- Revenue Policy Division – analyses and formulates policies for the efficient and effective collection and management of Government revenue
- Debt and Aid Division – the main agent of Government responsible for the foreign aid public debt portfolios
- Economic Affairs Division – the Government's "think tank" responsible for policy analysis on a wide range of issues, including fiscal and monetary policy, financial sector reform, public enterprise management and economic integration
- Budget Division – manages Government national budget and resource allocations to Ministries, Departments and sub-vented organisations and other stakeholders. Coordinates national budget preparation process, monitors and controls budget implementation and manages government cash flow and sectoral resource allocation
- Accountant General – responsible for provision of Government Financial management and accounting

Treasury Instructions

In accordance with the power entrusted to him by the PFMA, the Secretary to the Treasury has issued detailed Treasury Instructions dated October 2004. Essentially following the structure of the PFM Act, these are part of a hierarchy which flow from the provisions of the Constitution, and then the PFM Act. These instructions support the interpretation and application of both the provisions of the Constitution, and the PFMA and they are further amplified by Desk Instructions as an operational tool.

The Public Audit Act 2003

This Act aims to "give effect to the principle of the accountability of the Government to the public through the National Assembly." It provides for the appointment of the Auditor General and describes the duties and powers of the Office. It also provides for the establishment of the Public Accounts Committee (PAC) of the National Assembly, setting out its functions and powers.

The Local Government Acts 1998 and 2010

These contain important provisions relating to the financing and financial management of sub-national government in Malawi.

The Tax System

The main legislation governing taxation in Malawi is as follows:
- Customs and Excise Act, 1969 (and subsequent amendments and regulation),
- Taxation Act, 1964 (and subsequent amendments and regulation)
- VAT Act, 2005 (and subsequent amendments and regulation).
- MRA Act, 1998.

2.3.2The Institutional Framework for PFM

Government

Malawi has a multiparty system of government that was introduced in 1994, with presidential and parliamentary elections held every five years. Current president Bingu wa Mutharika is in his second term of office (2009-2014).The President's Democratic Progressive Party (DPP) has about 60 per cent majority in a 193-seat Parliament, giving it room to approve reforms supportive of the President's development agenda.

About 17 per cent of the parliamentary seats are for independent candidates, most of who tend to support the ruling party, leaving five political parties sharing the remaining 23 per cent. The major opposition parties are the United Democratic Front (UDF) and the Malawi Congress Party (MCP). The MCP led the country to independence in 1964 and remained in power till 1994 when UDF took over in a multiparty system for ten years.

The Government of the Republic of Malawi website identifies the following Ministries under three categories:

1. General Administration

- Justice and Constitutional Affairs
- Foreign Affairs
- Lands, Housing and Urban Development
- National Defence
- Internal Affairs and Public Security
- Development Planning and Cooperation
- Finance

2. Economic Services

- Agriculture, Irrigation and Water Development
- Transport and Public Infrastructure
- Industry and Trade
- Labour
- Natural Resources, Energy and Environment

3. Social and Community Services

- Education, Science and Technology
- Health
- Youth Development and Sports
- Persons with Disabilities and the Elderly
- Tourism, Wildlife and Culture
- Information and Civic Education
- Local Government and Rural Development
- Gender, Child Development and Community Development

Malawi last held local government elections (LGE) in 2000. The country has operated without local councillors since 2005. Local councillors are important in the decentralized system that Malawi adopted in 1998. The Electoral Commission has since indicated that it might hold the LGE in April 2011. The specific date will be stated by the President.

In line with his political manifesto, President Bingu wa Mutharika has prioritized agriculture and food security, education, transport, energy generation, rural development, irrigation and water development, youth development and anti-corruption. These priorities are in the Malawi Growth and Development Strategy (MGDS) (2006–2011).

Statutory Bodies

These are bodies established by statute which function as autonomous corporate bodies governed by Boards of Directors. Some of these bodies have their own revenue funds and do not require government subventions. The autonomous government agencies (AGAs) include the Malawi Revenue Authority and the Reserve Bank of Malawi. Public Enterprises include: Malawi Post Corporation, Air Malawi, Water Boards, and Electricity Supply Corporation of Malawi (ESCOM). Other statutory bodies include the Plant and Vehicle Hire Organisation, Malawi Posts Corporation, the Central Government Stores, Medical Stores and the University of Malawi. There has been a significant amount of discussion and consideration given to the need to merge or abolish some of these bodies.

3 ASSESSMENT OF THE PFM SYSTEMS, PROCESSES AND INSTITUTIONS

The purpose of the PEFA-based PFM assessment is to evaluate the performance of public financial management with focus on the central government through a set of 31 high-level performance indicators. These include 3 performance indicators assessing donor practices.

Many PEFA indicators require data for three years as the basis for the assessment. Data should cover the most recent completed fiscal year for which data is available and the two immediately preceding years. Thus, the PEFA assessment for Malawi is based on the experience of the fiscal years 2007/08, 2008/09, and 2009/10 (the financial year starts on July 1 and closes on June 30). To the extent possible, account is taken of the experience of budget execution in 2010/11 formulation and implementation.

3.1 Budget credibility

In order to evaluate whether the budget is sufficiently realistic and is implemented as planned, the first section of the assessment focuses on four indicators: (a) variances in aggregate expenditure, (b) variations in composition of expenditure, (c) variation in total revenue, and (d) balance of outstanding expenditure payments. The first two indicators are based on expenditure data by administrative classification or vote.

PI-1 Aggregate expenditure out-turn compared to original approved budget

The ability to implement its budget expenditure is a vital factor in enabling a government to deliver the public services for the year as expressed in policy statements. Budget credibility requires actual budgetary releases to be similar to voted budgets and requires appropriate fiscal discipline to be in place. The indicator reflects this by comparing the actual total primary expenditure with the originally budgeted total **primary** expenditure. This necessitates the exclusion from total expenditure of two types of expenditure over which the government has little control: debt service payments and donor funded project expenditure (loans and grants).

The evaluation indicates that the annual expenditure variances (actual less budget) were +6.6% in 2007/08, +20.4% in 2008/09 and +1.7% in 2009/10. The rating for this indicator is accordingly B since two of these variances exceeded 5% but only one of them exceeded 10%. A detailed breakdown by administrative head of expenditure (vote) is given in Annex 3.

Example of presentation in a summary box

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
The deviations (in absolute terms) were 6.6%, 14.8% and 3.6% in 2007/08, 2008/09 and 2009/2010 respectively.	**B**	i) In no more than 1 of last 3 years has actual expenditure deviated from budgeted expenditure by amount equivalent to more than 10% of budgeted expenditure.	Annual Estimates and Annual Accounts	**B**	Previous deviations were 5%, 10.1% and 2%

Clearly the worst performing year was 2008/09, which reported a particularly high adverse expenditure variance in the Agriculture and Food Security vote. Actual expenditure during this (election) year was almost two and half times the amount budgeted due to higher than expected volume of purchases and prices of fertiliser. A comparison with the results of the 2008 PEFA Assessment is made in Table 7 below, which shows a change from consistent under-spending to consistent overspending.

Table 7: PI-1 Comparison between 2008 and 2011 PEFA Assessments

PEFA 2008		PEFA 2011	
Financial Year	**Expenditure Variance (%)**	**Financial Year**	**Expenditure Variance (%)**

2004/05	-5	2007/08	+6.6
2005/06	-10	2008/09	+14.8
2006/07	-2	2009/10	+3.6

PI-2 Deviations in composition of expenditure out-turn compared to original approved budget

(i) Extent of the variance in expenditure composition during the last three years, **excluding** contingency items

This indicator measures the extent to which reallocations between budget lines have contributed to the variance in expenditure composition as compared with what was originally planned. The credibility of the budget is adversely affected by significant individual variances across functional expenditure. Such variances indicate that the budget has not been implemented in the manner originally intended. They may reflect weaknesses in any or all of budget formulation, execution, and monitoring.

It is important to note that the basis for measuring this indicator has very recently changed. The indicator now comprises two dimensions. The first is based on the premise that, in order to maintain the relative value that the initial budget process implicitly placed on the resource allocations to each functional area of activity, it is necessary to restate the initial allocations to reflect the actual budget outturn. (In other words, if the actual expenditure had been known in advance what would the functional allocations have needed to be in order to achieve the same relative values?). Actual expenditure by function is then compared with these adjusted figures. The second dimension concerns the manner and extent to which contingencies are applied.

The calculation of the score for PI-2 presents no additional difficulty because the PEFA Secretariat has issued new guidance, including a spread sheet that performs the calculation automatically once the data are entered. What does require care, however, is the interpretation of the result, especially when making comparisons over time. This can be done either by restating previous scores or by comparing the new score with what it would have been using the original method. For ease of calculation, the latter approach has been adopted and is shown below.

Analysis of budget deviations for primary expenditure between budgeted amounts and actual out-turns by administrative unit shows that expenditure allocation deviations were high throughout the three years under review. The percentage excesses were 13.7%, 23.3% and 7.8% respectively. Thus, in each year, and especially in 2008/09, there has been a substantial reallocation between budget lines (for detailed calculations see Annex 3).

The expenditure composition variances are of such magnitude that the **first dimension merits a score of C** because variances exceeded 15 % in one of the last three years. Although this represents an improvement from 2008 (when the indicator score was D), it is still of some concern that changes in composition of expenditure are quite substantial, thereby undermining the credibility of the budget as an accurate and reliable indicator of resource allocation in line with policy priorities. It suggests that there is only a weak link between in-year cash management decisions and policy priorities insofar as these are reflected by the original budget. Clearly, 2008/09 was a particularly problematic year.

In the second dimension of the indicator, the GoM scores well because it conforms to the internationally accepted good practice of not charging much of its expenditure to a contingency vote. The only significant contingency item concerns the provision for in-year adjustments to Personal Emoluments (PE) which is made in the Human Resources Vote until being largely cleared as the Estimates are revised. The dimension earns a score of A, giving an overall indicator score of C+ using the M1 scoring method.

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**C**	

Variances were 13.7% in 2007/08. 23.3% in 2008/09 and 7.8% in 2009/10	C	(i) Variance in expenditure composition exceeded 15% in no more than one of the last three	Annual Estimates and Annual Accounts	**C**	Variances have decreased but are still substantial
Actual expenditure charged to the contingency vote was on average nil in the last three years.	A	Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.	As above.	**N/A**	*(new dimension)*

PI-3 Deviations in aggregate revenue out-turn compared with the original approved budget

Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based upon that forecast. During the period under review, aggregate revenue has consistently exceeded budgeted revenue as Table 8 shows.

Table 8: Comparison of Actual and Budgeted Revenues (all figures in MKW million.)

	2007/08	2007/08	Actual as % Est	2008/09	2008/09	Actual as % Est	2009/10	2009/10	Actual as % Est
	Est	Actual		Est	Actual		Est	Actual	
Customs and Excise	36160	54871	151.8	49970	52763	105.6	50440	52153	103.4
Income Tax	37240	40819	109.6	39330	51475	130.9	51680	67671	130.9
Domestic VAT	12800	2267	17.7	15000	18683	124.6	21000	21932	104.4
TOTAL TAX REVENUE	86200	97957	**113.6**	104300	122921	117.9	123120	141756	115.1
Deptl. Receipts	10140	8101	79.9	5144	5083	98.81	6644	12988	195.5
Other		965		5722	9818	171.6	16656	22936	137.7
TOTAL NON-TAX REVENUE	10140	9066	89.4	10866	14901	137.1	23300	35924	154.2
TOTAL REVENUE	96340	107023	111.1	115166	137822	119.7	146420	177680	121.4

Source: Annual Consolidated Appropriation Accounts and Approved Financial Statements

Analysis of the data shows a fair amount of volatility in individual tax revenues as compared with budget. In 2007/08, Customs and Excise was the star performer, but in the following two years it was Income Tax that showed the largest percentage favourable budget variances.

This is another indicator that has recently changed and requires careful interpretation. Under the original arrangement, a score of A was automatically gained in situations where actual revenue exceeded budget. As a result, the score did not reflect the fact that such a result was not necessarily a reflection of good performance but might arise due to poor or over-cautious revenue forecasting or windfall gains from rising commodity prices. The new methodology, therefore, allows for such a case by introducing the possibility of lower scores even when actual revenue exceeds budget. The upside scale differs from the downside, though, to reflect the fact that under-realisation of revenue has more serious consequences than over-realisation and that, within reasonable limits, prudent revenue forecasting is to be commended. Thus, whereas the cut-off point for a score of A is 3% under-realisation, it is double that (6%) for over-realisation and a similar pattern obtains for lower scores. Again, inter-period comparisons can fairly be made only with restatement of previous scores or by current-period calculations under both methods.

The results for this indicator are shown in Table 9 below which shows that, in 2011, the score was D. The score would have been B in 2008 had the new methodology been in place then. Equally, the score in 2011 would have remained at A under the original approach.

Table 9: PI-3 Comparison between 2008 and 2011 PEFA Assessments

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Actual domestic revenue collection rates were 111%, 120% and 121% of budget	**D**	Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years.	Annual Consolidated Appropriation Accounts and Approved Financial Statements	**A**	Variances in PA were 9%, 19% and 11% which would have merited a score of B using the new methodology

PI-4 Stock and monitoring of expenditure payment arrears

Stock of expenditure payment arrears

Since November 2005 the GoM has been operating the EPICOR Financials Suite of financial management software — known locally as the Integrated Financial Management System (IFMIS). It currently operates 5 modules of the software (General Ledger, Accounts Payables, Accounts Receivable, Commitments and Cash Management). However, not all budgetary units are yet connected to the IFMIS; out of a total of 66, around 50 are on line and there are many individual cost centres within budgetary units (as many as 270 in Education) Roll out has so far taken place in 17 Districts, with another 5 planned by 30 June 2011.

The wider roll-out of IFMIS has made the accumulation of payment arrears less likely. These had in the past been a major problem in Malawi, with an audit in 2005 revealing an arrears total of 10.5 billion Kwacha. This sum was cleared off in the next 3 of 4 years and a concerted effort made to prevent a recurrence of the problem. In general, where IFMIS is in place, it 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.**

In 2008 GoM set up an Arrears Committee to monitor the occurrence of new arrears based on the following criteria:

(i) Procurement of goods and services will be paid up front; government will not procure on credit

(ii) Arrears of payment of goods and services will only arise for the following:

(a) For post paid utilities, GoM directed that utility providers for water, power and telephones should install prepaid meters in all Government institutions.

(b) Long term contracts; by nature these are paid in arrears

(c) Annual subscriptions; Ministries, Departments and Agencies (MDAs) pay subscriptions during a financial year in arrears. MDAs have since been asked to reduce membership to institutions for activities that are not consistent with MGDS I.

The Arrears Committee has not received incidences of new arrears since these measures were put in place. The committee is now collecting data on progress of installation of prepaid meters for water and electricity and also arrears from long term contracts. The incidence of new arrears is very unlikely, as procurement of goods and services is only possible after commitment in EPICOR.

Arrears on utility payments have been a problem in the past but service disconnection is said to deter their accumulation and two Ministries emphasized that priority is given to ensuring that these arrears do not arise. Moreover, utility bills for some institutions are settled by the Accountant General.

Contracts appear to be more problematic. The commitments module of EPICOR does not yet handle multiyear contracts, although this is a planned enhancement to the system. The budgetary units are required to prepare an annual cash flow forecast, consolidating all their cost centres and profiled to reflect peaks and troughs in spending. This is accompanied by an annual procurement plan. The latter forms the basis for tendering by the budgetary unit, which, because of the time lag involved in procurement, needs and is allowed to precede the receipt of funds. However, there is no guarantee in practice that full funding for capital spending will be made available at the planned time due to uncertainty and unpredictability that surrounds some of the Government's own funding. Consequently, the situation may arise in which contract payments become due prior to the receipt of funding, causing payment arrears to arise. Price escalation may exacerbate the problem. One Ministry reported such a case in the 2009/10 financial year with arrears amounting to 73 million Kwacha.

Overall, there are no indications that total arrears could exceed 10 per cent of total expenditure, which would point to a rating of B or C but issues associated with the second dimension of this indicator prevent a score being given. Dimension score: not scored (as in 2008).

(ii) Availability of data to monitor the stock of expenditure payment arrears

The key issue is that, as in 2008, there is no routine process for monitoring payment arrears as yet. We were informed that individual line Ministries could determine their level of arrears but this is not a regular process. Moreover, arrears are not being systematically calculated and reported at the aggregate level. There are plans to reconfigure IFMIS so that arrears can be tracked from source. An Inter-Ministerial Arrears Committee has met irregularly. However, no figure was available for total arrears as at 30 June 2010 and the overall conclusion is that, whilst payment arrears are probably relatively small, they are not being effectively managed and monitored. Dimension score, reflecting absence of any information: D.

PI-4 Stock and Monitoring of expenditure payment arrears

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	NR			**NR**	
Arrears are unlikely to reach 10 per cent of total expenditure but the amount was unavailable.	NR	It was not possible to determine the amount of arrears	None	NR	No change
There is no reliable data on the stock of arrears from the last two years.	D	There is no reliable data on the stock of arrears from the last two years.	None	D	No change

3.2 Comprehensiveness and transparency

The next group of 6 indicators deal with various aspects of the cross-cutting issues of comprehensiveness and transparency, both of which are characteristics of well-performing PFM systems.

PI-5 Budgetary Classification

This indicator evaluates the budgetary classification system used to formulate, execute, monitor and evaluate the GoM budget. The documents used have been the Approved Estimates, the Annual Financial Statements and the Annual Consolidated Appropriation Accounts. Examination of these shows that the GoM now employs quite a wide variety of approaches to classification.

The Approved Detailed Estimates analyse expenditure in accordance with the following hierarchy:

- Vote, e.g. Ministry of Education, Science and Technology (Administrative Classification)
- Type of Expenditure – Recurrent (Personal Emoluments (PE) and Other Recurrent Transactions (ORT) or Development (Part 1 funded by donors and Part 2 funded by Government)
- Cost Centre, e.g. Blantyre Teacher Training College (location/institution classification)
- Programme, e.g. Education and Vocational Training (functional)
- Sub-Programme, e.g. Teaching and Learning Materials (sub-functional)
- Item, e.g. Internal Travel (economic)
- Sub-Item, e.g. Subsistence Allowances

This analytical framework is facilitated by a comprehensive Chart of Accounts which was changed in 2009/10. The items and sub-items are common across Government as are many of the programmes and sub-programmes (such as Management Services and Health Services), thus enabling aggregated functional and economic analysis). As part of the budget reform process, a new development in 2009/10 was the introduction of a revised list of 19 government programmes that capture the functions of government and replace the previous system based on 51 spending programmes. Spending within votes can be classified according to this new list. The new functional programmes differ from the COFOG standard but the sub-functional structure permits a translation of these using a bridging table to a standard consistent with the COFOG functional classification, thus making the system GFS-compliant.

Another innovation has seen the classification of budget activities as MGDS and non-MGDS expenditures. The allocation covers ORT and development expenditure only as it is felt that PE expenditure cannot be associated with any one specific activity.

PI-5 Classification of the budget

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
The new functional programmes differ from the COFOG standard but the sub-functional structure permits a	**A**	The budget formulation and execution is based on administrative, economic and sub-functional	Approved Estimates, the Annual Financial Statements and the Annual Consolidated	**B**	Compared with 2006, performance has improved with the more effective use of functional classification.

translation of these using a bridging table to a standard consistent with the COFOG functional classification, thus making the system GFS-compliant.		classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)	Appropriation Accounts.		

PI-6 Budgetary Comprehensiveness

The documentation relating to the annual appropriation bill presented to the Legislature for its scrutiny and approval should provide a complete picture of the central government's fiscal forecasts, and budgetary allocations and results from previous years. In this case, this indicator evaluates whether sufficient documentation has been included with the **most recent** appropriation Bill presented to the Legislature (i.e. 2010/11) in order to achieve this objective.

The budget submissions to the National Assembly are voluminous and very detailed. The budget format includes the approved as well as revised estimates for the previous year, the proposed estimates for the coming year and projected expenditure data for the next two years. The appropriations accounts include the actuals in the same format as the budget documents; however, for the three fiscal years under consideration the GoM was unable to present the audited appropriations accounts for the previous year at approximately the same time as the Budget documents[6]. Thus, prior year outturns have not been available to parliament as part of the budget documentation submitted.

