

PUBLIC FINANCE MANAGEMENT:

A REFLECTION OF THE MALAWI EXPERIENCE

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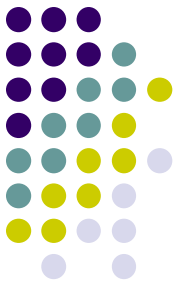
OUTLINE

- The National Budget
- The legal framework
- Policy linkages in the Budget process
- The Budget Process
- Execution of the budget
- Controls
- Accountability Process
- Achievements in Financial management
- Challenges
- Way forward

THE NATIONAL BUDGET

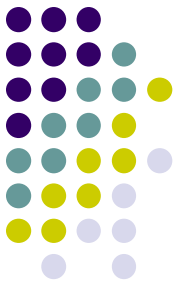
Managing finances is fundamental in the delivery of services to the public and the national budget is the single most important vehicle through which finances are managed. Competing policy objectives, programmes and activities are lined up in the budget and executed within a defined period of time normally 12 months.

DEFINING BUDGET AND BUDGETING



The Budget

- A budget can be defined as a financial plan that outlines how available resources are to be spent on prioritized needs over a period of time, normally twelve months.
- Thus, a national budget is a financial statement that shows revenues and planned expenditure and how these are organized in the interest of all the citizens.
- It is prepared by the Executive branch of Government and passed by Parliament.



Budgeting

- Budgeting is a process that involves making choices and deciding where to allocate resources. It involves allocating money to planned activities, which are aimed at achieving expected outputs.

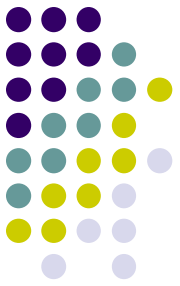


Functions of the Budget

- Administration of national finances in an orderly manner, matching revenue with spending.
- The budget provides a desirable way of presenting and discussing items of public revenue and expenditure.
- It is a legal instrument of control thus, it gives the Executive the authority to raise funds and incur expenditure.
- It is a means of implementing policies.
- It is a guide for financial management, and provides details for the disbursement and accounting for funds.

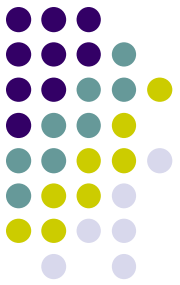
- The budget is a review of the past accomplishments as it contains revenue and spending figure for the preceding financial year. This retrospectively reveals what actually happened, as compared to what was budgeted.
- It informs the public whether resources have been spent in accordance with the law and stated policies.
- It is the National Budget which allows citizens to challenge the government over its stated policies and public pronouncements.

COMPONENTS OF THE BUDGET



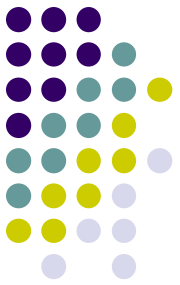
Revenues and Grants

- Revenues are financial resources which are locally raised by Government, they include: Income Tax, Customs Duty, Surtax /Value Added Tax, Fuel levy, Departmental Receipts, Dividends from Parastatals,
- Grants in form of Budget Support, Projects or Dedicated Grants are financial resources from donors or development partners.
- Collection of revenue in Malawi is the responsibility of the Malawi Revenue Authority



Expenditures

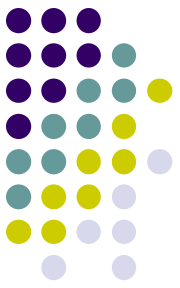
- Expenditure is divided into two broad categories namely, **Recurrent Expenditure** and **Development Expenditure**



Recurrent Expenditure

This is categorized into 2 types:

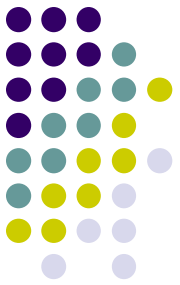
- **Personal Emoluments (PE)** which are payment of salaries, allowances and other benefits to government employees.
- **Other Recurrent Transactions (ORT)** which are expenses related to daily running of government business.



Development Expenditure

- It is expenditure related to capital investment. It is prepared based on the Public Sector Investment Programme
- The development budget is categorized along the source of financing as follows:
- **Part I** : financed from external aid (loans or grants).
- **Part II** : financed from domestic revenue

Budget Framework

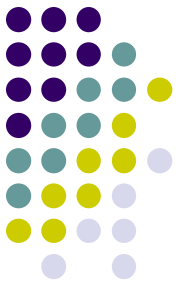


The framework is a snapshot of the budget that reflects in aggregate terms revenues and expenditures and financing arrangements in a given year. Below is a sample of the budget framework for the 2008-09 financial year

Sample of the budget framework for 2008/2009



	2006/07 Approved	2007-08 Approved	2007-08 Revised	2008-09 Estimate
Total Revenue and Grants	135,900	163,862	174,922	208,071
1. Domestic Revenue	78,451	98,207	103,093	118,166
1.1 Tax Revenue	69,248	88,620	92,953	107,300
1.2 Non Tax Revenue	9,203	12,007	10,140	10,866
2. Grants	57,449	65,655	71,829	89,905
2.1 Programme/Budget Support	9,542	11,120	14,527	19,440
2.2 Project	23,852	31,190	31,633	28,318
2.3 Dedicated Grants	15,292	23,345	25,669	39,147
2.6 Elections -				3,000
Total Expenditure and Net Lending	139,900	173,595	183,776	229,241
Total Expenditure	139,210	173,703	183,884	229,241
3. Total Recurrent Expenditure	91,396	110,434	115,289	172,121
3.1 Wages and Salaries	23,375	30,386	30,659	37,250
3.2 Interest Payment	15,645	12,684	11,597	16,169
3.3 Other Current Expenditures	52,376	67,364	73,032	118,702
3.3.1 Other Purchases of Goods & Services	29,511	40,170	40,254	76,608
3.3.2 Subsidies and Transfers	20,865	26,694	31,879	41,594
i. Transfers	1,721	2,150	2,850	6,232
ii. Other subsidies and transfers	19,144	24,544	29,029	35,362
4. Total Development Expenditure	47,813	63,269	68,595	57,120
4.1 Domestically Financed Projects (Part II)	7,130	10,389	14,609	13,037
4.2 Foreign Financed Projects (Part I)	40,684	52,880	53,986	44,083
Overall Balance including grants	-4,000	-9,733	-8,854	21,170
5. Financing (Net)	4,000	9,733	10,565	21,170
5.1 Foreign (Net)	5,738	11,278	10,565	22,863
5.1.1 Borrowing	11,828	12,847	12,000	20,358
5.1.2 Amortization	-6,090	-1,569	-1,435	
5.1.3 Other Financing				4,145
5.2 Domestic (Net)	-1,738	-1,545	-1,711	-1,693



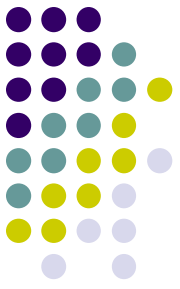
Allocative Function:

The Malawi Growth and Development Strategy (MGDS) is the policy instrument through which the government draws its priority areas to allocate resources with an aim of reducing poverty. Allocations are made to line ministries, departments, local authorities and statutory bodies by the Ministry of Finance.



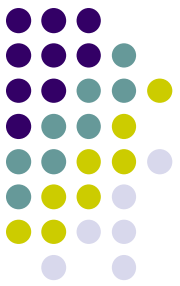
Distributive function:

The Treasury has a responsibility to ensure that goods and services are provided equitably to citizens. A budget then serves as a tool to reduce existing unequal income and wealth distribution by means of taxes and transfer of expenditures. For instance, subsidies on certain goods and services are provided to low income and vulnerable groups to improve their welfare.



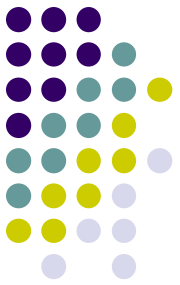
Ensuring fiscal transparency:

The budget is the public document that clearly informs the citizens about sources of revenue and expenditure categories. Information contained in the budget provides a more explicit reflection on expenditure priorities.



Challenges in the Malawi Budget Process

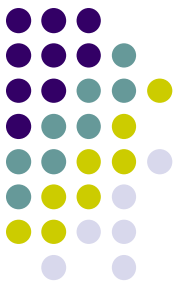
- Predictability of tax revenues due to lack of a simple but comprehensive revenue projection model
- Dependence on donor funds which are tied to conditions
- Interdependence between the State and Local Governments make the process comprehensive, yet cumbersome.
- Political issues can override the functionality of good policies.
- Lack of proper interface between the Executive and the Legislature in the budget goals.
- Costing aspects of the budget



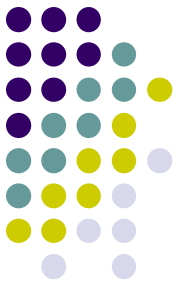
Cash Based Budgeting

The Government of Malawi is using The Cash Budget/ Accounting System which is based on the principle that no cash is released to line ministries unless sufficient funds are available in the Treasury's main bank accounts.