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

- The Budget Statement by the Minister of Finance contains Government policy and some of the estimated impacts of new policy on the budget;
- The Economic and Fiscal Policy Statement produced by the Ministry of Finance outlines the fiscal policies that underpin the budget over the short and medium terms;
- The Annual Economic Report (Budget Document No.2) prepared by the Ministry of Development Planning and Cooperation (MDPC) includes the economic outlook and key economic assumptions for the budget including GDP, inflation, balance of payments position and exchange rate;
- The Draft Estimates of Expenditure (Budget Document No. 5) as proposed together with the approved and revised estimates for the previous budget year;
- Financial assets have not been included in the budget submissions;
- The Financial Statement (Budget Document No. 3) which does not include actual expenditures but only estimates and revised estimates for the previous year and draft estimates for the current budget year;

[6] The audit of the appropriation accounts has now been brought up to date with the audit for the financial year 2009/10 having been completed on time by the end of December 2010; the audited accounts were submitted to the National Assembly by the Minister of Finance on 3 March 2011.

- Summary revenue estimates for the budget year and the current year (budget year-1);
- Debt Service Estimates (in attachment);
- The Debt Stock listing individual creditors (in attachment).

Information Contained in Budget Documentation

Documentary Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation and interest rate estimates, at the very least.	Yes	This information is included in the Annual Economic Report.
2. Fiscal deficit.	Yes	Included in Annual Economic Report and Financial Statements
3. Deficit financing	Yes	As in 3.above
4. Public debt balance.	Yes	As above
5. Financial Assets.	No	No information has been provided to the National Assembly due to past delays in compiling and auditing the annual appropriation accounts.
6. Prior Year's Budget Outturn (2008/09).	Yes	The Financial Statements for 2010/11 provide actual expenditure for 2008/09 and approved and revised estimates for 2009/10
7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.	Yes	See above
8. Summarized budget data for both revenue and expenditure according to the main heads of classifications used (ref. PI-5), including data for the current and previous year.	Yes	The budget includes summarised data according to the main heads of classification for both revenue and expenditure. The Annual Economic Report also contains an analysis of both recurrent and development expenditure on a functional and economic classification basis.
9. Explanation of the budget implications of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	No	This is only partially done in the Budget Policy Statement.

Proportion of information contained in the budgetary documentation published most recently by the central government.

Recent budget documentation fulfils 7 of the 9 information benchmarks, compared with 6 in 2008. Compared with the 2008 Assessment, additional credit is being given in recognition of the fact that the detailed estimates for 2010/11 provide actual expenditure for 2008/09 and approved and revised estimates for 2009/10 (benchmark 6).

PI-6 Comprehensiveness of information included in budgetary documentation

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Recent budget documentation fulfils 7 of 9 requirements	**A**	Recent budget documentation fulfils 7-9 of the 9 information benchmarks		**B**	Previous assessment scored this indicator as 'B' because the previous years' data was excluded. Budget documentation now more comprehensive.

PI-7 Extent of unreported government operations

(i) *Level of extra-budgetary expenditure (other than donor-funded projects) that is not declared — in other words — that does not appear in fiscal reports*.

The first dimension of this indicator considers the extent to which government operations may be unreported and therefore rank as extra-budgetary. The existence of unreported government operations may affect the efficient allocation of resources. Given their nature, it is by definition difficult to quantify accurately the extent of unreported government operations.

In Malawi there is little risk of core government activity being unreported. All government services, whether provided centrally or under decentralized arrangements, are consolidated and reported in the Annual Estimates and the Annual Appropriation Accounts. The major exception concerns Treasury and Trust Funds.[7] Information supplied by the Accountant General's Department (AGD) shows that total payments on Treasury and Trust Funds had reached over 425 million Kwacha by month 7 of the current financial year (January 2011). It also suggests that the capture of the relevant data is less than complete.

The issue of Treasury Funds and the consequent incompleteness of government financial reporting have been raised on several occasions by both the IMF in particular and the CABS donors in general. Whilst it appears to be an area the GoM has committed to look at, minimise or even eliminate, there is no evidence to confirm that this is being done. Dimension score: B.

(ii) *Information on income and expenditure in relation to projects financed by donors included in the fiscal reports.*

Although there is some evidence to suggest that as much as 50% grant-financed project expenditure may not be included in the fiscal reports, in the absence of the concrete information requested from GoM on this issue, the dimension has not yet been scored.

PI-7 Extent of unreported government operations

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		

[7] According to the Treasury Instructions, Treasury Funds are a means of accounting for operations that are "of a commercial nature" and for which it would be "inappropriate" to record the transactions through Voted Expenditure and Revenue. Trust Funds may be held by Government on behalf of others or in its own right but subject to conditions as to its use, Either way, while forming part of the overall Government accounts, they do not appear in the Estimates.

	NR			**NR**	
Treasury Funds and Trust Funds are the most problematic but account for no moe than 1–2% of government expenditure	B	The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1–5% total expenditure.	Annual Estimates Annual Appropriation Accounts		.
Information not available	NR				

PI-8 Transparency of inter-governmental fiscal relations

This indicator is concerned with three main issues that pertain to sub-national government (SNG). These are the basis on which financial transfers are made; the timeliness and reliability of information on allocations of resources to SNG; and the way in which financial information is consolidated and reported.

(i) Transparent and rules-based systems in the horizontal allocation among SNG of unconditional and conditional transfers from ventral government (both budgeted and actual allocations)

This dimension necessitates a discussion of the system of resource transfers to SNG in Malawi. SNG currently comprises 28 Districts and 6 urban authorities (Cities and Municipalities), the former towns having been integrated into Districts under new legislation that came into force in 2010. There has been no change in the number of districts in the period under review. However, there has been a significant increase in the number of functions that have been decentralized. Whereas originally only the health, education and agriculture sectors were decentralized, SNG is now responsible for service provision in 14 sectors. Together, these sectors account for a large proportion of government expenditure and are central to the key goals of sustainable development and poverty reduction.

Given the importance of decentralized public service delivery in Malawi and the limited nature of SNG's own sources of finance, it is clearly essential that a transparent, rules-based system should exist for the transfer of resources from the centre down to SNG and horizontally among individual SNG units. Such a system does exist in Malawi, whose management is the responsibility of a specific institution, the National Local Government Finance Committee (NLGFC). Under the Local Government Act 1998, as amended in 2010, the distribution of grants to the Assemblies[8] which comprise SNG is carried out by the Minister for Local Government on the recommendation of the NLGFC **in accordance with a formula approved by the National Assembly.**

The issue of parliamentary approval is relevant to the current situation in Malawi. Inevitably, as more government functions have been decentralized, the formula in use had had to be expanded and reformed over time in the light of past experience. But parliamentary approval has not been sought and granted since 2004/5 despite considerable work — involving major consultation exercises with key stakeholders — having been done to improve and expand the formula. The findings of a 2007 study should have been submitted to the National Assembly for approval but were not. New proposals developed through a round of consultative meetings are now planned to be submitted to Parliament.

The current system of transfers comprises both unconditional grants (the General Resource Grant) and conditional, sector-specific grants. Both types of grant are made in accordance with specified formulae. Dimension score: A.

(ii) Timeliness of reliable information to SNG on their allocations

[8] The term "assembly" may be regarded as something of a misnomer at the moment because there are no elected councillors due to the lack of local elections since 2000. Currently, there are consultative forums comprising the Members of Parliament for the area, NGOs and other community and interest groups. The District Administrator heads the administration.

Since the financial year 2005/06, the assemblies have been a form of de-concentrated central government rather than local government. Their finances have become part of the national budget — each has its own Vote — and accounts and are regulated by the Public Finance Management Act 2003. In this context, the question of the timeliness of reliable information on allocations to SNG can be seen as a subset of the general budget allocations issue. In respect of the last completed financial year (2009/10), the Ministry of Finance issued the notification of (provisional) budget ceilings to vote holders — which, in the case of SNG, then had to be communicated to the assemblies — on 2 April 2009, giving only two weeks for budget submissions to be made by 17 April 2009[9]. It can be seen, therefore, that although SNG received reliable information on their allocations before they complete their budgeting proposals, that information was not received before they start their budgeting processes and the time available for SNG to change their proposals was extremely compressed. Dimension score: C.

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories

The assemblies are required to submit monthly financial reports to the NLGFC by the 10th of the following month. The NLGFC provides quality assurance — and may send reports back for improvement during which time funding releases may be withheld — before onward transmission to the Accountant General. Challenges include the fact that only 17 Districts are currently on IFMIS (with plans to extend this number to 22 by the start of the financial year 2011/12) and the application of the new Chart of Accounts. Final accounts are submitted to the Ministry of. Finance to be consolidated into a set of national appropriations accounts. The consolidated SNG financial statements are prepared in accordance with the standard government standard, included in the final appropriations accounts and subject to external audit by the National Audit Office (NAO). The NAO has been making concerted efforts to catch up on the backlog of assembly audits having reported on 31 October 2010 on an audit covering the three financial years ended 30 June 2006, 2007, and 2008. It is currently engaged in auditing the two outstanding years up to 30 June 2010, the second of which is the subject of this PEFA assessment in respect of this indicator. The audit found a range of PFM shortcomings culminating in late preparation of annual financial statements. This finding, together with the fact that the audit of the year under review has still to be completed, casts doubt on the accuracy and reliability of financial information reported by SNG. Dimension score: B.

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B+			**B+**	Performance unchanged
Rules-based formula in use	A	The horizontal allocation of almost all transfers (at least 90%) from central government is determined by transparent and rules based systems	MLG NLGFC		.
Information provided is reliable	C	SNG are provided reliable information on their allocations ahead of completing their budget proposals	MLG NLGFC		

9 The situation was rather better a year later as budget ceilings for the current financial year (2010/11) being notified on 4 March 2010 with budget submissions due by 29 March 2010

Timely reporting in place	A	Fiscal information that is consistent with central government reporting is collected and consolidated into annual reports within 10 months of the end of the fiscal year.	MLG NLGFC MoF		

PI-9 Oversight of Aggregate Fiscal Risk caused by other public sector public entities

This indicator is concerned with the monitoring of autonomous public bodies state companies and SNG in terms of the fiscal risk that they may present. It comprises two dimensions.

(i) Degree of central government monitoring of the main autonomous public organisms and state companies.

The statutory bodies in Malawi are regulated by Part VIII of the Public Finance Act 2003 which imposes a number of reporting obligations on them, before and after a particular financial year. Oversight of these bodies is a shared responsibility between the Public Enterprises Reform Monitoring Unit (PERMU) in the Ministry of Finance — which is responsible for monitoring their financial performance — and the Comptroller for Statutory Corporations in the Office of the President and Cabinet (OPC), which has responsibility for their overall performance and corporate governance. PERMU was established in 2000 and is responsible for the oversight of commercial Public Enterprises (PEs)[10].

There are various types of statutory bodies. They are generally classified as commercial public enterprises, semi-commercial statutory bodies, treasury funds and subvented statutory bodies. The latter has its own vote and falls within government expenditure with the same oversight arrangements as apply to all government expenditure. Statement 4 (a) of the Consolidated Annual Appropriation Accounts for the financial year ended 30 June 2010 records the amount of these subventions as 11.78 billion MKW, or approximately 6% total recurrent expenditure for the year.

There is a systematic reporting process to PERMU in respect of the commercial statutory bodies that it monitors. A key component of this is the mid-year report of actual versus budgeted performance which forms the basis of mid-year progress review meetings with each body individually (at the time of writing these have just been concluded for the current financial year 2010/11). Any deficiencies or gaps in these reports have to be addressed within one week of the meeting. PERMU analyses the financial reports for fiscal risk on the basis of such factors as liquidity, profitability, and return on assets and debt to equity ratios. The statutory bodies also submit annual audited (by private sector auditors) reports that are summarised and analysed for fiscal risk — these should be verified and signed off by the National Audit Office but the latter has in the past suffered from capacity constraints which it is trying to address. Some of the public enterprises audited financial reports have been up to two years in arrears and there is some inconsistent information regarding the current position regarding external audit of these bodies. One public enterprise that is problematic is Air Malawi, which poses a particular fiscal risk to Government as acknowledged in the Annual Economic Report 2010 which notes that, whatever happens to this organisation, "strategically, the shareholder would still have to pay out huge amount of money in liquidation or continuity of operations." The annual reports are integrated into Budget Document No. 2 (the Annual Economic Report), which is submitted to Cabinet and the Parliament. Further to their oversight activities, PERMU sits on the corporate boards as well as the

[10] According to Chapter 17 of the Annual Economic Report 2010-, this includes the following 12 PEs - Northern Region Water Board, Central Region Water Board, Lilongwe Water Board, Southern Region Water Board, Blantyre Water Board, Air Malawi, Malawi Housing Corporation, Malawi Posts Corporation, Electricity Supply Commission of Malawi, Agricultural Development and Marketing Corporation, Malawi Communication and Regulatory Authority and Airport Development Limited.

Audit Committees set up in each of the key commercial statutory bodies. It should be noted that there are capacity constraints with regard to carrying out PERMU's corporate board and audit responsibilities since there are only three staff in the unit.

The conclusion is that there is oversight and a consolidated report on the PEs. Fiscal reporting to the PERMU generally is working well but there still seem to be issues over the audit of some PEs which casts doubt on the reliability of some of the financial information that is reported. And it is not clear how comprehensive is the coverage of AGAs and PEs. Dimension score: B.

(ii) Degree of central government monitoring of SNG's fiscal position

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

PI-9 Oversight of aggregate fiscal risk caused by other public sector institutions

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**C+**	
Oversight arrangements are generally working well and there is a consolidated report on the PEs but there still seem to be issues over the audit of some PEs.	B	All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report.	Accountant General's Department		
Reasonable monitoring of SNG takes place at central government level.	C	The net fiscal position is monitored at least annually for the most important level of SNG abut a consolidated overview is missing or significantly incomplete.	Accountant General's Department		

PI-10 Public access to key fiscal information

(i) Number of the elements regarding public access to information, mentioned above, that are used (an element can only be considered for the purposes of this evaluation if it fulfils all the requirements within the information parameter).

The transparency of key fiscal information is evaluated by determining the availability and ease of access to relevant documentation to the public, or at least to interest groups, and also the quality and completeness of the information made available and the timeliness with which the information becomes available. This evaluation focuses on the dissemination practices related to the last completed fiscal year, that is, FY 2009/10. This is an area in Malawi where substantial progress has been made with a variety of media being used to dissemination important financial information in English and Chichewa. These include newspapers, radio and television, bookshops and the internet. More needs to be done to enhance and improve the last-named, however. Budget documents including the Mid Year Review are distributed to NGOs, universities, public libraries and Malawi's development partners.

The evaluation of this indicator is based on the number of elements listed in the table below to which the public had access to information.

Types of Information	Means of Availability
Annual Budget Documentation when submitted to legislature	Yes – Budget documentation is made available by the Ministry of Finance on the day of the budget and can be obtained through government bookshops
In-year budget execution reports within 1 month of completion	Yes – made available through the press and online.
Year-end financial statements within 6 months of completed audit	No – although the annual financial statements were completed on time by 30 October 2010, audited by 31 December 2010 and have now been tabled in the National Assembly, there is as yet no sign of them in the public domain, including on the MoF or NAO websites.
External audit reports within 6 months of completed audit	No – the NAO has been catching up on a large backlog of outstanding audits but its reports are not yet public
Contract Awards with value above approximately USD 100,000 at leas quarterly	No
Resources available to primary service units publicised at least quarterly or available on request in at least two sectors	No, though at District Assembly may still be practice to post such information on public notice boards

PI-10 Public access to key fiscal information

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
Annual budget documentation and in-year reports made available	C	(i) Government makes available 2 of the 6 listed types of information.	Government website Press	C	No change

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3.3 Policy-based budgeting

PI-11 Orderliness and participation in the annual budget process

(i) Existence of, and adherence to, a fixed budget calendar

The PFM Act and supporting regulation[11] set out the overall schedule for the annual budget preparation process. At the core of the legislation is the issue of the annual Budget Circular which according to the regulation shall be issued by November each year[12] or at least 6 months prior to the beginning of the fiscal year in question.

The timetable or calendar for the budget preparation process calls for the elaboration of estimates by MDAs on i) Outcome, ii) Output, iii) Input, iv) Activity and v) Performance measure across the main functional and economic classifications, including recurrent expenditure and development (investments). These initial Estimates will be subject to discussion and review with Treasury - and if required the MDAs will resubmit their budget estimates to Treasury — before Treasury consolidates the estimates and the Ministry of Finance submits the budget ceilings to the Cabinet for approval. Following approval by the Cabinet — which may include a number of revisions of the initially submitted estimates — the Minister of Finance presents the Estimates (Appropriation Bill) to Parliament.

The Ministry of Development Planning and Cooperation (MDPC) is involved with regards to determining eligible projects for inclusion in the annual budget to ensure they are within the framework of the Public Sector Investment Programme (PSIP) and the Malawi Growth and Development Strategy (MGDS). As such Ministries have been consulted by MDPC to ensure that planned activities are aligned with the MGDS and that the centralised list of activities provides a more complete and accurate reflection of government activities. Only activities endorsed by MDPC should be included in the Ministry of Finance Project matrix from which MDAs can prioritize their projects.

The budget guidelines for elaboration of the 2010/2011 budget[13] were issued in February 2010. The guidelines do outline a fixed calendar for the budget preparation process. The actual budget preparation process, however, deviated from the process outlined in the regulations. The budget call circular was issued on the 4th of March of 2010 providing budget ceilings — approved by the Cabinet on the 2nd of March 2010 — per main head, including development part II investments ceilings and gives a 29th of March 2010 deadline for submitting proposals from line ministries, thus giving MDAs a little less than 4 weeks to prepare their submissions. Dimension score: C.

(ii) Guidance on the Preparation of budget submissions

The budget guidelines for elaboration of the 2010/2011 budget are fairly comprehensive and outline a number of planned and on-going reforms in the PFM system under development at the time of the issue of the budget guidelines. The budget call circular provided further instructions for budget preparation, including approved budget ceilings per main head per vote including ceilings for Development part II investments. **This represents an improvement relative to the 2008 PEFA assessment**. The circular is fairly comprehensive and supplements the budget guidelines. Dimension score: A.

(iii) Timely approval by the legislature

Table 10

Parliamentary budget approval process

Budget	Date submitted to Parliament	Date approved by Parliament

[11] Public Finance Management Act (no 7 of 2003), Treasury Instructions (October, 2004) and Accountant Generals Desk Instructions – Government Accounting and Financial Controls Procedures (October, 2006).

[12] Section 4.2 in the Treasury Instructions as well as section 2.4.2 in Desk Instructions.

[13] Guidelines for the Preparation of the Draft Estimates of Expenditure on recurrent and Capital Accounts and Estimates of Revenue for the 2009/2010 Financial Year, Ministry of Finance, December 2008

2008/2009	23/5/2008	28/8/2008
2009/2010	3/7/2009	28/7/2009
2010/2011	28/5/2010	23/6/2010

As Table 9 demonstrates[14] only one year in three (the current fiscal year) has seen the budget passed prior to the beginning of the fiscal year. The other two years have been passed within two months of the fiscal year. Dimension score: C.

PI-11 Orderliness and participation in the annual budget process

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**C+**	
MDAs are given less than 4 weeks to prepare their submissions.	C	An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.	Budget Diviison MDAs		
A budget call circular and budget preparation guidelines have been issued, including budget ceilings approved by Cabinet.	A	A comprehensive and clear budget ciruclar is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.	Budget Division MDAs		
One of last three budgets has been passed before the start of the fiscal year, the other two within two months of the start of the fiscal year	C	The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.	Parliament		

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

[14] Dates have been provided by the Library and Research section in the Malawi National Assembly.

(i) Preparation of multi-year fiscal forecasts and functional allocations

The Malawi Vision 2020 has guided the development of the Malawi Growth and Development Strategy[15] which has replaced the Malawi Poverty Reduction Strategy (MPRS) as the medium-term strategy for Malawi. Currently, work is under way to elaborate the MGDS II. The overall forecast resource envelope is to be set by the Malawi Mid-Term Expenditure Framework (MTEF).

To support the implementation of the MDGS the MDPC elaborates an annual 5-year forward looking PSIP[16] which contains on-going and pipeline development programmes thus providing a link between the MGDS and the development budget in the annual government budget as well as providing guidance for sector ministries in their elaboration of forward looking sector plans. Together, the above instruments are intended to provide the fiscal framework (budget year plus 2 outer years)[17] within which the Ministry of Finance will produce the annual budget ceilings for MDAs with regard to recurrent and development expenditure.

However, the previous two completed fiscal years did not apply a coherent forward looking fiscal framework[18]. This is coupled with a still embryonic MTEF. Also, there has been no systematic feedback mechanism as the approved fiscal envelope estimate of outer-years 1 and 2 are not consistently updated and fed back to MDAs as outer-year 1 becomes the current fiscal year. MDAs are not consulted when multi-year functional estimates are elaborated. **Overall, with respect to this dimension, the assessment represents a decline in relation to the PEFA 2008 assessment**. Dimension score: C.

(ii) Scope and frequency of debt sustainability analysis

In order to manage debt services, to fund the forecasted liquidity shortcomings within the fiscal framework as well as to keep records of debt stock, the Ministry of Finance employs the CS-DRMS system to keep track of external debt. Internal debt is administered and monitored by the Reserve Bank of Malawi. Debt Sustainability Analysis for external and internal debt has been carried out for 2008 by the IMF/WB[19] and for 2009 by the regional training organisation MEFMI[20]. The 2010 debt sustainability analysis has been initiated in January 2011 and was not finished at the time of the PEFA 2011 assessment. The DSAs were endorsed by the GoM.

The Debt Sustainability Analysis stress tests show that — if continued — non-concessional financing in combination with low GDP and exports growth can lead to a steady increase in the debt ratios and thus breach the external debt sustainability thresholds by 2014. According to the Ministry of Finance this is being addressed, inter alia, amongst through attempts to restructure the debt towards carrying more concessional lending and less non-concessional. Furthermore, domestic debt is barely sustainable. Dimension score: A.

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure

It is a prerequisite for sound public finance and strategic management in the sectors that they elaborate and maintain sector strategies expressing priorities and associated costs in a multi-year context. The cost estimates should include a linkage between current investments and their future derived current expenditure for maintenance and operation. To strengthen the sector approach in the implementation of the MGDS the Government in late 2008 launched Sector Working Groups (SWGs) as the basis for programme planning, implementation, monitoring and evaluation in the sectors.

However, there seems to be a need for better guidance on definition of sectors/SWap" and the required content of a costed sector policy, as sector polices[21] continue to appear to be of varying comprehensiveness and scope. Economists from the Ministry of Development Planning and

[15] Malawi Growth and Development Strategy – from Poverty to Prosperity 2006 - 2011
[16] E.g. PSIP 2010/2011 – 2014/2015
[17] PFM Act (2003)
[18] As evidenced in the Fiscal tables presented by the Ministry of Finance Economic Affairs Department
[19] Joint IMF/World Bank Debt Sustainability Analysis for 2008 presented in the IMF 2009 Malawi Staff report.
[20] Report on External and Domestic Debt Sustainability Analysis in Malawi, December 2009

[21] These cover Education, Health and Agriculture, amongst others.

Cooperation are being deployed in the sectors but this has not yet led to the production of statements of sector strategies that are both fully costed and broadly consistent with fiscal forecasting health and educations. Costed strategies exist in the sectors covered by the MGDS, including health and education. Dimension score: C.

(iv) Linkage between investment budgets and forward expenditure estimates

The investment decisions continue to be made following analysis of the MDPC establishing a linkage to the MGDS. Current years' investments are generally not translated to recurrent (maintenance and operation) expenditure in oncoming years' budgets. Dimension score: D.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**B**	Performance deterioration
A coherent forward looking fiscal framework is not applied, with the MTEF still embryonic.	C	(i) Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	Meetings with Budget Division		
An annual DSA is carried out.	A	(ii) DSA for external and domestic debt is undertaken annually.	IMF Article IV Consultation Reports Meetings with Budget Division.		
Sector strategies are of varying scope and comprehensiveness with costing representing less than 25 % of primary expenditure.	C	Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.	Education Sector and Health Sector Strategic Plan, 2008–15.		
There is generally no link.	D	Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost	As above		

		estimates being shared.			

3.4 Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

Malawi Revenue Authority (MRA) was established in 2000 and is responsible for tax assessment, collection and accounting with regards to the revenue acts[22] concerning Customs and Excise, Income Tax and VAT. MRA's performance has been reported to improve and MRA reported that as of 2008 the tax-to-GDP ratio was approximately 18% under domestic and international trade tax regimes. In 2005 the MRA supported by the IMF Fiscal Affairs Department (FAD) conducted a review of the tax system and through a series of follow-up missions a number of recommendations have been elaborated. One recommendation has been to update and harmonize the various acts into one unified "Tax Administrative Code" which is reported to be on-going.

The recommendations have been captured and updated in the MRA reform programme[23] and summarily represented in the Public Finance and Economic Management (PFEM) Action Plan as the implementation of a new integrated tax administration system as well as system roll out to all MRA offices across the country and the introduction of electronic banking for large taxpayers. MRA was reorganized in 2010 to reflect, amongst other things, recommendations from a Business Process Review carried out in 2007 and 2008.

(i) Clarity and comprehensiveness of tax liabilities

The MRA operates a web-site giving access to legislation and information regarding tax liabilities, including amendments and other updates to existing legislation. The Acts and other regulations can also be bought and MRA also issues a number of free information leaflets. Furthermore, the MRA Public Relations Department issues public notices via radio, TV and the printed media with regard to changes in legislation and administrative procedures. Also, seminars and meetings directed at targeted stakeholders and audiences are carried out as part of the tax payer education strategy.

The legislation on Taxes and Customs dates back to the 1960s with a number of amendments and circulars added over time. The VAT legislation is considered to be comprehensive and clear whereas Customs and Taxation receives a less clear endorsement by stakeholders. The reform to modernize and uniform the tax code is still on-going. Despite the on-going reform initiatives by the MRA, the Malawi business community expresses growing concern[24] with the tax and customs administration which in 2010 were assessed as major obstacles to economic growth in the country. Furthermore, despite initiatives by MRA to reduce the discretionary powers of individual tax and customs officers this issue continues to be a concern for taxpayers and other stakeholders. Dimension score: C.

(ii) Taxpayers' access to information on tax liabilities and administrative procedures

MRA carries out a number of taxpayer education activities, makes available a fair amount of information on its web-site and uses the mass media to divulge information on taxes and procedures to the public. However, while recognizing that the tax administration has improved over the years with MRA becoming more customer-oriented, the business community points out that MRA quite often seems to be caught off-guard with MRA failing adequately and timely to explain the implementation of new tax measures. Dimension score: B.

(iii) Existence and functioning of a tax appeals mechanism

The tax appeals system is three-tiered. Complainants firstly appeals to their local office/station where the appeal is handled by the customs or tax officer and the station supervisor. Secondly, the taxpayer

[22] Customs and Excise Act, 1969 (and subsequent amendments and regulation), Taxation Act, 1964 (and subsequent amendments and regulation) and the VAT Act, 2005(and subsequent amendments and regulation).
[23] MRA – Integrated Modernization Plan 2009 – 2014, and MRA Corporate Plan 2009 – 2014.
[24] Malawi Business Climate Survey 2008, 2009 and 2010, Malawi Confederation of Chambers of Commerce and Industry.

may appeal to the MRA Commissioner General; this will be handled by the Appeals Committee at MRA headquarters and the Commissioner General will take a decision based on a recommendation from the Appeals Committee. Finally, the complainant can proceed with the appeal to the formal court system and the High Court.

No evidence has been provided to substantiate an assessment of improvements to the effectiveness of the tax and customs appeals system. As in the PEFA 2008 assessment the business community continues to report that the appeal process is long, cumbersome and sometimes irresponsive from the side of MRA. It has been reported that companies prefer to accept assessments they consider to be wrong in order to not seeing delays in the issue of their Tax Clearance Certificates. MRA on the other hand points out that long case handling is also due to lack of cooperation from tax payers not furnishing MRA with relevant case documents. Dimension score: B.

PI-13 Transparency of taxpayer obligations and liabilities

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**B**	No change
The VAT legislation is considered to be comprehensive and clear whereas Customs and Taxation receives a less clear endorsement by stakeholders.	C	Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.	Meetings with Revenue Authority.	C	
MRA carries out a number of taxpayer education activities, makes available a fair amount of information on its web-site (www.mra.mw).	B		Meetings with Revenue Authority & Chamber of Commerce.	B	
No evidence has been provided to substantiate an assessment of improvements to the effectiveness of the tax and customs appeals system.	B	A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.	Meetings with Revenue Authority & Chamber of Commerce	C	

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

MRA operates a number of IT systems to support taxpayer registration, tax assessment and administration as well as customs administration. Central to all systems and manual processes is the Tax Payer Identification Number (TPIN) database established in 1989, which currently holds approximately 25,000 active corporate and individual taxpayers. The TPIN is used in relation to VAT, Customs and domestic taxes. The taxpayer identification unit undertakes a number of activities to expand the registered tax base.

Other IT systems include systems for Customs (Asycuda), Income Tax on companies and Pay-As-You-Earn (TAC, in-house development) and VAT (a customized version of the Ghana VAT system). In 2007 and 2008, MRA carried out a Business Process review exercise[25] comprising all domestic taxes, including taxpayer interaction. As part of the MRA modernization plan, it is planned to automate all business processes by implementing an integrated tax administration package across all domestic taxes. A similar exercise is planned for Customs. However, Customs will continue to utilize Asycuda, but configured to interface electronically with the integrated system for domestic taxes and developing a “Single Window” in line with other regional Customs administration.

Individual and corporate taxpayers with revenues in excess of 1.7 million dollars (approximately 400 “large taxpayers”) have been selected for participation in a pilot project for self-assessment with respect to all relevant taxes. MRA accepts their assessment but carries out tax audits at a later stage. As soon as the integrated system gives support to an automated approach to self-assessment, the plan is to expand the number of taxpayers to do self-assessment.

(i) Controls in the taxpayer registration system

Domestic taxes and customs administrative business processes are supported by a number of IT systems as well as manual processes. The TPIN database, however, does not impose any controls to impede data pollution and is therefore subject to breach of integrity where taxpayers can have two or more TPINs. There is no registered direct linkage to systems outside MRA.

The major group of salary earners — public and private — in Malawi is not registered in the TPIN database as the PAYE tax is paid by the employer with the use of the employer TPIN. Consequently, there is no record of taxes paid by individual employees. Dimension score: C.

(ii) Effectiveness of penalties for non-compliance with registration and declaration of obligations

The IT-based tax administration systems in Malawi in general lack the functionality required systematically to track non-compliance with regards to registration and declaration of obligations. Furthermore, the registered tax base is small. The manual tracking of non-compliance is focused on larger taxpayers who account for the bulk of tax payments (approximately 75–80%). However, as in the PEFA 2008, the business community has reported that it is possible to get around penalties as these are not consistently applied and enforced. **In relation to the 2008 assessment, the scoring of this dimension has declined as it will require substantial changes to the tax administration to obtain a real impact on compliance.**

With regard to Customs, the situation is different as importers must pay duties upon importation of goods. Penalties in this area are mainly applied when importers declarations are found at fault. Dimension score: C.

(iii) Planning and monitoring of tax audit and fraud investigation programs

There are well-defined penalties for non-payment of taxes including VAT. MRA in general considers the penalties to be pre-emptive as well as administered and imposed within the administrative code. MRA reports that it has developed a strategy for carrying out tax audits, including criteria for selecting

[25] Malawi Revenue Authority, Business Process Review, October 2008.

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tax payers for audit. In addition MRA has since 2000 operated an (fraud) investigation unit that besides the collaboration with customs and domestic taxes also cooperates with external partners, amongst others the Anti-Corruption Bureau, the Financial Intelligence Unit under the Reserve Bank of Malawi and the Police. The investigation unit also reported to have a work and activity plan.

However, neither the tax audit section nor the investigation units have produced work plans and activity reports to substantiate audits and investigation activities undertaken as well as applied criteria. It has therefore not been possible to assess the risk assessment criteria applied. **This represents a decline in relation to the 2008 assessment**. Dimension score: D.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**C+**	Performance deterioration
The TPIN database is subject to breach of integrity where taxpayers can have two or more TPIN´s and there is no registered direct linkage to systems outside MRA	C	Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.	Tax laws, regulations and procedures	C	
It will require substantial changes in the tax administration to provide a real impact on compliance with regards to improving compliance with registration and declaration of obligations	C	Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.	Tax laws, regulations and procedures Interviews with RA staff.	C	
No work plans or activity reports have been documented and no clear criteria have been presented.	D	Tax audits and fraud investigations are undertaken on an ad hoc basis if at all	Interviews with RA staff.	C	

PI-15 Effectiveness in collection of tax payments

(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of the year, which was collected during that fiscal year (average of the last two fiscal years)

MRA reports that it records arrears on Tax and VAT. With regard to Customs, it is possible to pay duties in instalments over a maximum of 6 months and Customs will normally ask for a bank guarantee or collateral to authorize payments in instalments. These instalments are counted as arrears at the end of the fiscal year.

Table 11 Tax Arrears

(in MK)	**Start of fiscal year 2008/2009**	**Start of fiscal year 2009/2010**
Arrears	3.974.554.640	4.031.324.150
(in MK)	**End of fiscal year 2008/2009**	**End of fiscal year 2009/2010**
Collection of primo arrears	3.791.934.393	6.877.414.820
% collected of primo arrears	Cannot be calculated	Cannot be calculated
Average for the 2 years		

MRA has produced the figures in Table 11 above. However, the figures related to collection of opening arrears also include collection of arrears arising during the year. The percentage of tax arrears at the beginning of the fiscal year which was collected during the fiscal year cannot be calculated. Dimension score: Not Scored.

(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration

During the fiscal year 2008/2009, MRA introduced electronic banking as a payment mode for payment of taxes and customs[26]. As the MRA reviews and re-engineers its business processes within the ambit of tax administration reforms, Electronic Banking is seen as a core initiative supporting the modernization process. With the introduction of electronic banking for tax payments 80% of all revenues — tax and customs — are now collected in stations with a bank performing the cashier function (four commercial banks have qualified as cashiers). Banking of revenues in stations that do not yet have a bank as cashier — all stations are planned to eventually have a bank as cashier — is done within 3 days from the moment of taxpayer's payment in the local station due to the logistics involved in getting cash and cheques deposited (with regard to cheques, a number of additional days must be counted due to the clearing of the cheque) in the nearest bank branch.

The four commercial banks upload a file each day to MRA with all the transactions of the previous day, including an information string per transaction identifying amongst other TPIN, tax type, a reference number etc. This information is provided to the banks as taxpayers fill in a form (1 form per tax or custom duty) when paying in the bank. Approximately 5% of the forms are not filled in correctly or input erroneously by the bank. Dimension score: B.

(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury

When MRA has implemented an integrated (back-end) tax administration system the (self) assessment of any tax will produce a tax-invoice with, for example, a barcode to be used by the banks when the tax is paid, vis-à-vis Asycuda. As MRA receives payment information from the banks, this information will be fed back into the tax administration system, thus closing the loop and enabling MRA to follow up on assessments not yet paid and providing exact classification of paid tax assessments. MRA executes 1 daily transfer into Treasury's Consolidated Account in the Reserve Bank of Malawi (RBM) from each of the 4 commercial banks. As it stands today, around 75% of any given transfer to Treasury is classified with 25% coming from stations without a bank as cashier or erroneously classified. The classification in EPICOR by the Ministry of Finance of incoming revenue is, however, only carried out on a monthly basis on the basis of a consolidated monthly statement provided by MRA.

[26] MRA – A concept paper and project plan for the implementation of electronic banking for tax payment, October 2007.

MRA recognizes that the current systems setup makes it quite difficult to give a coherent and precise status on reconciliation. However, MRA traces back payments to their corresponding assessments. This is necessary in order fully to classify transfers made to Treasury and to attempt to identify arrears and non-compliance. The procedures to track back payments to assessments and fully classify transfers to Treasury are manual.

Reconciliation efforts are reported to take place every month in MRA with a status report elaborated quarterly but not within six weeks of the end of quarter. Despite improvements, due to the introduction of electronic banking the overall quality of the reconciliation remains poor. **However, with regards to the PEFA 2008 assessment the score attributed to the dimension in this assessment represents an improvement**. The reconciliation includes reconciliation of transfers to the RBM as part of the elaboration of the monthly revenue statement sent to the Accountant General. Dimension score: C.

PI-15 Effectiveness in collection of tax payments

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	NR			**D+**	
The % figure cannot be calculated.	NR	N/A	Revenue Authority staff		Now not rated
Transfers to Treasury are mostly made on a daily basis.	B	Revenue collections are transferred to the treasury at least weekly	Revenue Authority staff		No change
MRA recognizes that the current systems setup makes it difficult to give a precise status on reconciliation. The quality of the reconciliation remains poor.	C	Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.	Head, Revenue Authority Revenue Authority staff		.

PI-16 Predictability in the availability of funds for commitment of expenditure

As part of the budget submission, MDAs must include a cash flow forecast[27] as well as a procurement plan outlining planned tenders and their profiled funding requirements. Cash flow forecasts should include own revenues generated by MDAs. Furthermore, cash flows must be presented at a summarized item level.

During the fiscal year, the Ministry of Finance issues quarterly expenditure ceilings. The management of this process is coordinated by the Cash Management Committee — chaired by the Accountant General and with participation of a number of Directors from the Ministry of Finance as well as the

[27] As outlined in legislation as well as the budget guidelines for 2010/2011 (p.11)

RBM — which meets every two weeks and elaborates proposals for the issuance of funding proposals to be approved by the Secretary to the Treasury. The proposal takes into consideration consolidated expenditure and existing available cash balances in the line ministries and funding requirements for existing debt and considers the need to issue new debt to fund on-going requirements.

The Cash Management Committee is supported by a Cash Management Unit inside the Accountant General's Department. On the basis of consolidated accounts, monthly cash limits for each line ministry and local authority — distributed by the National Local Government Finance Committee — and its underlying cost-centres is issued on the 5th of every month and loaded into the IFMIS as a controls parameter. The cash limits are issued using the same structure as the cash flow forecast elaborated by line-ministries. Major procurement outlays are reported to be handled in a parallel process involving the Treasury and the ministry in question — with Treasury providing funding when and as major contracts require it.

Funding is made available through the Single Treasury Account (STA) system to entities operating the IFMIS as drawing rights (cash spending limits) on the IFMIS (virtual) sub accounts to the STA. To entities operating through a commercial bank, Treasury issues a monthly Credit Ceiling Authorisation (CCA) which effectively authorizes the overdraft an entity can have in a commercial bank to be subsequently covered by Treasury through the STA and reconciled into the IFMIS for the specific entity.

(i) Extent to which cash flows are forecast and monitored

Cash flow forecasts are prepared for the fiscal year and updated quarterly with monthly releases of cash within the IFMIS. Sector interviews and IFMIS reports have confirmed this to be the case. A system is in place to administer the cash forecasting and management although a formal cash management framework has still not been approved. Dimension score: B.

(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Interviews with sectors[28] as well as budget execution reports from the IFMIS revealed that sectors consider cash ceilings for the first three quarters of the fiscal year reliable. However, they also evidence that predictability and reliability of the cash forecasting and management by Ministry of Finance in the last quarter is reduced. Dimension score's

(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDA's

Budget adjustments must be carried in the IFMIS prior to budget execution taking place on the adjusted allocations. The legislation provides a certain level of flexibility for budgetary adjustments to be authorized without Parliamentary approval. In the case of virement or adjustments between major items, programme heads or between cost-centres within MDAs, this must be done through the supplementary budget procedure carried out after the conclusion of the mid-year budget review[29]. These occur no more than twice a year. Emergency procedures are also set out in legislation.

The Ministry of Agriculture reports that significant ex-post regularization was carried out by Treasury on its accounts in the end of the fiscal year 2008/2009 with regards to farm input subsidies with the actual expenditure having been carried out by Treasury and subsequently recorded in Agriculture's accounts following the emergency procedure.

Apart from this incident, significant virement is carried out following the procedures established in the legislation and regulations, although the Ministry of Finance reports[30] that some Ministries, while waiting for approval of virement, are spending funds on the budget line items from which they are requesting virement. Dimension score: B.

[28] Education, Health, Agriculture, Works and Infrastructure, Local Authorities and National Local Government Finance Committee.

[29] Procedures are clearly set out in the budget guidelines as well as in the Treasury and Desk Instructions.

[30] Budget guidelines 2010/2011, p.13.

PI-16 Predictability in the availability of funds for commitment of expenditure

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B			**B**	No change
Cash flows forecasts and quarterly updates carried out as stipulated in the regulations.	B	A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows.	Accountant General		
Sectors consider the rolling information on cash limits for expenditure commitments reliable during the first three quarters.	B	MDAs are provided reliable information on commitment ceilings at least quarterly in advance.	Budget Division Accountant General		
Significant virement follow the procedures established in the regulations.	B	Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.	Budget Division		

PI-17 Recording and management of cash balances, debt and guarantees

(i) Quality of debt data recording and reporting

The GoM reports that it is about to finalize a debt management strategy[31] and has issued guidelines for the contraction of external loans and their use[32]. The debt management strategy will probably underscore Governments attempts to swap domestic debt for cheaper external concessional loans. The Debt and Aid Division (DAD) in the MoF is responsible for monitoring and administering debt, however, in practical terms internal domestic debt is managed by the RBM and as a supplement the DAD is working to develop and implement a Domestic Debt database[33]. External debt is managed by the use of CS-DRMS. Neither CS-DRMS nor the system used in RBM is linked electronically to the IFMIS. Importantly, both RBM and the DAD sit on the Cash Management Committee to feed information on debt stock levels, debt maturity and debt service into the overall cash management framework.

[31] This is a prior action by the World Bank for future budget support and should include guidelines on domestic debt.
[32] Guidelines on External Debt Management, Malawi Government, July 2007.
[33] The Debt and Aid Division is currently in discussion with the IMF East Afritac with regards to further improvements on debt management.

As a means of ensuring that debt records are complete and up to date, records on external debt from CS-DRMS are reconciled on a monthly basis the statements from lenders[34]. Domestic debt is also reconciled on a monthly basis by the IMF and RBM in collaboration. The DAD's Planning and Information unit issues monthly consolidated reports on debt service and debt stock which are utilized by the Cash Management Committee. Dimension score: A.

(ii) Extent of consolidation of the Governments Cash balances

The RBM operates a STA system[35] in connection with a CCA scheme applied to commercial banks where Government entities (for a number of reasons) hold accounts. IFMIS payment transactions will be recorded as payments out of the STA as payment cheques are cleared. Information from commercial banks on transactions with regard to drawings on the CCA scheme is fed back into the STA system on a daily basis to support a global consolidation of cash balances. All entities are within STA; for those not on IFMIS, CCA are used where limits are given to Commercial Banks which seek re-imbursements from the Central Bank (RBM) against the daily drawn amounts. The RBM then debits from the MG account number 1. The RBM is administering the STA where Government's cash balances are consolidated on a daily basis. Information is made available in electronic form to the Treasury. Dimension score: A.

(iii) Systems for contracting loans and issuance of guarantees

Legislation and supporting regulations[36] set out that only the Minister of Finance is authorized to contract loans and issue guarantees. Furthermore, the procedures and requirements with respect to involvement of the Parliament and the Attorney General related to the various types of loans and guarantees are described in detail. Contracting of loans as well as the issuing of guarantees continues to be guided by transparent procedures set out in the legislation and regulation. However, where loan level ceilings are established in concordance with the on-going debt sustainability analysis, no such measures are in place for guarantees issued to parastatals potentially exposing the Government to unwanted risk contrary to the intentions as expressed in the Guidelines[37]. Dimension score: C.

PI-17 Recording and management of cash balances, debt and guarantees

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B+			**A**	Performance deterioration
External debt is reconciled on a monthly basis with the statements from lenders. Domestic debt is reconciled on a monthly basis by the IMF and RBM in collaboration.	A	Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least	MOF (Debt and Aid Division) & Central Bank		

[34] Following the instructions in Desk Instructions section 11.6.3.
[35] In reality it is a number of different accounts – Recurrent, Development, Statutory Expenditure, Advances and Deposits - which a being consolidated into a Consolidated Fund on a daily basis.
[36] Public Finance Management Act – section 54 and Treasury Operations – Chapter 7.
[37] Section 9 in the Guidelines on external debt management in Malawi.

		quarterly.			
The RBM is administering the STA where Governments cash balances are consolidated on a daily basis. Information is made available in electronic form to the treasury.	A	Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.	Accountant General		
The system continues without established limits or criteria for issuance of guarantees to parastatals.	C	CG's contracting of loans and issuance of guarantees are always approved by a single responsible government entity bon but are not decided on the basis of clear guidelines, criteria or overall ceilings.	MOF (Debt and Aid Divisiont) & Central Bank		

PI-18 Effectiveness of payroll controls

The public human resource records and payroll system in Malawi is managed by the Department of Public Service Management and Development (DPSM) under the Office of the President and Cabinet with acts and regulations[38] setting out the legal framework for Human Resource Management. According to the Payroll Audit carried out in 2008,[39] there were 141,374 employees in Civil Service, excluding around 7,000 staff in the Malawi Defence Force, representing an increase of almost 40,000 employees in relation to the prior personnel audit carried out in 2003. Of these, 52,111 were employed in the education sector and 20,000 were traditional leaders. The current figure is approximately 152,000 public employees. DPSM serves as an oversight body in the GoM and is responsible for setting the establishment ceilings.

To support HR Management, DPSM replaced their older system (PPPAI) with Global HR Software (HRMIS). HRMIS has nine modules, of which currently 3 are active; 1) Establishment Control, 2) Employee (records) and 3) Payroll[40]. Although the system supports biometric controls for unique identification of employees, this functionality has not been activated. The HRMIS was reviewed in 2008[41]. All line ministries have access to operate HRMIS on human resource information through 12 geographically-distributed sites on payroll but this access comprises only a limited number of transactions[42].

The Personnel Audit and the HRMIS review produced a number of recommendations. One recommendation was to complete the process whereby employees receive their salary through the employee's bank account. This recommendation was implemented in February 2011. Although the process has faced a number of challenges initially, delaying some payments of salaries, at the time of

[38] The Public Service Act, 1994, and Malawi Public Service Regulation, 1991.

[39] Malawi Civil Service - 2008 Personnel Audit Report, the Secretary for Human Resource Management and Development, September 2008.

[40] The remaining modules; Performance Management, Recruitment, Training, Industrial Relations, Terminal Benefits and Advances are planned to be activated in this fiscal year pending funding for an expansion of the DPSM datacenter capability.

[41] Review of Human Resource Management Information System, Techtop Consult (Malawi) LTD, October 2008.

[42] Sectors fx. have full control of promotion and demotion within grades and preparation of payroll draft before submitting to DPSM for approval.

the PEFA assessment, DPSM has registered around 90,000 accounts in their system. After conclusion of the payroll processing, a file is sent to the IFMIS system for consolidation. IFMIS subsequently posts a payments file to RBM, which processes payments to the commercial banks where employees hold their accounts.

Information regarding new employees as well as transfer of employees across line ministries is processed by DPSM and input into the HRMIS. If the information submitted to DPSM is complete and correctly authorized, the update of the Establishment record is done within the pay period. It is recognized that, when public employees die or retire, the termination on the payroll can sometimes be delayed.

(i) Degree of integration and reconciliation between personnel records and payroll data

Personnel records and payroll data are generated and managed within the HRMIS thus guaranteeing reconciliation and data integrity between the two integrated modules. This process is carried out by both the line-ministry and DPSM by comparing/reconciling the GP5A report — summarizing the number of employees, payments, tax etc. — with the detailed report GP32. Dimension score: A.

(ii) Timeliness of changes to personnel records and the payroll

The documentation requirements to introduce new employees into the Establishment are quite rigorous. The documentation requirements are the main reason for delays in registering new employees. If documentation requirements are met, new employees are entered within the pay period that the approved information is received by DPSM. Retrospective adjustments to changes in records are estimated by DPSM to be less than 1%. Dimension score: B.

(iii) Internal controls of changes to personnel records and the payroll

An audit trail is available demonstrating all transactions on the database. There is a strictly defined definition and segregation of roles and responsibilities in the HRMIS effectively requiring collusion between a number of employees in DPSM, Accountant Generals Department and the line-ministry to commit fraud and introduce, for example, new ghost workers. Dimension score: A.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

A Personnel Audit was carried out in 2008 identifying 708 ghost workers as well as a limited number of other irregularities. **Due to the Audit carried out, the score on this dimension has increased compared to the 2008 PEFA assessment**. Head counts were conducted during November – December 2010 followed by pay parades during January – February 2011 jointly by the Ministry of Finance and the DPSM. However, no documentation has been provided to the assessors with regard to the results of these activities. Dimension score: B.

PI-18 Effectiveness of Payroll Controls

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	B+			C+	Performance improvement
The Establishment module and the payroll module are fully integrated.	A	Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.	Accountant General DPSM		
Once approved information is	B	Up to three months' delay	Accountant		

received by DPSM regarding new or transferred employees changes to personnel records are expedited immediately. DPSM estimates that retrospective adjustments are less than 1 % with regards to changed records.		occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.	General DPSM		
Authority to change records is restricted and will appear in the audit trail.	A	Authority to change records and payroll is restricted and results in an audit trail.	Accountant General DPSM		
A Personnel Audit was carried out in 2008. Supplementary "Pay-parade" audits have been carried out in 2011.	B	A payroll audit covering all central and government entities has been conducted at least once in the last there years (whether in stages of as one single exercise).	Accountant General DPSM		

PI-19 Competition, value for money and controls in Procurement

The scoring of this indicator has changed since the last PEFA assessment and now includes four dimensions where it only had three dimensions in 2008. This makes it difficult to compare individual dimensions in relation to the last PEFA assessment.

Procurement is regulated through legislation and regulations[43]. The legislation, however, is in the process of being reviewed principally to improve the recognition of sub-national government and communities' participation in public procurement. The responsibility for regulating and supervising public procurement rests with the Office of the Director of Public Procurement (ODPP).

ODPP reports that Internal Procurement Committees (IPC) are increasingly being activated following capacity building activities by the ODPP to the extent that today almost all procuring entities have established an IPC. The IPC has the responsibility for all decisions regarding procurement including tender evaluation and vendor selection. ODPP grants No Objection on all procurements beyond a prescribed threshold for each procuring entity. Some sectors have established sub-IPCs, for example, in Education, Health and Agriculture, which operate subject to approval by the main IPC. Some sub-national governments have also established sub-IPC's within their sectors.

ODPP undertook a Procurement Audit in 2008; one of the findings was that procurement planning and record keeping were poor in many institutions, and most procurement committees did not have the skills required to prepare specifications and bid evaluations. A new Procurement Audit has been planned for 2011. In an attempt to further improve procurement planning in Government, eight large

[43] Public Procurement Act, 2003, Malawi Public Procurement Regulation, 2004 and Desk Instruction for Public Procurement, 2003, and circulars.

procurement entities have submitted their procurement plans to ODPP and MoF out of a target of 10 procurement entities by February 2011 in the PAF[44].

The procurement complaint mechanism is three tiered. Complainants firstly address the Chairman of the respective IPC and can escalate the complaint to the Procurement Review Committee. If the complainant is still not satisfied, appeals can be brought before the Court of Law.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

The legal and regulatory framework for procurement is organized hierarchically with precedence clearly established[45]. The legislation is available for download at http://www.odpp.gov.mw. The legislation applies to all procurement undertaken using public funds[46] and defines open competitive procurement as the default method of procurement, with clear definition of which other methods can be used and how they are justified[47]. The legislation provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature[48].

The legislation sets out requirements to provide public access to bidding opportunities and contract awards[49]; however, there is no provision to publish procurement plans and data on resolution of procurement complaints. Dimension score: C.

(ii) Use of competitive procurement methods

Data is not available as the ODDP reports that the procurement database is only now being adjusted to capture the necessary information. However, ODPP has informed that a study was carried out in 2010 of 30 Procurement entities sampled from Ministries, Departments, Parastatals and Local Assemblies showing that 13% of Procurement was carried out using Open Tender and 67% was carried out using Request for Quotation as the procurement modality This would indicate that some 80% is subject to various forms of competitive procurement. The assessment team has not had access to the detailed findings. Dimension score: D.

(iii) Public access to complete, reliable and timely procurement information

The Government lacks a system to generate substantial and reliable coverage of key procurement information and does not systematically make key procurement information available to the public. Dimension score: D.

(iv) Existence of an independent administrative procurement complaint system

The standing (Procurement) Review Committee consists of experienced professionals who are familiar with the legal framework for procurement and includes members drawn from the private sector and civil society. ODPP informs that its membership does not include members drawn from government. For each complaint a three member ad hoc Review Committee is set up from the membership of the standing Committee; the three then elect one member to chair the proceedings for that particular complaint. The Committee is not involved in any capacity in procurement transactions or in the process leading to contract award decisions. The Committee does not charge fees that prohibit access by concerned parties and follow processes for submission and resolution that are clearly defined and publicly available through legislation.

The complaints system is, however, not specifically outlined on the ODPP web-site (outside of the legislation) and members of the standing Review Committee are not presented. The Committee does

[44] PFM monitoring report, December 2010. The 8 large procurement entities are submitting Procurement plans were: Ministry of Education, Science and Technology, Ministry of Agriculture and Food Security, Ministry of Health, Ministry of Irrigation and Water Development, Ministry of Transport and Infrastructure Development, Ministry of Local Government and Rural Development and National Roads Authority.
[45] Desk Instructions p.8
[46] Public Procurement Act, section 3.
[47] Public Procurement Act, sections 30 – 36.
[48] Public Procurement Act, section 38.
[49] Public Procurement Act, sections 31 and 26.

exercise the authority to suspend the procurement process and can issue binding decisions. Statistics have not been provided regarding number of cases in the complaints system and whether decisions are issued within the timeframe of 10 days specified in the legislation. Dimension score: B.

PI-19 Competition, value for money and controls in Procurement

Dimension		2011 Assessment			2006 Baseline	Explanation
		Score	Framework Requirement		Score	
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	***The legal and regulatory framework for procurement should***		Not comparable	Not comparable. The new methodology uses 4 dimensions, instead of 3, & is more comprehensive.
			be organized hierarchically and precedence is clearly established	√		
			be freely and easily accessible to the public through appropriate means	√		
			apply to all procurement undertaken using government funds	√		
			make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified	√		
			provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints	**X**		
			provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature	√		
(ii)	Use of competitive procurement methods	D	Reliable data not available			
(iii)	Public access to complete, reliable and timely procurement	D	The Government lacks a system to generate substantial and reliable coverage of key Procurement information **and**			

Dimension		2011 Assessment		2006 Baseline	Explanation
		Score	Framework Requirement	Score	
	information		does not systematically make key procurement information available to the public.		
(iv)	Existence of an independent administrative procurement complaints system	B	The Procurement Review Committee consists of experienced professionals and exercises the authority to suspend the procurement process and issue binding decisions. Statistics have not been provided regarding number of cases in the complaints system and whether decisions are issued within the timeframe of 10 days specified in the legislation.		
	Score M2	**C**		**NR**	

PI-20 Effectiveness of internal controls for non-salary expenditure

The IFMIS has been rolled out to all central government line-ministries and regional IFMIS processing centres have been established, allowing cost centres away from line ministries to execute their budget through IFMIS. However, many centrally connected entities (such as secondary schools) are still situated at a relatively long distance from IFMIS system access. 17 of 34 sub-national governments have now implemented IFMIS[50] with 5 more to come in the remainder of the fiscal year 2010/2011. Budget execution through the IFMIS — with the requirement to issue Local Purchase Orders (LPOs) and present these to suppliers before committing to expenditure — effectively ensures a) that cash has been allocated for the specific expense and b) that there is budgetary allocation for the expenditure.

Legislation and regulation is very clear with respect to the responsibility of the Controlling Officers with regards to internal control[51]. In particular, the responsibilities of Controlling Officers include ensuring that "an effective system of internal control is developed and maintained and, unless the Secretary to the Treasury approves otherwise in circumstances provided for in the Treasury Instructions, an effective internal audit function is developed and maintained"[52]. Furthermore, Controlling Officers are required at the beginning of the fiscal year to confirm to the Secretary to the Treasury that they are familiar with their financial management responsibilities and understand them and are able to comply with them.

(i) Effectiveness of expenditure commitment controls

The IFMIS controls are found to be good and, if complied with, sufficient to exercise the necessary control over expenditure commitments. However, a number of areas are still not subject to the IMFIS commitment controls for one reason or another; the 17 sub-national governments, remote locations which may find it cumbersome to carry out their the budget execution business processes through the IFMIS (and there may be reasons to support this, taking, for example, the cost of transportation into consideration), statutory entities and donor funded activities. Dimension score: B.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures

[50] The IFMIS implemented for central institutions is base don the EPICOR application whereas the IFMIS for local authorities is based on Serenic Navigator software.
[51] The Public Finance Management Act – section 10 and Treasury Instructions – section 2.6.
[52] Treasury Instructions section 2.6.1.p.

All sectors visited and interviewed demonstrated knowledge and understanding with regard to the internal controls requirements as outlined in the legislation and the regulation. Furthermore, they had all established internal audit units which were active and submitting regular reports to both the line-ministries and the central internal audit unit in the Ministry of Finance. In addition, they have established internal audit committees chaired typically by the Principal Secretary (controlling Officer), heads of departments and in some cases also with participation from the central internal audit in the Ministry of Finance.

Sectors also point out that the IFMIS itself also contributes to compliance as it supports segregation of roles and responsibilities in financial management. Sectors have established internal procurement committees just as the procedures in relation to Human Resource management, in particular the enrolment of new employees, support compliance with rules. **This represents an improvement relative to the last PEFA assessment.** Dimension score: B.

(iii) Degree of compliance with rules for processing and recording transactions

Despite the signals of increased awareness of measures and procedures for internal control the PAC reports, internal audit reports and reports from the Auditor General[53] point towards the continued existence of errors and use of unjustified procedures. Dimension score: C.

PI-20 Effectiveness of internal controls for non-salary expenditure

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			**C+**	No change
The use of IFMIS is now widespread imposing expenditure commitments control; however, some areas are still operating outside the IFMIS.	B	Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.	Financial legislation and regulations, MOF,Internal Audit, National Audit Office		
Based on interview with sectors and NAO there seems to be evidence that the comprehensiveness and understanding of other internal control rules and procedures have improved since the last PEFA assessment.	B	Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.	Financial legislation and regulations, MOF,Internal Audit,		
Despite the signals of increased awareness of	C	Rules are complied with in a significant majority of	Financial legislation and regulations,		

[53] Reports from the Auditor General on the Accounts of the Government of Malawi for 2008/2009 and 2009/2010.

measures and procedures for internal control the PAC reports, internal audit reports and reports from the Auditor General points towards the continued existence of errors and with a continued use of unjustified procedures.		transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.	MOF,Internal Audit		

PI-21 Effectiveness of internal audit

The Internal Audit regulatory platform and operational guidelines are not yet well embedded. Legislatively, the PMFA 2003 covers Responsibilities of Controlling Officers and requires that ''an effective system of internal control is developed and maintained.'' Treasury Instructions set out the terms of reference for Internal Audit Units and requiring the establishment of Audit Committees. The status of the Head of Internal is that of an Acting Head which has been the situation since 2008.

(i) Coverage and quality of the internal audit function

At Central Government level, an Internal Audit Manual and Internal Audit Service Strategic Plan 2010–2015 are drafted but have not received formal approval. The Draft Manual and a Draft Internal Audit Charter were updated in February 2011, though they have been in existence for some time and were awaiting approval at the time of the 2008 PEFA although it has since been reported[54] that the audit charter was approved; the Strategic Plan is a more recent document supported by GIZ in 2010. Separate internal audit guidance exists for local government, although this is outside the scope of this PEFA.

The Head of the Central Internal Audit Unit is responsible for defining professional standards of the internal audit service in Central Government. The introduction of a common audit service stream is a positive step and provides greater scope for the CIAU Head to supervise and harmonise the profession. Internal Audit Units are established but not necessarily adequately resourced for all entities and are far from being fully implemented in a consistent way. Overall, it is not yet a strong institutional platform.

Overall, the service is low on systems based coverage (no more than 25% audit time) and is not operating to a wide range of recognised professional standards. Dimension score: C.

(ii) Frequency and distribution of reports

Ministry-based audit teams produce audit reports which seem to be on a fairly regular basis. A small sample of individual audit reports was reviewed and the quality, particularly of content was variable. The reports are produced by internal auditors located in various ministries; they are submitted to the Controlling Officer with a copy to the Central Internal Audit Unit which consolidates all the reports and submit to the Secretary to the Treasury. At the moment, the CIAU reports directly to the Chief Secretary.

Of equal significance to the PEFA assessment is the higher-level consolidated reporting which is the responsibility of the Head of CIAU. This would facilitate an assessment of internal audit's actual performance at a government-wide level against the stated annual Audit Plans. The Mid-Year and

[54] GFEM Meeting 17th March 2011

Annual Reports do not appear to have been produced for a number of years. The absence of these consolidated reports which would provide some evidence of the level of internal audit activity, key findings, a strategic view of resource and capacity constraints and also the extent to which there is professional and technical supervision of the Internal Audit Common Service means it is not possible to rate this dimension higher. Reports are distributed to the Controlling Officer of the MDA and the MoF but not to the Auditor General. Dimension score: C.

(iii) Extent of management response to internal audit findings

Evidence of management response to audit reports is weak. There is evidence of an apparent backlog of audit reports to be considered by audit committees in some line ministries. However, in most instances, audit committees are not functioning and where they have met their role is compromised and not well understood. In particular, the Committees are chaired by the Controlling Officer and include only internal (to the line ministry) representation. There are arrangements for other ex-officio members from AGD, CIAU, NAO and ODPP, although these are not usually invited.

Management responses to audit reports need to be improved. The development of and sensitization to internal audit in Malawi is at a relatively early stage of development. Audit Committees, if they function at all, are not working to best practice standards and therefore are not adding to the intended governance and accountability framework and may even be a barrier to the further development of internal audit. Dimension score: D.

PI-21 Effectiveness of Internal Audit

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	No change
The Internal Audit regulatory platform and operational guidelines are not yet well embedded. The service is low on systems based coverage and is not operating to a wide range of recognised professional standards.	C	The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards	Government internal audit manual IAD MDA Internal Auditors Auditor General		
Ministry based audit teams produce audit reports which seem to be on a fairly regular basis although the quality, particularly of content differed. There have been no strategic, consolidated CIA reports since 2006/07	C	Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.	IAD, MOF Audit Reports Auditor General		
Evidence of management	D	Internal audit recommendations	IAD, MDA auditors General Aud		

response to audit reports is weak. In most instances audit committees are not functioning and where they do meet their role is compromised and not well understood.		are usually ignored (with few exceptions			

3.5 Accounting, recording & reporting

PI-22 Timeliness and regularity of accounts reconciliation

In recent years, the roll out of IFMIS together with the centralisation of payments had delivered improvements of reduced numbers of bank accounts and simplified and timelier bank reconciliations for those transactions within IFMIS. For transactions outside of IFMIS, other reconciliation arrangements exist. Until the end of the last financial year, it was reported that reconciliations continued to be done monthly, and within 15 days of the month end.

(i) Regularity of bank reconciliations

The Central Bank maintains the main Government Account (MG1) as a set of linked accounts operating as a STA. Under IFMIS reforms, GoM banking has been streamlined into five main accounts which the Accountant General is responsible for reconciling on a monthly basis, although through RBM we are advised that the balances are known on a daily basis.

- Recurrent transactions (Payroll plus ORT)
- Development budget (Part 2)
- Miscellaneous deposits
- Advances
- Statutory expenditure

The procedure is for daily matching of bank transactions and the GoM cash book. The data is received as an electronic file from the RBM, the data file is imported into IFMIS and a transaction level matching process should take place automatically. Any mismatches are followed up as they occur, which, until July 2010 had been supported by a timely month-end reconciliation against the monthly bank statements received from RBM.

However, the status of the reconciliation process at the time of the assessment of this indicator on 2nd March 2011 was that it had not been possible for the Cash Management Unit of the AGD to undertake a full IFMIS related bank reconciliation in the current fiscal year. This situation arose from the introduction of the new Chart of Accounts on 1st July 2011 together with ''zero opening cash book balances in the EPICOR system'' which it was not possible to reconcile with the bank statements.

Some progress towards a solution was being made though the PEFA assessment was undertaken during month nine of the fiscal year and regular bank reconciliations are an essential discipline in the on-going checking and verification of accounting practices across Government. The absence of them also risks delay in the production of final accounts.

A further GoM submission of reconciliation progress was received on 23rd March 2011. Table 12 below reflects this progress and the accounts shown were reconciled (as at 23rd March 2011) up to 31st December 2010. It is anticipated that the accounts for the months of January and February 2011 will be reconciled by 30th March 2011.

Table 12 Reconciliation Chart

Account	07/10	08/10	09/10	10/10	11/10	12/10	01/11	02/11

Name & Month Fiscal Year 2010/11								
GoM-ORT	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	*30/3/11*	*30/3/11*
GoM-Deposit	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	*30/3/11*	*30/3/11*
GoM-Statutory	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	*30/3/11*	*30/3/11*
GoM-Advances	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	*30/3/11*	*30/3/11*
GoM-Development Part 2	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	23/03/11	*30/3/11*	*30/3/11*

For Donor Projects within the Budget, the Cash Management Unit should receive monthly reconciliation statements within 15 days of the month end. A review of the control schedule indicates that at the end of January 2011 that none out of a total of 97 appeared to be up to date with returns. At the end of December and November, 20 projects had submitted statements and at the end of October, the majority 78 had made their returns. This indicates scope for improvement. Dimension score: D.

(ii)Regularity of reconciliation and clearance of suspense accounts and advances

At the time of introducing IFMIS, the GoM substantially reduced the need for suspense accounts by eliminating the need for advances to cover items such as travel and introducing a per diem basis for travel costs. We are advised that the only mechanisms for accruing suspense account entries that remain are imprest accounts which are monitored directly through IFMIS, although the supporting processes are manual.

Currently, the AGD monitors its own Departmental advances but there are plans for more centralized reconciliation and control of advances to be introduced in the future. The existing decentralized and manually based system is regulated by the Public Service Management Regulations and Government Circulars which set out the types and amounts of advances. Dimension score: D.

PI-22 Timeliness and Regularity of Accounts Reconciliation

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D			**B+**	Performance deterioration
At the time of assessment full bank reconciliation had not been undertaken since 30th June 2010. Current progress indicates that after a significant backlog reconciliation was possible for transactions up to 31st December 2010. However, for this assessment the reconciliation	D	Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.	Accountant General		

process was less frequent than quarterly and with backlogs of several months.					
The backlog in the reconciliation process during 2010/11 will also have an impact on the regularity in the clearance of these accounts	D	(ii) Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.	Accountant General		

PI-23 Availability of information received by service delivery units

The availability of improved information on resources received by service delivery units was one of the benefits envisaged by the introduction of IFMIS. The automation of government financial transactions and the availability of regular financial information should be used to inform the budget allocation process and the monitoring of actual spending on intended purposes. One of the intended outcomes of the revisions to the budget guidelines issued in 2006/07 was to integrate the Public Expenditure Review (PER) exercises into the process of reviewing overall government economic and fiscal policy and poverty reduction strategy.

Given the importance of expenditure efficiency and effectiveness in line with stated priorities, there is on-going interest particularly of the CABs donors[55] in regular expenditure review exercises and the implementation of recommendations arising from such reviews.

A Public Expenditure Tracking Survey (PETS) was carried out in the Health Sector in 2009 but this does not specify resources received by individual health centres. However, a regular exercise[56] does take place to identify stock levels of certain tracer drugs. There is therefore some information on resources received at least through the main supply channels.

In terms of Education[57], primary schools are not cost centres in the reporting of either the central government or district assemblies. Personnel emoluments are paid by the Ministry of Education, Science and Technology and are reported in their budgets and reports. Other recurrent transactions are budgeted and accounted for at an aggregate level by the DEM. A pilot project — EDSA — is a new initiative which is being piloted in six districts. One aspect of the initiative, designed to support informed decision making, involves the collection of information on resources (teaching and learning materials) received. Dimension score: D.

PI-23 Availability of information received by service delivery units

Current Assessment		**Sctore in PA**		**Explanation of charge since PA**	
Evidence used	**Score**	**Framework**	**Information**		

[55] CABs reviews November 2007, September 2008

[56] The source of information for the tracer drugs is the annual report on the MoH SWAp. 2009 - 2010. Although this only gives samples of the type of information collected. This information should be treated with some caution as there are a significant number of vertical projects in the health sector, largely at district level, which are supplementing these resource levels.

		Requirement	Sources		
There are no routine processes and no evidence that PERs or PETs are currently institutionalised nor do they appear to be regarded as a central component of the monitoring system.	**D**	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.	MDAs (Education and Health), MOF	**D**	

PI-24 Quality and timeliness of in-year budget reporting

(i) Scope of reports in terms of coverage and compatibility with budget estimates

The Budget Monitoring Section of the MoF consolidates the data required for production of the monthly in-year expenditure reports. The reports show actual expenditures and revenues compared with approved budgets and they include Payroll data, Other Recurrent Transactions (ORT) and Development Part 2 (funded by GoM). Ideally, it would be possible to include Development Part 1 data during the year but as PIUs are outside of the IFMIS system that information is only captured on a quarterly and annual basis. It is estimated that 70 per cent of projects are captured at the quarterly reporting stage although by the end of year reporting 100 per cent are included. The timetable and reporting requirements of line ministries to provide information to the Ministry of Finance are set out in the Annual Budget Guidelines. Information is captured at the payment stage only, not at the commitment stage. Dimension score: C.

(ii) Timeliness of the issue of reports

The reports are produced on a monthly basis and are issued to the Secretary to the Treasury, line ministries and co-operating partners within 4 weeks of the end of the reporting period. In addition, Mid Year and the Year End Financial Statements are produced in order to meet the MoF's requirement to periodically update Government and other stakeholders on the performance of the implementation of the National Budget within the fiscal year.

The MoF also produces ad hoc budget performance reports[58] which focus on specific areas of reporting such as Revenue Collection Performance Reports; Aid Flows Monitoring Reports and Monitoring and Evaluation Reports. From the 2010/11 financial year a Quarterly Budget Performance Review is now produced. Dimension score: A.

(iii) Quality of information

There are still further on-going improvements which can be made in the comprehensiveness and accuracy of the information captured in the reports. However, quality and accuracy of information is increasing, including from the roll out of IFMIS. The usefulness of the reports is not materially undermined by the existing omissions as those data gaps are known. Dimension score: B.

PI-24 Quality and timeliness of in-year budget reports

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	Score	Framework Requirement	Information Sources		
	C+			**C+**	No change

[58] Source 2010/11 Budget Performance Quarterly Monitoring Report (Q1)

The reports show actual expenditures and revenues compared with approved budgets and they include Payroll data, ORT, Development Part2 on a monthly basis. Quarterly reports capture approximately 70% of donor funded projects (outside IFMIS) and year end reports capture 100% of projects within the budget	C	Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).	Accountant General Budget Division		
The reports are produced on a monthly basis and are issued to Chief Secretary to the Treasury line ministries and co-operating partners.	A	Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period	Accountant General Budget Division		
There are still further on-going improvements which can be made in the comprehensiveness and accuracy of the information captured in the reports though the usefulness of the reports is not materially undermined by the existing omissions as those data gaps are known.	B	There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.	Accountant General Budget Division		

PI-25 Quality and timeliness of annual financial statements

(i) Completeness of the financial statements

The reporting requirements are set out in the PFM Act 2003. Section 83 gives the requirements for the preparation of annual financial statements. The fourth schedule sets out the form of statements that are required. The Consolidated Annual Appropriation Account is presented in two volumes. Volume 1 contains the consolidated balance sheet and summaries of consolidated statements by Vote while Volume 2 contains detailed financial statements with transactions up to sub-item level.

It has been possible to examine the detailed Consolidated Annual Appropriation Account for each Vote (Volume 1); however, Volume 2 has not yet been made available. The composition of Volume 2 should include important statements which assist in the assessment of the completeness of the annual financial statements under review in this dimension. These include the following statements some of which previous PEFA reports have noted are absent:

- Arrears of revenue
- Assets held by government in commercial undertakings, statutory bodies and international organizations
- Public debt
- Malawi Government loans to statutory bodies
- Special funds deposited with Treasury
- Trust funds and surplus funds
- Sources of finance by donor

Dimension score: C.

(ii) Timeliness of submission of the annual statements for external audit

There has been an improvement in the timeliness of completion of the annual financial statements for the fiscal years under review which are 2007/08 to 2009/10:

Table 12 Dates of Completion of Annual Financial Statements

Procedure	**2009/10**	**2008/09**	**2007/08**	**2006/07**	**2005/06**	**2004/05**
Date submitted to NAO	31Oct 2010	7 Nov 2009	15 Dec 2008	Oct 2008	Aug 2008	Jun 2008
Months after end of fiscal year	4 months	4.25 months	5.5 months	16 months	26 months	36 months

Previously, there had been significant delays and a backlog affecting the 2004/05, 2005/06 and 2006/07 Financial Statements. This backlog was cleared during the period covered by this PEFA assessment as indicated in the table above. In order to facilitate this, the Accountant General's Office made an arrangement with the NAO to send the accounts ''vote by vote''.

Improvements to the timeliness of information should also consider accuracy and completeness dimensions to ensure that there are no negative impacts on data integrity.

The Accountant General issues Year-End Closing Procedure Instructions to all Controlling Officers and Heads of Departments, and whilst the AG Department is responsible for the preparation of the annual consolidated financial statements it is reliant on the information provided by all line ministries. Dimension score: A.

(iii) Accounting standards used

The structure of the national budget has been improved to move closer to international standards of budget classification and improve linkages with the MGDS. Migration of the national budget to a Government Financial Statistics (GFS) 2001 compliant format was reported as being at an advanced stage in 2010[59]. The chart of accounts has been revised to take into account the changes to the budget classification; the 2010/11 budget will begin to use the revised chart of accounts.

From the financial year 2010/11 cash based IPSAS will be applied in the Financial Statements. Initially, the statements will be compliant with the mandatory disclosures although by the following year 2011/12 it is intended that the statements will meet all mandatory and discretionary disclosures. The Accountant General's Department Work Plan for 2010/11 clearly indicates the activities required for migration to 100% conformity to IPSAS accounting procedures.

[59] CABS report CABs PAF Indicator No. 4

The new Chart of Accounts (COAs) should pave the way for one integrated and standardised COA across central and local government and comply with international GFS classification, although on a functional basis it does not comply with COFOG.[60] Dimension score: C.

PI-25 Quality and timeliness of annual financial statements

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C+			C+	No change
It has only been possible to undertake a partial review of the consolidated annual appropriation account 2009/10 (volume 1) which compromises this scoring.	C	A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.	Accountant General		
There has been an improvement in the timeliness of completion of the annual financial statements for the last three fiscal years under review. In addition, a backlog affecting the 2004/05, 2005/06 and 2006/07 Financial Statements. This backlog was cleared during the 2008 calendar year.	A	(ii) The statements are submitted for external audit within 6 months of the end of the fiscal year.	Accountant General Auditor General		
For the last three fiscal years there has been consistent presentation of the financial statements in line with the GAAP standard. The budget structure from the fiscal year 2010/11 was GFS compliant[61] — the Accountant General's Department is in the process of restructuring the financial statements	C	(iii) Statements are presented in a consistent format over time with some disclosure of accounting standards.	Accountant General Auditor General		

[60] An IFMIS bridge exists to prepare reports to the COFOG standard

to follow IPSAS reporting and accounting requirements for the 2010/11 Consolidated Accounts to ensure that this is also GFS compliant.					

3.6 External scrutiny and audit

PI-26 Scope, nature and follow up of external audit

The National Audit Office (NAO) is a key pillar of Malawi's integrity system. The scope and nature of external audit is set out in the 1994 Constitution and the Public Audit Act (PAA) 2003. The Auditor General is responsible for the audit of all MDAs, including local assemblies, commercial statutory bodies (which receive more than 50% funding from the Government) and all sub vented agencies. The NAO has the following recent institutional documents which give it strategic direction; the basis for modernising its audit approach and authority for an organisational restructure in alignment with those strategic and operational changes:

- Strategic Plan 2009–2014 (launched December 2009)
- Regularity Audit Manual (approved April 2010)
- Institutional Review Report on the NAO (approved January 2011)

(i) Scope / nature of audit performed (including adherence to auditing standards)

Institutional and operational factors which impact on the effectiveness of the external audit function are lack of financial resources for the NAO to fully cover what the Office is mandated to audit; the shortage of auditors and the capacities of those auditors against the professional and technical demands of a modern audit approach; the increasing IT platform on which government systems are operating and the shift in the internal control risks this introduces. Some of this has been addressed by donor funding for the contracting out of specific audits where NAO capacity is limited. However, the Auditor General still retains supervisory control of the appointment and review of the work of contracted auditors.

Future reforms include the need to establish audit specialisms such as performance audit, forensic and investigative audits, and to introduce audits on debt and aid and tax revenues. Some of this has commenced but is not yet embedded and in focusing on these specialisms, the need to continue to embed the sound regularity audit practice should not be overlooked.

There is a conflict between the Constitution and the Act. The Constitution (section 184(2)) requires the Auditor General to submit his reports through the Minister of Finance, whereas Section 15 of the PAA stipulates that the reporting should be to the National Assembly through the President and the Speaker. This was last formally reviewed and reported in 2007 as part of a wider Constitutional Review; the conclusion was to retain the current system. This contravenes best international practice in terms of Auditor General Independence and it means that Malawi does not meet international standards in this respect and also in terms of the NAO's funding.

The audit coverage is calculated on the last financial year audited. During 2009/10, the percentage of all government entities under the NAO's mandate was 55–60%[62] for central government ''by physical presence''; this compares with 50% in 2008 and for Local Government, 100% of assemblies were audited from 30% in 2008. Government, public and donors can also make ad hoc demands for the NAO to undertake audits not originally planned for.

[62] Auditor General's own figure

The NAO is currently planning five performance audits, one of which is close to completion and will be presented to the Assembly and then PAC scrutiny. We also understand that plans are underway to develop IT audit skills. Dimension score: C.

(ii)Timeliness of audit reports submitted to legislature

The Auditor General's Report on the accounts for the year ended 30th June 2010 was tabled in Parliament on 2nd March 2011 and this represents a significant improvement in the timeliness of reporting the audited financial statements to the legislature.

This indicator measures the last fiscal year audited which is 2010 for which the performance is set out below. However, this masks the actual situation in the period between the two PEFA assessments. Therefore, whilst it does not impact on the score, it is important information to give context to the current situation.

The previous PEFA assessment in 2008 reported that the latest Auditor General report submitted to the National Assembly at that time was for the fiscal year 2003/04. During the intervening years, the Auditor General's position which had remained vacant for more than two years was filled in May 2008. This enabled the retrospective certification of the accounts audited during that period and the clearance of the backlog which comprised the audited accounts for six years from 2004/05 to the current date of 2009/10.

Inevitably, the magnitude of these delays will have had a negative impact on the real accountability of government bodies and government funded bodies during this time. In addition, the quality and timeliness of the legislative scrutiny by PAC discussed under indicator PI-28 is affected.

Excluding the 2009/10 fiscal year, over the past decade, the time lapsed from the end of each fiscal year to (i) the tabling of the Auditor General's report in the Legislative Assembly, and (ii) the completion of hearings by the PAC and the issue of the PAC Report has ranged from 17 to 49 months and 34 to 58 months respectively. In summary, NAO audit and PAC scrutiny have been characterised by periods when there was no public scrutiny followed by intense activity to clear backlog which is not best practice. Dimension score: B.

(iii) Evidence of follow up on audit recommendations

The last PEFA placed emphasis on the contribution to improved follow up on audit recommendations anticipated by the establishment of the Audit Committees as being the institutional improvement which had the potential to strengthen the follow up of audit recommendations. To date, the performance of these audit committees has been poor.

In addition, to the role of the audit committee in the process of follow up of recommendations, there are a number of other stages such as the exit meetings with auditees and management letter actions.

However, the Auditor General's own reports regularly refer to ''… management letter recommendations not given due consideration'' or ''some improvement noted in responses from some controlling officers ... others made limited efforts in complying with requirements.'' It is evident that there is not a culture of responding to audit management letters and it is also difficult to demonstrate evidence of follow-up. Dimension score: D.

PI-26 Scope, nature and follow up of external audit

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	No change
The audit scope and coverage has increased. The NAO	C	Central government entities representing at least 50% of total	Auditor General		

does not pay enough attention to expenditures risk. There is a concern that parastatal audits may not be receiving annual audits as required. International standards in respect of audit methodology only recently introduced. Standards in terms of independence and resources remain an issue.		expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.			
The Auditor General's Report on the accounts for the year ended 30th June 2010 was tabled in the Parliament on 2nd March 2011.	B	Audit reports are submitted to the legislature within 8 months of end of the period covered and in the case of financial statements from their receipt by audit office.	Auditor General		
Evidence of action and follow up of AG reports is weak, including AG reports issued during the calendar year 2008–2010 referring to problems in responses to management letters.	D	There is little evidence of response or follow up.	Auditor General		

PI-27 Legislative scrutiny of the annual budget law

The power to give the government authority to spend rests with the legislature and is exercised through the passing of the annual appropriation act. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. The MoF is responsible for preparing the budget and reporting to Parliament — including any additional expenditure. In practice, there is only one supplementary budget late in the year.

(i) Scope of the legislature's scrutiny

The documents presented to the Legislature are extensive though detailed and bulky at a ''vote by vote'' level, although we understand that there are plans to simplify the documents presented to parliamentarians. The legislature's review covers fiscal policies and fiscal aggregates as well as detailed revenue and expenditure estimates. Dimension score: B.

(ii) Extent to which the legislature's procedures are well established and respected

The rules and procedures for the National Assembly are set out in the Constitution and the Standing Orders of the Assembly. The specific mandate of the Budget & Finance Committee is derived from derives Standing Order 159. However, the extent to which they are respected is less clear. Dimension score: C.

(iii) Adequacy of time for the legislature to provide a response to budget proposals both for 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)

For the 2009/10 Fiscal Year, the Budget was tabled in Parliament on 3rd July 2009 and passed on the 28th July 2009 — this allowed less than one month for review by the legislature. Dimension score: D.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

Supplementary Appropriation Bills (Standing Order 218) relating to supplementary recurrent estimates or further development estimates as adopted by the Assembly shall be presented.

In practice, in terms of the Supplementary Budget, there appears to be no real debate and after the event approval appears to be common. In 2008, there was no supplementary budget[63] Rules for virement are set out clearly in the Financial Management Regulations. Responsibility for granting virement is afforded through the Minister of Finance or the Secretary to the Treasury. The Secretary to the Treasury is responsible for preparing schedules at the end of the financial year resulting from virement and submitting these to Parliament. Dimension score: C.

PI-27 Legislative scrutiny of the annual budget law

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**B**	
The Legislature's review of the budget covers fiscal policies as well as detailed estimates of expenditure and revenue.	B	The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.	Parliamentary officials and Committees		
The rules and procedures for the National Assembly are set out in the Constitution and the Standing Orders of the Assembly. However, the extent to which they are respected is less clear.	C	Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected.	Parliamentary officials and Committees		
For the 2009/10 Fiscal Year the Budget was tabled in Parliament on 3rd July 2009 and passed on the 28th July 2009 — this allowed less than one month for review by the legislature.	D	The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).	Parliamentary officials and Committees		
In terms of any Supplementary	C	Clear rules exist, but they may not always	Parliamentary officials and		

[63] Clerk to Finance Committee

Budgets there appears to be limited debate.		be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.	Committees		

PI-28 Legislative scrutiny of external audit reports

Although the National Assembly has benefitted from improved facilities with the completion of the new Parliament Building in 2010, some barriers to the independent operation of the PAC and other committees do still remain. In particular, lack of funds was as a reason for scrutiny meetings planned for January 2011 being postponed with the resultant impact on timeliness and quality of the PAC's work.

The PAC is a committee established by a Standing Order and the PAA. It has received some capacity building in the form of a study visit to Norway; prior to the consideration of the last Auditor General's Report there was a sensitisation seminar and it is planned that PAC will receive training in respect of Performance Audit prior to their consideration of the first performance audit to be produced by the NAO in Malawi.

(i)Timeliness of examinations of audit reports by the legislature (for reports received within the last three years)

The previous three years has seen an exceptional level of submissions to the PAC which included dealing with a substantial backlog from the period during 2006-2008 when the Auditor General's position was vacant. The PAC has considered the Auditor General' reports on the fiscal years 2004/05, 2005/06, 2006/07. Currently, 2007/08 is being completed and 2008/09 and 2009/10 are now available for scrutiny. The fiscal years covered by the Auditor General's reports clearly indicate the operational challenges for PAC during this period of catch up.

Although the reports under consideration covered financial years which were presented to the Legislature a number of years after the event, the Legislature did complete the scrutiny of the reports within twelve months of their receipt which is reflected in the scoring. Dimension score: C.

*(ii) Extent of hearings on key findings undertaken by the legislature***.**

There is evidence that the PAC conducts hearings and that controlling officers and others are required to attend. The Auditor General or a representative is always in attendance and technical support for the Committee is provided by the staff of the Auditor General's Office as required. In the PAC Report which examines the Auditor General's Report of the years ended 30th June 2005, 2006, 2007, there is reference to a total of six weeks of hearings during which approximately 150 controlling officers or their representatives spanning 21 ministries or departments attended before the Committee to present oral evidence arising from written submissions made. However, the combined scrutiny of three years which date back up to five years inevitably impacts on the quality and the meaningfulness of the meetings held. Reference is made to controlling officers' delays in responses to PAC arising because some of the evidence required is up to ten years old.

Under the Public Audit Act, 2003, Public Accounts Committee (PAC) meetings are open, but in practice it seems that committee members do not invite the public to attend. This reduces the transparency of their scrutiny and the public accountability of the Executive. Dimension score: B.

(iii) Issuance of recommended actions by the legislature and implemented by the executive

The PAC issued its latest report on 28th April 2010 covering the years ended 30th June 2005, 30th June 2006 and 30th June 2007. The latest Treasury Minute appears to be in response to the PAC consideration of the accounts for the year ended 30th June 2004 but which was not received by the PAC Secretariat until January 2010. Prior to that the earlier document obtained was in respect of the Auditor General's Reports of 2001/02 and 2002/03 in which the Ministry of Finance is asked to respond. This Ministry of Finance reply appears to be dated 3rd November 2008; however, the actual actions taken are not clear. In conclusion, the records of follow-up of audit issues are scarce and in particular, Treasury Minutes recording follow-up of outstanding issues are not issued on a regular and timely basis. Dimension score: D.

PI-28 Legislative scrutiny of external audit reports

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	D+			**D+**	No change
The fiscal years covered by the Auditor General's reports presented to the Legislature during the period 2008–2010 constituted a substantial backlog. However, the PAC did scrutinise those reports within twelve months of them being received.	C	Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports.	Auditor General PAC		
There is evidence of a process in which hearings do take place. The usefulness of hearings many years after the events being scrutinised.	B	In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion.	Auditor General PAC		
No recent evidence of recommended actions being issued and no credible evidence of implementation of previous recommendations by the Executive.	D	No recommendations are being issued by the legislature	Auditor General PAC		

3.7 Donor practices

D-1 Predictability of direct budget support

The period of the assessment covers direct budget support that was operational between 2008 and 2010 and at the time this was agreed envisaged an overall budget of € 90 million. The new programme also adopted a single disbursement approach from the beginning of each fiscal year, moving from two half-yearly disbursement arrangements in order to help improve the budget predictability of aid flow to Malawi. It is also worth noting that direct budget support in Malawi is currently being provided by six donors, whose budget support operations may vary in terms of timing *(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature*

Table 14 below indicates the extent of the annual variations across the three years of assessment which show significant variations between budgeted and actual for the fiscal years 2007/08 and 2009/10.

Table 14 Budget Support Flows

Fiscal Year 2007/08			Fiscal Year 2008/09			Fiscal Year 2009/10		
Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
$000	$000	%	$000	$000	%	$000	$000	%
64,687	93,970	+ 45 %	172,804	164,484	-4.81%	151,828	230,165	+51.6%

The PEFA assessment is particularly interested in situations where the budget support falls significantly short of that estimated. The table indicates that the principal variations are in respect of greater amounts of budget support being received that planned. Dimension score: A.

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

The dimension for in year timeliness cannot be assessed due to the quarterly estimate figures remaining outstanding. Dimension score: not rated.

D-1 Predictability of direct budget support

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	NR			**NR**	No change
The variances were 2007/08 (+45%) 2009/10 (+51.6%), and 2008/09 -4.81%.	A	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%.	MoF Budget Performance Reports.		
A schedule of the budgeted DBS by quarter was unavailable.	NR	No information	MoF Budget Performance Reports.		

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

(i)Completeness and timeliness of budget estimates by donors for project support

Budget estimates in respect of donor funded development projects are submitted to the MEPD as part of the PSIP. The DAD also collects data on non capital projects. There appears to be improvement in the comprehensiveness of available data with monitoring systems in place both in the MDPC and within MoF (DAD) that were not so well developed at the time of the last review.

In respect of the 2009/10 PSIP budget process, the calendar was announced late (November instead of July) so this compressed the available time for data collection sometimes compromising accuracy.

For recurrent budget projects, it appears that the target of information supplied at least three months before the budget process is not met; however, slippage in the Government's own budget timetables means that the data is received in time to be included in the budget.

Budget summaries now include all donor funding (on budget) covering non-tied budget support and dedicated grants, such as health SWap funding. In addition, all projects for which project support is managed by the GoM and all funds channelled and disbursed through the GoM's own PFM systems and procedures are included. Dimension score: C.

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

Donors provide statements of actual disbursements on projects on a monthly basis. This has been improving over time and for the fiscal year 2009/10 most donors are achieving the monthly deadlines and are reporting within two months of the end of the period; the exception is some UN agencies where there have been gaps in data which compromises the comprehensiveness of the aid management platform database until recently. Since June 2010, the UN performance has improved in this regard. Dimension score: C.

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

Current Assessment				Score in PA	Explanation of change since PA
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
	C			**C**	No change.
Improvements in the monitoring of receipt of information provided by donors are evident. Whilst project support information is not received 3 months prior to the start of the fiscal year – it does form part of the GoM budget documents to the Assembly and captures the key items from the CABS donors. In terms of USAID, China and Japan contributions are not captured in the Budget.	C	At least half of donors (including the 5 largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least 3 months prior to its start. Estimates may use donor classification & not be consistent with government's budget classification system.	Budget Division Debt and Aid Division		
Donors provide statements of actual disbursements on projects on a monthly basis this has been improving over time. For the fiscal	C	Donors provide quarterly reports within two months of end-of-quarter on all disbursements made for at least 50% of the externally financed	Budget Division Debt and Aid Division		

year 2009/10 most donors are achieving the monthly deadlines.		project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.			

D-3 Proportion of aid that is managed by use of national procedures

Since the last PEFA assessment, there have been further improvements and refinements in the information available, on which this calculation is based. The GoM is keen to see more support channelled through country systems and an Action Plan is to be produced.

For the fiscal year 2009/10, the following categories of donor support were assessed as full use of country systems[64] — General budget support (30% of ODA); Sector support (15% of ODA); project support using GoM accounting and audit systems (7% of ODA). These categories account for 52%. In addition, there is a proportion of the remaining ODA related to embedded project units which accounts for a further 12.5% giving a total of 64.5%. This methodology follows that of the previous assessment and the same caveat that it produces a figure which is on the high side is equally valid now.

It is important to draw attention to some contested aspects which remain particularly in respect of the sector support and pooled funding figures where specific audit requirements can be directed by donors. Also, the calculation currently appears to place greater focus and emphasis on the activities of traditional donors when there are, in fact, increasingly other dimensions such as project grants and project loans from other non-traditional donors to be taken into account. It is important that the components of the calculation are transparent and well understood with any special conditions such as additional audit requirements, which may indicate that full national procedures are not always used, should be clearly annotated. Score: C.

D-3 Proportion of aid that is managed by use of national procedures

Current Assessment				**Score in PA**	**Explanation of change since PA**
Evidence used	**Score**	**Framework Requirement**	**Information Sources**		
The headline figure is 64.5%. As in 2008 it is important to include the caveat that this figure may be on the high side. The tolerance levels for scoring within this range are 50–74%.	**C**	50% or more of aid funds to central government are managed through national procedures	MoF	**C**	No change

Indicator	**Score**	**Explanation**

[64] Debt and Aid Department figures

D-3 Proportion of aid that is managed by use of national procedures	**C**	**M1 scoring method**
(i) Overall proportion of aid funds to central government that are managed through national procedures	**C**	The headline figure is 64.5%. As in 2008 it is important to include the caveat that this figure may be on the high side. The tolerance levels for scoring within this range are 50–74%.

4 GOVERNMENT REFORM PROCESS

The GoM is implementing a Public Financial and Economic Management Action Plan (PFEM Action plan) in collaboration with the CABS donors as one of the underlying principles in the CABS partnership MoU. A revised (interim) PFEM Action Plan was developed for the remaining period of the MGDS 2006–2011. The revised PFEM Action Plan ends in June 2011 and covers 33 activities where individual activities under the PFEM Action Plan is being supported by a number of donors, DFID, UNDP, GIZ, AfDB, WB, JICA, CIDA, NORAD and the IMF's EastAFRITAC.

The PFEM unit in the Ministry of Finance, supported by a number of international Technical Assistance advisors, is charged with PFEM administration and programming as well as coordination of reforms in this area and updating the public financial management plan (see below). The current overall activity areas are grouped in:

- Planning
- Resourcing the national Development Strategies
- Budgeting
- Budget execution, including Procurement
- Accounting and financial management
- Reporting/Monitoring
- PFEM administration

Sound public finance and economic management is critical to continued budget support in Malawi and makes up — as stated above — one of the five underlying principles in the CABS partnership. Sound PFEM systems that are accountable and transparent will incentivize CABS and non-CABS Development Partners to use Malawi country systems more when delivering development assistance, hence leading to further strengthening of these systems. To further this end, the CABS Development Partners have requested that GoM move expeditiously in developing a medium to long-term PFEM programme to succeed the interim September 2010 – June 2011 Revised Action Plan. Currently, work is underway to establish the successor plan, which is likely to take the form of a comprehensive PFEM SWAp program based on the 2010 PFEM Situation Report and other diagnostic analyses.

Underpinning — and central to — the reform initiatives are the continued efforts to consolidate and expand the use of the IFMIS (including the separate IFMIS being rolled out to local authorities), the implementation of the new SAP system in the tax administration as well as on-going improvements to other administrative IT-system, e.g. the Payroll system operated by the Department of Public Services Management under the Office of the President and Cabinet.

IFMIS implementation and expansion

The most recent assessment of the IFMIS carried out by the IMF's EastAFRITAC, and presented in November 2010, provides the following overall recommendations to the GoM:

- **Consolidation** of the IFMIS including maximization of benefits from the current IFMIS configuration and piloting new functionality requiring little system modification (e.g. the Electronic Funds Transfer facility to carry out electronic payments) and extending the IFMIS to more sites as e.g. sub-national government and larger spending units in ministries.

- **Caution** with regards to the integration of new functionality (e.g. asset management and accounts receivable) without fully understanding the implications on other modules and without rigorous testing.

- **Plan** with regard to the need to upgrade the operating system, application version and hardware architecture to provide GoM with the opportunity to properly plan and administer a significant project. In addition to the hardware and software elements, GoM should seek to consider any new or modified requirements: to achieve the full integration of the budget module; to specify and test the asset management and accounts receivable modules; and to ensure that the system is capable of supporting government's progression towards accrual accounting.

The EastAFRITAC points out that a critical success factor for moving forward with the IFMIS implementation will be GoM acknowledging it as a significant project through: the creation of project governance arrangements; appointment of a project team; and the design and implementation of project and communication plans.

These findings and recommendations align with the specific recommendations of the PEFA assessment team, where recommendations with respect to IFMIS implementation and related reform initiatives are grouped as follows:

Consolidation: During the PEFA mission it was possible to observe that some fundamental issues with regards to the IFMIS operation are not operational. e.g. reconciliation between the IFMIS and the Consolidated Funds account in the RBM in Malawi had not been carried out since the beginning of the fiscal year 2010/2011 due to configuration problems in relation to the implementation of the new CoA in the IFMIS. This raises concerns with regards to the planning capacity and business and technical understanding of the involved parties; Soft-Tech (the supplier of the Epicor IFMIS) on the one side and the PFEM unit on the other. Furthermore, data is still exchanged and handled manually between the Local Authorities IFMIS (Serenic Navigator) and the central IFMIS. These are issues fundamental to the timely and secure operation of the IFMIS to which solutions must be given priority.

Sequencing and coordination: During the PEFA mission the PEFA team was left with the impression that coordination of the various Action Plan activities was weak and that no specific/concrete project plan was in place to effectively guide preparation, planning and implementation of reform activities. The PFEM Action Plan is a high-level document which does not outline the literally hundreds of preparatory activities, including responsible entities, necessary for the successful overall implementation of PFEM Action Plan goals. It is recommended that the new Action Plan (as of July 2011) be underpinned by a detailed planning framework outlining amongst others GoM priorities in the implementation of activities.

Business continuity and disaster recovery. The team did not see evidence of a business continuity and disaster recovery plan having been worked out. It would be highly recommended that such a plan is worked out, including detailed activities to be carried out if different "disaster" scenarios occur.

Improvements in cash and liquidity management through a more efficient payment system and procedures. The financial management procedures in Malawi have a number of implications with respect to liquidity management. These are summarized in the table below.

PFM procedure	Short description	Analysis/Problem	Possible mitigation
Revenue collection	After assessment, locally generated revenue is transferred to RBM and subsequently transferred to treasury's central bank revenue accounts.	Revenue collected while in transition to the single treasury account is not available for budget execution. During the month, revenue adds up on the treasury revenue accounts and is not available for budget execution.	Revenue should be paid directly into the STA and immediately be available for budget execution.

Cash Planning	Cash planning is carried out monthly on the basis of the monthly opening balance on the STA.	Cash planning is not taking into account the revenue available in treasury revenue accounts during the month.	The cash planning process should be more dynamic and carried out with higher frequency to take into account a more dynamic inflow of revenues.
Commitment control and payments	After commitment balances in the STA are only paid out when the cheque is cleared.	Balances stay idle in the STA from the time of commitment until cheque is cleared/pay-roll transfers to sectors are executed.	The payment process should be speeded up; using EFT and redesigning the budget execution process, payroll should be paid directly via EFT from the STA to recipient bank accounts (the latter is under implementation).
Pay-roll	Pay-roll is committed with highest priority in the beginning of the month.		

These suggested mitigation actions are based on two very simple principles; speed up the flow of revenues into the single treasury account and minimize the time lag between commitment and actual payment. Taken together, these principles suggest a more dynamic cash planning process, including a more dynamic use of revenue forecasting, where cash is allocated on a more frequent basis to take into account a more dynamic inflow of revenue as well as expenditure patterns in the sectors, including un-utilized cash allotments. This adjustment does not create more revenues in itself but allows for a one-time only improvement of liquidity, to be sustained in the future, following the implementation of a more efficient payment system and more efficient budget execution procedures, effectively allowing cash to be made available for budget execution faster than otherwise and reducing the time balances lay idle in- and outside the STA. It should be added that this would also contribute to alleviate domestic debt accumulation.

Electronic payments: The RBM confirmed that they are capable of receiving electronic payment orders from the IFMIS and handle them within the RBM RTGS system. It would seem, as referred to above, as a priority action to get the EFT module of the IFMIS implemented. GoM could seek advice on implementation from Tanzania and Mozambique which have both implemented this kind of payment systems.

Revenue administration. The Malawi Revenue Administration (MRA) is in the middle of a modernization of its systems to give support to a reformed and more efficient tax administration. The PEFA assessment team finds it important that necessary support is provided for the successful implementation of MRA´s targets, including the implementation of SAP as the back-bone Tax-ERP during 2011, as part of the overall improvement of the Ministry of Finance liquidity management.

MTEF and fiscal framework. The PEFA team supports the attempts to revitalise the Malawi MTEF in order to provide improved support to the implementation of the MGDS II through improvements in the allocative efficiency of the budget. Furthermore, the team would endorse an initiative to make the process more inclusive in terms of sector involvement in defining budget allocations for outer years.

IT technical considerations. The IFMIS at central level is integrated with itself but not with the IFMIS at local level. There is no electronic integration between the Payroll system, the TPIN system, any of the tax administration systems (including ASYCUDA), debt management systems and RBM. It would seem prudent to elaborate a strategy for the future interconnection of these various systems. Epicor is currently operated in version 7. The available version 9 allows connected clients to be operated in a web-enabled environment. Upgrading to version 9 carries two immediate advantages. First, the Ministry of Finance will no longer need to pay for expensive Citrix licenses as well as running a Citrix-server to connect to IFMIS clients (this is currently required for the version 7). Secondly, it would allow IFMIS clients to connect to IFMIS via a browser over the internet thereby reducing costs and creating increased facility (through, amongst others, reduced technical complexity) for a speedier roll-out of the IFMIS.

Detailed reform planning matrix. Solid program and project management requires detailed planning, including the definition of milestones and sub-deliveries during the execution of high level targets. As part of the new programme, a detailed planning matrix identifying milestones and sub-deliveries should be designed applying internationally recognized management tools as PRINCE II or PMI. This would allow for improved monitoring, follow-up, prior identification of potential problems and, perhaps most importantly, would improve the capacity to coordinate reform activities across functional areas.

Finally, a number of key principles might usefully be followed in planning and implementing future PFM reform. These include the following:

A. Devote time, effort and resources to getting existing systems, processes and practices working better. In a number of areas, there is a sound framework in place but that, for various reasons, it is not working properly. An example would be the budget preparation process where the regulatory framework provides for budget ceilings to be communicated to budgetary units by the end of November, but this is not being done until the following March or even April as in 2009/10. Similar considerations apply to bank reconciliation, which has been allowed to stagnate due to a systems issue associated with the introduction of the new Chart of Accounts.

B. Strengthen internal control, especially internal audit. We would recommend the development of a well-functioning internal audit function in Government as a key priority for inclusion in the PFM reform programme. This is partly a technical issue in terms of audit approach and capacity development and partly an institutional/governance issue in terms of the role and composition of Internal Audit Committees which would benefit from the infusion of outside expertise.

C. Develop and implement a coherent PFM capacity development strategy. Capacity weaknesses are evident throughout the system and must be tackled systematically. A balance has to be struck between the various forms of academic and practical training including the professionalization of government financial management. Particular emphasis should be placed on monitoring the impact of capacity development in the workplace.

D. Act on findings. It is not clear that concerted action is being taken to address issues raised by external and internal audit and the numerous other reviews that occur often instigated by donors. One example is the lack of action in terms of incorporating Treasury Funds within the national budget. Taking appropriate action and communicating provide an important signal to the many stakeholders in PFM that issues of concern are being taken seriously.

E. Provide strong leadership and direction. PFM reform needs a champion in a sufficiently influential position to ensure that reforms are properly co-ordinated and their impact monitored. A dynamic and effective programme manager is essential. This needs to be linked to a realistic, time-bound results framework.

F. Ensure that the behavioural and change management aspects of the reform process are fully recognised and factored into the design of the programme.

G. Recognise the reality of the PFM reform time horizon. Progress is never linear and there will be ups and downs. Reform really is a journey not a destination.

H. Avoid discontinuity in support. This is de-motivating for all concerned and ultimately counter-productive.

Annex 1 – Specific Terms of Reference

Specific Terms of Reference

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

FWC BENEFICIARIES 2009 LOT No. 11: REQUEST No. 2010/259681
EuropeAid/127054/C/SER/multi

1. BACKGROUND

The Common Approach to Budget Support (CABS) donors (currently composed of European Union (EU), Department for International Development (DFID), Norway (NOR). African Development Bank (AFDB), World Bank (WB) and Germany with International Monetary Fund (IMF) and United Nations Development Programme (UNDP) as observers are providing budgetary support to Malawi. CABS Development Partners (DPs) have been providing Budget Support to Malawi since 2005 when the current GoM demonstrated its commitment to implementing an IMF supported programme, Poverty Reduction and Growth Facility. This support depends to a great extent the status of Public Finance Management (PFM) reforms in the country. In this context, CABS donors in collaboration with Government of Malawi (GoM) have conducted the Public Expenditure Finance Accountability Assessments (PEFA) in 2005, 2006 and 2008 leading to a number of reforms and improvements to the PFM system. The next PEFA is planned to be undertaken at the beginning of 2011.

The GoM PFM reform strategy is outlined in the updated Public Finance and Economic Management (PFEM) Action Plan) of May 2009, which is designed to further step up the pace of PFM reforms in Malawi. The first PFEM Action Plan was adopted in 2006 and guided PFM reforms until the revised Action Plan was adopted in May 2009. The PFEM Action Plan cover a broad range of areas that include planning, resource mobilisation, budgeting, accounting, procurement, auditing, reporting and PFM administration. The composition of the PFEM Action Plan was made through a consultative process with key stakeholders from both GoM and development partners (DPs). In October 2010, GoM further revised and refined the PFEM Action Plan taking forward only 33 activities to be implemented by June 2011. GoM has also started working on a more comprehensive medium-term (3 years) PFEM Action Plan whose implementation should start in July 2011. This is expected to lead into the formation of a PFEM SWAp. The implementation of the PFM Action Plan is coordinated by the PFEM Unit in the Ministry of Finance (MoF). The PFEM Unit reports to the Group on Financial and Economic Management (GEFM) that comprises of GoM and DPs including those not in CABS group.

The 3rd and most recent PEFA assessment was completed in May 2008, the main findings of which indicate that Malawi continued to exercise fiscal discipline in budget execution with domestic revenue collections maintained above targets. On public accounting, there has been an improvement in the timeliness of submission of public accounts due to the significant progress in the implementation of Integrated Financial Management Information System (IFMIS) at central Government level. Positive developments were observed in the area of debt management, payroll management and government procurement reforms. Nevertheless external auditing and parliamentary scrutiny of financial accounts suffered delays in the submission to Parliament of the audits and this is presently being addressed following the nomination of the Auditor General in May 2008.

Regular review of progress on PFM is done through bi-annual CABS reviews that take place in in March and October of every year. With the development of a joint Performance Assessment Framework (PAF) CABS partners have created an agreed set of indicators to monitor progresses in PFM among others. Through this dialogue specific diagnostic reviews and assessments have been done including most recently a Public Expenditure Review on Travel. The IMF has also supported specific assessments on the budget and IFMIS through East AFRITAC.

However, in the short and medium term challenges still exist for the PFM system in Malawi. Implementation of the PFEM Action Plan has been slow and there is need to speed up this process through a more coordinated approach to PFEM reform and support and in particular in greater ownership and drive from GoM. GoM has gone some way addressing this and a PFEM Unit has been introduced on the new structure (organogram) of the MoF.

GoM is implementing an IMF supported programme, Extended Credit Facility (ECF), approved in February 2010. This succeeds a 1 year Exogenous Shock Facility (ESF) granted to Malawi in December 2008. Average GDP growth for Malawi has been above 7% between 2005 and 2009 and preliminary projections for 2010 put GDP growth at 7.1%. The annual average inflation rate has remained in single digits since 2007 when the country registered the lowest level of 7.9%. The challenge for the GoM is now to translate the existing achievements into long term and sustainable systems with appropriate internal and external checks and balances. These systems will restore all stakeholders' confidence; and facilitate and promote effective and efficient service delivery by GoM.

Requested by the GoM, the independent PEFA assessment proposed under this assignment will assist GoM in setting a clear list of PFM priorities according to an internationally agreed upon methodology.

2. DESCRIPTION OF THE ASSIGNMENT

2.1 Global objective

The main objective of the current assessment is to take stock of the progress made in the PFM reform process since the previous exercise of February 2008 and assist GoM in determining its most urgent PFM priorities, which should help GoM to prioritize and take forward the PFM reform. The assessment results will assist the CABS donors in making an informed decision on its support to Malawi through budgetary support and technical assistance to PFM issues.

2.2 Specific objective(s)

The specific objective of the assignment is to provide an update of the qualitative and quantitative assessment of PEFA indicators while providing an independent analysis, presenting the reasons for success or failure in achieving the indicators, including identifying any reasons that are within and/or beyond GoM control. The PEFA analysis will provide status (performance) for the PFM system by 2011 and changes in results since 2008. The assessment should identify and present changes in the performance of a PFM system over time. The analysis should be based on empirical evidence that will form the basis of scores or changes in scores and a qualitative assessment of the status and performance. The opinion of the experts will be evidence based and provided with justifications. Experts will strictly adhere to the PEFA Performance Measurement Framework and guidelines. The PEFA indicators are provided in Annex 1 to these TORs.

This mission is planned to be run alongside a PEFA Steering Committee initiative (being taken forward by DFID) to incorporate assessment of PFM performance at sector level into General PEFA Assessments. It is envisaged that the approach will be piloted in Malawi as part of the PEFA assessment described in these Terms of Reference. It is expected that the assessment will cover two sectors, to be determined by the Government of Malawi and the DFID Malawi office.

The sectoral element of the assessment will be undertaken by a consultant who has been separately recruited by DFID. The team recruited for the Malawi PEFA Assessment will be expected to work closely with this consultant, who will report to the overall team leader. Although the exact split of work will be determined once the consultants have been appointed, it is envisaged that the majority of the sector consultant's time will be focussed on outlining any different data requirements and on reporting on differences across sectors for relevant indicators. He/she will contribute towards the write-up of indicators which are assessed in different sectors. It is expected that the majority of data collection will be undertaken by the core team of consultants. There will not be a separate sector report.

2.3 Requested Services

The work of the experts will be to assess progress on PFM reforms in line with the PEFA based performance assessment framework. The methodology is to follow that recommended in the PEFA Performance Measurement Framework document, and this will apply to the format of the final report. The experts are expected to come up with reliable and well documented statistics and information on all the indicators within a specified timeframe. Specifically, all those areas and indicators covered in the 2008 exercise are to be assessed. This will require working very closely with the Ministry of Finance, the Accountant General's Department, the Ministry of Development Planning and Cooperation, the Internal Auditor, the National Audit Office and other public institutions as necessary, as well as with all development partners that are currently involved in budgetary support and PFM reform
issues. These include CABS members, other donors and the IMF. In addition, CABS members may be associated to some of technical meetings led by the experts.

2.4 Required Outputs

The required output of this assignment will be the production of a "final report" with a detailed assessment of PFM systems as provided in the PEFA Performance Measurement Framework. Section 5.0 of these TORs provides more details on reporting requirements.

3. EXPERTS PROFILE

3.1 Number of requested experts per category and number of days per expert

The exercise requires services of three (3) experts. It is expected that the total input of the experts will be **101 working days,** divided as follows:

Proposed work programme:

Project Phase	Item	Time Frame
Mission preparation (experts home country)	- Literature review	3 working days each expert
Travel days (international)	- Round trip	2 working days each expert
Field phase (in country)	Working days - Briefing - Literature review - Inception report - Consultation with stakeholders and beneficiaries - Preparation of draft final report - Debriefing session	25 working days each expert
Report finalisation (experts home country)	- Integration of comments into the final report - Submission of the Final Report to the Client	5 working day for team leader 3 days each for support experts
Total working days		101 working days (35 working days for Team Leader and 33 working days each for the support experts)

In addition, there will be a separate expert undertaking detailed analysis of selected indicators at the sectoral level. This expert will be contracted directly by DFID for 15 working days, the majority of which will be spent in country. It will be critical for the sector consultant to engage with the other experts at the design stage, in order to ensure that any additional data requirements are clearly understood.

3.2 Profile required for experts

This is an exercise which calls for **3 PFM Specialists** all of Senior Category with the following qualifications and attributes:

Team Leader – Senior Category shall have:
a) A Masters Degree level of qualification in Economics or Development studies with a strong bias in PFM;
b) At least 15 years of solid experience and expertise in PFM of which 8 years of experience is in analysis and/or audit of PFM in Sub Saharan Africa or Southern Africa;
c) Demonstrated experience in the PFM assessment using the PEFA methodology; and
d) Excellent command of the language used during the assessment and in the report.

Supporting Experts – Senior Category (2) shall have:
a) Masters Degree level of qualification in Economics or Development studies relating to PFM;
b) At least 10 years of solid work experience of which 5 years expertise is in PFM;
c) Demonstrated knowledge and experience in analysing PFM using the PEFA methodology; and
d) At least one expert should have good knowledge of the specific budget and PFM situation in Malawi.

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

3.3 Working language(s)

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

4. LOCATION AND DURATION

4.1 Starting period

The in-country mission is planned to start on 7th February 2011.

4.2 Foreseen finishing period or duration

The assignment is expected to be finished by 15th May 2011. This timing includes in-country mission and production of draft report, 30 days for commenting on the draft report by stakeholders and production of the final report.

4.3 Planning
The experts will work closely with all relevant GoM ministries and departments as well as with the CABS Group and other financial institutions in Malawi. The MoF will appoint a liaison officer to facilitate the work of the experts and will assist the team with the planning of the mission, preparation of the meeting, interviews, briefing, de-briefing as well as with the collection of necessary data and information. The EU Delegation will appoint a liaison officer to facilitate the interactions between the experts and the CABS Group.

The experts are expected to carry out the following activities:

a. Attend a briefing session arranged by the MoF and the EU Delegation on behalf of the CABS group upon arrival in Malawi.
b. Prepare and present an inception report within 1 week of the in-country mission. During this session the team is expected to elaborate on the use of the PEFA framework and the approach and methodology to be adopted in conducting this assignment;
c. Get acquainted with the overall PFM situation through review of latest studies, analytical works conducted in Malawi such as: 2005 PEFA Assessment by ECORYS, 2006 PEFA Assessment by ACE, 2008 PEFA Assessment by POHL Consulting and Associates, IMF Board papers, CABS Aide Memoire(s), PER etc;
d. Prepare a schedule of meetings to be held with relevant stakeholders. A copy of the document is to be provided to Ministry of Finance and the EU Delegation in order to allow for the participation of CABS member to a certain number of meetings, as deemed necessary by CABS members;

e. Maintain contact with PEFA Secretariat in order to ensure correct use of the PEFA methodology and quality assurance;
f. Meet with all relevant stakeholders (ministries, departments, etc) and with CABS members;
g. Produce a draft final report;
h. Conduct a debriefing and validation session with the MoF, relevant line ministries, CABS and other interested DPs, members of Public Accounts Committee and Budget and Finance Committee of Parliament, and some Civil Society; and
i. Produce a final report within 1 week after receiving comments from the MoF and EU Delegation (on the behalf of CABS). Comments will be provided within 45 days of the submission of the draft final report.
j. The final report will be made public upon its approval.

4.4 Location(s) of assignment

Lilongwe, Malawi.

5. REPORTING

5.1 Content

The final report will be of a maximum of 50 pages plus annexes. It will include an executive summary; an introduction covering objectives, methodology, PFM measurement framework; a section covering country background in brief; and sections on PEFA indicators assessment and analysis.

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

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

Experts may add as many annexes as deemed necessary.

5.2 Language

All reports will be in English.

5.3 Submission/comments timing

The following outputs are expected from the assignment and will be submitted to the EU Delegation and MoF (NAO):

1. An inception report expressing the experts understanding of the assignment and schedule of activities, within 1 week of commencement of the in-country mission;
2. An 'Aide Mémoire' (10 pages maximum excluding annexes) indicating the main findings and reflections which will be developed in the draft report submitted **2 days** prior to the debriefing session, at the end of the in-country mission, with the MoF, the EU Delegation, CABS group and other relevant stakeholders;
3. A draft ‘final report’ submitted within one week after the end of the in-country mission;
   The draft ‘final report’ will be subject of an external validation hence will be communicated to the CABS members and to the PEFA Secretariat for comment on the way in which the PEFA Framework has been applied (e.g. correct use of the methodology, adequacy of documented evidence for scoring the indicators). This will take place within the 30 days period for comments by the MoF and the EU Delegation; and
4. At the end of the assignment the contractor shall submit a ‘final report’ (five hard and bound copies and an electronic version of the report) not later than one week after reception of comments from MoF and the EU Delegation (on the behalf of the CABS Group). The MoF and the EU Delegation will have 45 days to provide comments after the submission of the draft final report.

5.4 Number of reports copies

The number and distribution of copies of each report shall be:

Report	Recipient	N° copies
Inception Report	EUD, NAO, MoF	3
Aide Mémoire	EUD, NAO, MoF	3
Draft Final Report	EUD, NAO, MoF	3
Final Report	EUD, NAO, MoF	3

6. ADMINISTRATIVE INFORMATION

6.1 Management Arrangements

The experts will report to the Deputy NAO/Head of NAO Support Unit, MoF and to the EU Delegation. Close communication and cooperation should be maintained with the NAO office and the EU Delegation during the entire in-country mission.

6.2 Resources

Any office accommodation required by the experts during the assignment will have to be provided by the consultant. Respective costs including office supplies and communication expenses will be covered under the fee rates.

6.3 Tax and VAT Arrangements

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

6.4 Fees, per diems and working hours

The assignment will be contracted on a **Global price** basis.

The assignment is for a total of 101 working days (35 working days for the team leader and 33 working days each for the other two experts). The duration of the assignment is defined as the "total engagement including holidays and weekends".

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

National Travel: Intra-city travel is included in per diems. An indicative maximum provision of €1,000 should be included for inter-city travel in Malawi.

International Travel: International travel in economy class is foreseen -on average EUR 1,500 is sufficient to cover a return air-ticket.

These points are covered on the Europe Aid website dealing with framework contracts including instructions for completing the offer for services:

http://europa.eu.int/comm/europeaid/tender/cadre05/index_en.htm

Annex 1: PEFA Performance Measurement Framework Indicators

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

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

B. Key Cross-cutting Issues: Comprehensiveness and Transparency

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

C. Budget Cycle

(i) Policy Based Budgeting
11. Orderliness and participation in the annual budget process
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

(ii) Predictability and Control in Budget Execution
13. Transparency of taxpayer obligations and liabilities
14. Effectiveness of measures for taxpayer registration and tax assessment
15. Effectiveness in collection of tax payments
16. Predictability in the availability of funds for commitment of expenditures
17. Recording and management of cash balances, debt and guarantees
18. Effectiveness of payroll controls
19. Competition, value for money and controls in procurement
20. Effectiveness of internal controls for non-salary expenditure
21. Effectiveness of internal audit

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

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

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

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

Annex 2 – List of Persons Met

Name	Position
African Development Bank	
Fenwick Kamanga	
Estelle Nuka	
Anti Corruption Bureau	
Mary Phombeya	Principal Corruption Prevention Officer
Blantyre City Council	
Alexander Mshali	Acting Director of Finance
Emanuel Chiputula	Assistant Accountancy Officer (AAO), Budgets and Accounts section
Robert Grevulo	Assistant Director of Administration
Kitty Mlumbe	Procurement Officer
Steve Nkhonjera	Procurement Officer
Ferguson Majawa	Procurement Officer
Dora Gondwe	AAO, Creditor Section
Harris Chaluluka	AAO, Salaries
Chimwembe Mbale	AAO, Revenue
Blantyre District	
Charles Makanga	District Commissioner
Joseph Ntiza	Director of Finance
Budget and Finance Committee	
Hon. Ralph Juma	B&FC
Department of Human Resource Management	
Dickson Ephraim Chunga	Director of Human Resource Management
Peter Chintalo	Chief System analyst
Jerome Kawonga	Head of HRMIS section
EC Delegation	
Alan Munday	First Secretary, Head of Economics & Public Affairs
Horst M.Pilger	Counsellor, Head of Operations
Kelvin Kanswala Banda	Macro-economist, Economic & Public Affaires Section
Alex Baum	Head of EC Delegation
Malawi Confederation of Chambers of Commerce	
Hope Chavula	Manager, Public-Private Dialogue
Malawi Economic Justice Network	
Dalitso Kingsley Kubalasa	Executive Director
Malawi Revenue Authority	
Crispin Kulemeka	Deputy Commissioner General
Nellie Jimu	Commissioner Domestic Taxes
Leckson Kachala	Head, Customs Operations
Timothy Makamba	Manager, Modernisation Programme Office
Kondwani Sauti –Phiri	Programme Officer, Modernisation Programme Office
David Ioga	Director of Finance

Peter Chikabadwa	Acting Head - Domestic Tax Operations
Wongani Mtambo	Intelligence Officer
Ministry of Agriculture	
Ken Nsandu	Director of Finance
Ministry of Development Planning and Cooperation	
Florian Lang	Principal Advisor
Hiroshi Kawabata	Economist, Project Chief Adviser
Ministry of Finance	
Winford Masanjala	Director (Economic Affairs Department)
Kettie Musukwa	Principal Economist Economic Affairs Department)
Peter Simbani	Director (Debt & Aid Division)
Aaron Barton	Technical Assistance - AMP Database
Chimwemwe Banda	Assistant Auditor General
Saulos Nyirenda	Head of PFEM Unit
Precious Mtota	Chief Accountant, Cash Management Unit
Masauka Kumwenda	Cash Management Unit
H. Chavinga	Assistant Accountant General, Central Payment
Lisemba	Salaries Section
Dorothy Banda	Accountant General
Makorno	Control Section and Direct Data Entry Office
M.Mhango	Principal Accountant , Accounting Services, Division
K.C. Matupa	Acting Director (Revenue & Policy Review Division)
Moses Chiwoni	Principal system analyst
Njema Maosa	Accountant - IFMIS
R. Paul Manganda	Chief Accountant - Pay Service Division
Burton S. Gomani	Chief Accountant - Losses
Brazily Mganga	Project Manager IFMIS
Rabson Chomba	PA
Dr. D. Kabambe	Budget Director
Richard Perekamoyo	Deputy Budget Director
Mark Miller	Technical Assistance
Peter Son	Sector Head of Social Ministries
Chifundo Kajawo	Desk Officer for Health
Dan Khomba	Education Desk Officer
Phileas Chienda	Deputy Director (Public Enterprises Reform and Monitoring Unit)
Gerald Pangani	Acting Head of Internal Audit
Laurence Chinkhunda	Chief Internal Auditor
Watch A. Chataika	Chief Internal Auditor
Ministry of Work and Infrastructure	
Diana Karuma	Director of Finance and administration
Peter Manda	Chief Accountant
Jackson Kenchibuto	Principal Accountant
Mzuzu City Council	
F.N. Nkhoma	Director of Finance
Mzuzu University	
C. Kazembe	Director of Finance & Investments
National Assembly	
Joseph Manzi	Clerk to the Public Accounts Committee
Sunga Kalemba	Clerk to the Finance Committee
Isabel Tambala	Information Scientist, Library and Research section
National Local Government Finance Committee	

Wezi Mjojo	Director of Finance
Silli Mbewe	Director of Assembly Financial Management Services
Syaki Mwammodwe	Chief Financial Management analyst
Stanley Chuti	Chief economic analyst

NAO

Svend T. Skjonsberg	Senior Adviser, Office of the Auditor General of Norway.
R.A. Kampanje	Auditor General
Rexie Chiluzi	Assistant Auditor General
Jostein Telles	Technical Advisor on Performance Audit
Charles Njala	Asst Auditor General II

Mzuzu Regional NAO

A. Mitengo	Chief Auditor

Norwegian Embassy

Britt Hilde Kjolås	First Secretary, Country Economist, Lead on Ext Audit

Office of the Director of Public Procurement

Edward Jeke	Assistant Director

PricewaterhouseCoopers

Ramwell Mbene	Director

Public Accounts Committee

Hon. Henry Mussa	PAC

USAID

Roger Lapp	Controller
Robert J.Katuya	Supervisory Financial Analyst
Stephen Raphael Mwale	Program Mgt (Governance) Specialist, USAID

World Bank, Malawi Office

Appolenia Mbowe

Annex 3 – Calculation Sheet for PFM Performance Indicators PI-1 and PI-2

(as revised January 2011)

Table 1 - Fiscal years for assessment

Year 1 =	2007/08
Year 2 =	2008/09
Year 3 =	2009/10

Table 2

Data for year =	**2007/08**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Per cent
Agriculture and Food Sec.	17203	20704	18,480.2	2,223.8	2,223.8	12.0%
Health	14269	14095	15,328.4	-1,233.4	1,233.4	8.0%
Education	14976	13307	16,087.9	-2,780.9	2,780.9	17.3%
Statutory Expenditure	8454	8756	9,081.7	-325.7	325.7	3.6%
Subventions	7983	7984	8,575.7	-591.7	591.7	6.9%
Road Fund Administration	3178	4053	3,413.9	639.1	639.1	18.7%
Malawi Defence Force	3586	3834	3,852.2	-18.2	18.2	0.5%
Police	3261	3282	3,503.1	-221.1	221.1	6.3%
Transport, P Wks & Housing	1855	3128	1,992.7	1,135.3	1,135.3	57.0%
Foreign Affairs	2800	3019	3,007.9	11.1	11.1	0.4%
Accountant General	1712	2985	1,839.1	1,145.9	1,145.9	62.3%
MRA	2150	2959	2,309.6	649.4	649.4	28.1%
National Assembly	3345	2485	3,593.3	-1,108.3	1,108.3	30.8%
Irrigation and Water Dev.	1037	2447	1,114.0	1,333.0	1,333.0	119.7%
LG & Rural Dev	722	1378	775.6	602.4	602.4	83.4%
OOP & Cabinet	934	1288	1,003.3	284.7	284.7	30.5%
Finance	1092	1138	1,173.1	-35.1	35.1	3.2%
Lands &Nat Resources	629	610	675.7	-65.7	65.7	10.4%
Economic Planning & Dev	142	500	152.5	347.5	347.5	244.7%
Nutrition, Aids Etc.	320	295	343.8	-48.8	48.8	15.2%
Sum of the rest	24461	24334	26,277.1	-1,943.1	1,943.1	7.9%
allocated expenditure	114109	122581	122,581.0	0.0	16,744.0	
contingency	1059	165				
total expenditure	115168	122746				
overall (PI-1) variance						6.6%
composition (PI-2) variance						13.7%
contingency share of budget						0.1%

Table 3

Data for year =	**2008/09**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Per cent
Agriculture and Food Sec.	26330	51121	31,717.7	19,403.3	19,403.3	61.17484
Education	18880	18922	22,742.5	-3,820.5	3,820.5	0.167991
Health	18138	17902	21,848.8	-3,946.8	3,946.8	0.180643
Statutory Expenditure	10301	11131	12,408.7	-1,277.7	1,277.7	0.102967
Subventions	9393	9727	11,315.3	-1,588.3	1,588.3	0.140371
Road Fund Administration	6957	7612	8,380.1	-768.1	768.1	0.091658
Electoral Commission	5271	6723	6,349.7	373.3	373.3	0.05879

Malawi Defence Force	4923	4368	5,930.3	-1,562.3	1,562.3	0.263443
Police	3894	4138	4,690.7	-552.7	552.7	0.117838
Foreign Affairs	3991	3543	4,808.0	-1,265.0	1,265.0	0.2631
MRA	3120	3120	3,758.4	-638.4	638.4	0.169855
Transport, P Wks & Housing	2845	2831	3,427.1	-596.1	596.1	0.173946
National Assembly	2469	2466	2,974.7	-508.7	508.7	0.170998
Acc General	2224	2212	2,678.8	-466.8	466.8	0.209907
Finance	1119	2098	1,348.0	750.0	750.0	0.670279
LG & Rural Dev	1784	1757	2,149.0	-392.0	392.0	0.219744
Irrigation and Water Dev.	1132	1372	1,363.6	8.4	8.4	0.007405
Lands &Nat Resources	992	960	1,195.0	-235.0	235.0	0.236868
Economic Planning & Dev	236	212	283.9	-71.9	71.9	0.305031
Sum of the rest	**22604**	**24385**	27,229.6	-2,844.6	2,844.6	10.44668
allocated expenditure	146604	176600	176,600.0	0.0	41,070.0	
contingency	279	187				
total expenditure	146882.52	176787				
overall (PI-1) variance						20.4%
composition (PI-2) variance						23.3%
contingency share of budget						0.1%

Table 4

Data for year =	**2009/10**					
Administrative or functional head	**Budget**	**Actual**	Adjusted budget	Deviation	Absolute deviation	Per cent
Agriculture and Food Sec.	29,437	29464	29,940.4	-476.4	476.4	1.591064
Education	22,833	23113	23,223.1	-110.5	110.5	0.475844
Health	21,675	19838	22,045.7	-2,208.2	2,208.2	10.01647
Statutory Expenditure	17,336	19819	17,632.5	2,186.5	2,186.5	12.40034
Subventions	12,292	13961	12,502.3	1,458.7	1,458.7	11.6671
Malawi Defence Force	6,359	6429	6,467.8	-39.1	39.1	0.605161
Police	4,580	6286	4,658.5	1,627.5	1,627.5	34.93677
Lands & Nat Resources	4,378	4033	4,452.9	-419.4	419.4	9.419427
MRA	4,310	4260	4,383.7	-123.3	123.3	2.811682
Foreign Affairs	4,602	3344	4,680.9	-1,336.9	1,336.9	28.56144
Irrigation and Water Dev.	1,365	1151	1,388.3	-237.3	237.3	17.09399
National Assembly	2,391	2326	2,432.0	-106.0	106.0	4.356631
Transport, P Wks & Housing	1,693	1849	1,721.5	127.3	127.3	7.397348
LG & Rural Dev	2,099	2068	2,134.6	-66.6	66.6	3.120742
OOP & Cabinet	1,667	2025	1,695.8	329.2	329.2	19.40962
Judiciary	1,973	2008	2,006.6	1.4	1.4	0.070161
Electoral Commission	2,588	514	2,632.7	-2,118.7	2118.683	80.47619
Economic Planning & Dev	340	318	346.2	-27.9	27.88711	8.054184
National Statistical Office	327	293	333.1	-39.6	39.58811	11.8861
Sum of the rest	43,037	45,353	43,773.5	1,579.3	1,579.3	3.60793
allocated expenditure	185283.2	188452.214	188,452.2	0.0	14,619.8	0.078905
contingency	522	562				
total expenditure	185805.2	189014.214				
overall (PI-1) variance						1.7%
composition (PI-2) variance						7.8%
contingency share of budget						0.3%

Table 5 - Results Matrix

	for PI-1	for PI-2 (i)
year	total exp. deviation	composition variance
2007/08	6.6%	13.7%
2008/09	20.4%	23.3%
2009/10	1.7%	7.8%

Score for indicator PI-1:	
Score for indicator PI-2 (i)	
Score for indicator PI-2 (ii)	
Overall Score for indicator PI-2	**C+**

Annex 4 – Comments from the PEFA Secretariat

Republic of Malawi

Public Financial Management Assessment

(Final Report, March 2011)

Comments from the PEFA Secretariat

This note sets out the PEFA Secretariat's comments on the PEFA PFM Assessment 2011 of the Republic of Malawi as requested by Kelvin Banda of the European Union Delegation on September 28th, 2011. We are grateful for the opportunity to present our comments, which address the following questions:

1. Is the requisite background information for the assessment adequately included?
2. Have the standard indicators been used (with or without modification)?
3. Are the indicators correctly applied or interpreted?
4. Is sufficient evidence provided for all aspects of each indicator? If not, what is missing?
5. Is the information specific, presented clearly and used correctly?
6. Is the scoring methodology correctly chosen and applied?
7. Is the scoring correct, on the basis of the information provided?
8. Are there any specific features of the country's PFM system that result in a mismatch with the definition or calibration of the indicators (constitutional arrangements, system heritage)?
9. Have the indicator-related information and ratings as well as other relevant information been combined in an analysis that highlights the main strengths and weaknesses of the PFM system and indicates priorities for reform?

Our comments do not consider if the data/information presented in the report is likely to be correct and we can only judge the correctness of scoring on the basis of the evidence actually presented.

Overall impression

A good well structured and well written draft report, that shows a good understanding of the methodology. A comprehensive body of evidence is presented for the indicators, **although crucial evidence is not presented, and the narrative states that the Assessment Team was awaiting further information for some dimensions.** Useful information is provided on the background, previous assessment and the PFM reform program. However, **while changes since the 2008 assessment are tracked in the summary assessment, they would benefit from a tabular presentation dimension by dimension, as recommended in the Secretariat's *Guidance Note*.**

General observations

Sources of information are not specified, and while many references in appear in footnotes, documents are not listed. There is a list of stakeholders interviewed in Annex 2, which includes sources outside the government, always valuable for triangulation.

The fiscal year, current exchange rate and a comprehensive list of abbreviation are all included, as a **useful table with both 2008 and 2011 ratings, but not by dimension.**

Section 4 includes **several recommendations, as 'possible mitigating actions', although these are not a requirement in the ToR**.

Section 1 – Introduction

The purpose of the report is clearly stated: 'to provide a snapshot of current performance to assist in identification of priorities for reform and inform GOM/donor dialogue', as is the process followed, which was facilitated by a Government liaison officer. While no formal Steering Committee was established, there was consultation and various exchanges with other budget support donors (EU, AfDB, DFID, Germany, Norway, World Bank), including briefings on arrival and departure.

The scope of the assessment is stated as central government. However, **the status of the district councils is in doubt: in the absence of elections since 2000, they may in effect be deconcentrated units of central government, in which case PI-8 would not be relevant. The structure of the public sector is not elucidated, although it is important to have a clear picture of the importance of AGAs & PEs – at least the number of entities and their share of expenditure should be provided.**

Although quality assurance arrangements are described, this **report has been 'finalized' and agreed with the GoM before reaching EC Headquarters or the Secretariat for review**.

Section 2 – Background information

The country's economic context is described, and important data such as that concerning the inflation rate, % of population living below the poverty line and main challenges for development, is included. The overall government reform program and the rational for PFM reforms are described. Information on budgetary outcomes using the GFS format is provided for the government budget, using IMF and RBM data.

There is **no information about the structure of the public sector, and information on the links between the executive, judiciary and oversight institutions would be helpful. The legal and institutional arrangements for PFM are briefly described, although the division of responsibilities within the MoF is not.**

Section 3 – Assessment of PFM systems, processes and institutions

This section follows the structure of the Framework document closely. The methodology is well understood, and the standard 31 indicators for a national assessment have been applied. The table below contains specific observations where additional evidence or clarification to justify the scoring is required, or where there is a lack of correspondence between the evidence provided and the rating allocated.

Indicator/ dim	Comments on evidence and rating	Comparison with 2008 assessment
PI-1	Appears correctly rated as 'B' on the basis of adequate evidence.	Previously 'A': deterioration evidenced.
PI-2 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Previously D. Revised criteria show improvement.
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	New dim.

Overall	Appears correctly combined as 'C+'.	Not comparable.
PI-3	Appears correctly rated as 'D' on the basis of adequate evidence.	Rated 'A', but under new method would be 'B'. Deterioration evidenced.
PI-4 (i)	Appears correctly not rated in the absence of adequate evidence.	No comparison possible.
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Improvement in process but insufficient to raise the rating.
Overall	Appears correctly not rated.	No comparison possible.
PI-5	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.
PI-6	Appears correctly rated as 'A' on the basis of adequate evidence. *NB* ***If data on financial assets at 30 June 2010 are available to the Assembly at or before the budget proposal for 2011/12, 8 out of 9 items would be provided. No change to A rating.***	Improvement evidenced.
PI-7 (i)	**Rated 'B', but the only evidence is puzzling: 425 million kwacha unreported in 2010/11 is more than the entire annual budget per table 5.** Rating uncertain.	Not previously rated.
(ii)	Appears correctly not rated in the absence of adequate evidence.	No comparison possible.
Overall	Appears correctly not rated.	No comparison possible.
PI-8 (i)	Appears correctly rated 'A' on the basis of adequate evidence (even if the formula is out of date). **However, there have been no elections to district councils since 2000 (footnote on p.28) and DCs are treated as heads of expenditure like other MDAs, so it appears that the districts are deconcentrated units of central government rather than SNGs, in which case this indicator is not applicable (NA), except perhaps for urban authorities.**	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
(iii)	**Rated 'B', but evidence (and text in box) suggests that requirements for 'A' are met.** ***NB. Quality of accounts and timeliness of audit are not relevant for scoring this indicator.***	No change, but uncertain.
Overall	Correctly combined to 'B', but may be 'B+'	May be unchanged.
PI-9 (i)	**Rated 'B', but not clear if all major AGAs/PEs are covered**. Rating uncertain.	Rated 'C'. Improvement in performance not evidenced.
(ii)	**That statements that *"At the present time there is no comprehensive consolidated reporting on the debt stock......Fiscal risk associated with the accrual of expenditure arrears, remains an area of concern. The Local Authorities do not submit regular information on expenditure arrears to the Ministry of Finance"* mean that 'B' rating is uncertain.** Rating uncertain.	Rated A, but deterioration of performance not fully evidenced.
Overall	Rating uncertain.	Rating uncertain.

PI-10	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
PI-11 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Improvement evidenced.
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
Overall	Correctly combined as 'B'.	Improvement evidenced.
PI-12 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
(ii)	**Rated 'A', but it is not clear whether the MEFMI report (DSA) was accepted by GoM.**	Unchanged performance not evidenced.
(iii)	**Rated 'C', but it is not clear which sectors, amounting to at least 25% of total expenditure, have costed strategies.** Rating uncertain.	Unchanged performance not evidenced.
(iv)	Appears correctly rated as 'D' on the basis of adequate evidence.	Unchanged performance evidenced.
Overall	Correctly combined as 'C+', but now uncertain.	
PI-13 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Unchanged performance evidenced.
(iii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Unchanged performance evidenced.
Overall	Correctly combined as 'B'.	Unchanged performance evidenced.
PI-14 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	No change.
(ii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Correctly combined as 'D+'.	
PI-15 (i)	Appears correctly not rated in the absence of adequate evidence (should be NR).	No comparison possible.
(ii)	**It is stated that *"Banking of revenues in stations that do not yet have a bank as cashier* ....(stated to be 20%).... *is done within 3 days from the moment of taxpayer's payment in the local station"* – this does not meet the requirement for an 'A'.** Rating uncertain.	Unchanged performance not evidenced.
(iii)	**Appears correctly rated as 'C' on the basis of weak evidence, and assuming quarterly reconciliation is not completed within 6 weeks of the end of quarter.**	Improvement evidenced.
Overall	Appears correctly not rated.	Comparison not possible.
PI-16 (i)	Appears correctly rated as 'B' on the basis of adequate evidence.	Unchanged performance evidenced.

(ii)	**Rated 'B', but cash limits are given monthly, suggesting a C rating.** Rating uncertain.	Rating uncertain.
(iii)	**Rated 'B', but this applies only if adjustments take place only once or twice a year.** Rating uncertain.	Rating uncertain.
Overall	**Correctly combined to 'B', but now uncertain.**	Unchanged not evidenced.
PI-17 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	**May be correct, but as 'A' rating requires consolidation of balances on all accounts, please confirm how this happens when but not all entities are on IFMIS – are they all within STA?**	Unchanged performance evidenced
(iii)	**Rated 'B', but no limit on guarantees or evidence of magnitude of PE guarantees suggests 'C'.** **Rating uncertain.**	Unchanged performance not evidenced.
Overall	Correctly combined to 'A', but **now uncertain.**	Unchanged performance not evidenced.
PI-18 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Unchanged performance evidenced.
(iii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance evidenced.
(iv)	Appears correctly rated as 'B' on the basis of adequate evidence.	Improvement evidenced.
Overall	Correctly combined as 'B+'.	Improvement evidenced.
PI-19 (i)	**Appears to merit 'B', as 5 elements covered.**	Revised indicator – not comparable.
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	
(iv)	Appears correctly rated as 'B' on the basis of adequate evidence.	
Overall	**Rating uncertain.**	
PI-20 (i)	Appears correctly rated as 'B' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated 'B' on the basis of adequate evidence.	Improvement evidenced.
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
Overall	Correctly combined as 'C+'.	Unchanged performance evidenced.
PI-21 (i)	**Appears correctly rated 'C' on the basis of evidence given, assuming at least 20% of staff time is on systemic issues.**	Unchanged performance evidenced.
(ii)	**Rated 'C', but no information on distribution of reports.** **Rating uncertain.**	Deterioration in performance not evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate	Deterioration in

	evidence.	performance evidenced.
Overall	Correctly combined to 'D+', regardless of uncertainty above.	Deterioration in performance evidenced.
PI-22 (i)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced (new COA).
(ii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Correctly combined as 'D'.	
PI-23	Appears correctly rated as 'D' on the basis of adequate evidence.	Unchanged performance evidenced.
PI-24 (i)	**Rated 'C', but not clear if reports show commitment and payment data: if so, 'B' may be justified.** **Rating uncertain.**	Unchanged performance not evidenced.
(ii)	**May be correctly rated 'A', but there is no mention of the delay in producing reports after the end of each month as required.** **Rating uncertain.**	Rating uncertain.
(iii)	Appears correctly rated as 'B' on the basis of adequate evidence.	No change.
Overall	**Correctly combined to C+, but now uncertain.**	Rating uncertain.
PI-25 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'A' on the basis of adequate evidence.	Unchanged performance evidenced.
(iii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
Overall	Correctly combined as 'C+'.	
PI-26 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Improvement evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Correctly combined as 'D+'.	
PI-27 (i)	**Rated 'B', but no evidence of review of fiscal policies/aggregates. Rating uncertain.**	Unchanged performance not evidenced.
(ii)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.
(iv)	Appears correctly rated as 'C' on the basis of adequate evidence.	Deterioration evidenced.
Overall	Correctly combined to 'D+', regardless of uncertainty above.	Deterioration evidenced.
PI-28 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Improvement evidenced.
(ii)	Appears correctly rated as 'B' on the basis of adequate evidence.	Deterioration evidenced.
(iii)	Appears correctly rated as 'D' on the basis of adequate evidence.	Deterioration evidenced.

Overall	Correctly combined as 'D+'.	Unchanged performance not evidenced.
D-1 (i)	Appears correctly rated as 'A' on the basis of adequate evidence.	No comparison possible.
(ii)	**Not scored, but if budget support is received as estimated (100, 0, 0, 0), this qualifies for 'A'.** **Rating uncertain.**	No comparison possible.
Overall	**Correctly combined to NS, but now uncertain.**	
D-2 (i)	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.
(ii)	**Appears correctly rated C on the basis of evidence given, assuming donors report expenditure within 2 months of the end of month.**	Unchanged performance evidenced.
Overall	Correctly combined as 'C'.	
D-3	Appears correctly rated as 'C' on the basis of adequate evidence.	Unchanged performance evidenced.

Section 4 Government Reform Process

Section 4 provides a considerable degree of detail in reviewing the reforms underway and of the progress being made, and the Assessment Team has made a series of recommendations which support those made in November 2010 by the IMF. The institutional factors such as the lack of coordination and limited technical capacity to support reform planning and implementation are also mentioned.

Summary Assessment

Despite a well written Summary Assessment, **it is quite difficult to get the 'story line'**, **and there is no summary of performance changes since 2008**. The six 'critical dimensions' are used to state the main strengths/weaknesses, and the implications for the main budgetary outcomes are discussed, together with a brief comment on the reform prospects.

PEFA Secretariat

October 11, 2011