Advantages of Cash-Based Budgeting



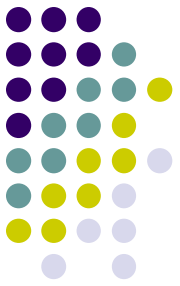
- Easy to compute and understand, based on actual flows
- Necessary for efficient cash and debt management
- Facilitates legislative (and political) control of the budget
- It discourages extra budgetary requests.
- It solves the twin problems of over-commitment of expenditure and the creation of payment arrears.
- There is an even stronger assumption that under the cash budget system no deficits can occur and that during any given month expenditures are lower or at most equal to revenues. Given the close link between monthly revenues and expenditures established by the cash budget system, one would expect fluctuations in expenditures to be caused largely by those in revenues.
- It is easy to monitor monthly expenditures against revenues



Disadvantages of Cash Budgeting

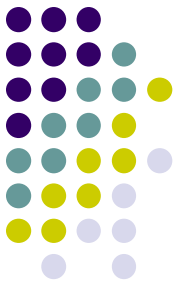
- Owing to limited cash resources, long-term development priorities are compromised
- Cash is used for lower-priority areas
- High-priority expenditures are financed through ad hoc special requests.
- Under Cash Budget System, budget priorities are not well observed and monitored.

THE LEGAL FRAMEWORK



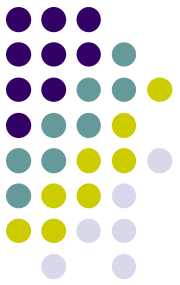
The Constitution

The government is under duty to raise levy or impose revenue by or for the purposes of the government or any local government authority. The revenues raised, levied and imposed are paid into and from the one fund known as The Consolidated Fund.



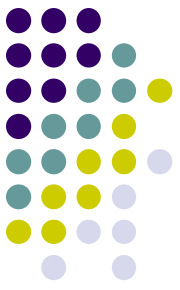
The Public Finance Management Act (2003)

- The main objective of PFM Act 2003 is to foster and enhance effective and responsible management of public resources;



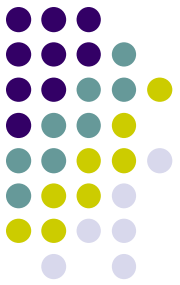
Treasury Instructions

- The Secretary to the Treasury issues Treasury Instructions from time to time advising ministries and spending agencies on how public moneys and public resources are to be managed.
- Instructions are issued under section 92 of the Act.



Public Procurement Act (2003)

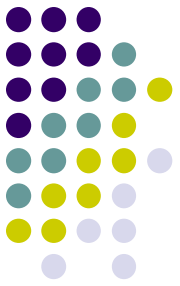
- An Act whose mandate is to regulate public procurement of goods, works and services. The **Directorate for Public Procurement** is the main authority responsible for the monitoring and oversight of public procurement activities, and for the development of the related regulatory and legal framework and professional capacity of public procurement .



POLICY LINKAGES IN THE BUDGET PROCESS

Budgets are not developed in a vacuum. Government policies guide formulation and implementation of the budget. Major Policies include:

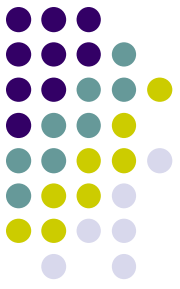
The Malawi Growth and Development Strategy (MGDS)



The Malawi Growth and Development Strategy (MGDS) is a five-year (2006/2007 to 2010/2011) growth policy framework which is currently guiding budget formulation and execution. The MGDS identifies six key priority areas namely

- ✦ Agriculture and food security
- ✦ Irrigation and water development
- ✦ Transport infrastructure development
- ✦ Energy generation and supply
- ✦ Integrated rural development
- ✦ Prevention and management of nutrition disorders and HIV and AIDS

Millennium Development Goals (MDGs)

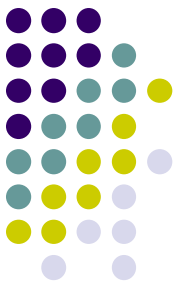


- Malawi as a nation remains committed to achieving the Millennium Development Goals (MDGs). The MGDS, being an over-arching strategic policy document was developed with strong linkages to the MDGs.

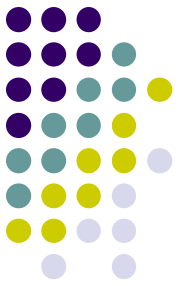
Medium Term Expenditure Framework (MTEF)



- Malawi government adopted a phased approach in implementing MTEF. First phase included five key Ministries of Agriculture, Education, Sports and Culture, Health and Population, Works and Supplies. In 1996/97 financial year the framework was rolled out to all ministries and departments.
- Despite some achievements of MTEF which were recorded in the allocation of resources to priority areas, the undertaking was not a success. Some of the factors that led to the failure are the following:



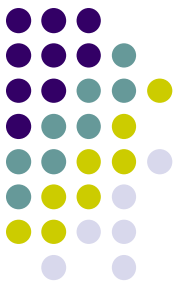
- Sector policies could not match the resource envelope leading to under provisions of some activities.
- MTEF was seen to have failed to achieve aggregate fiscal discipline by not directing resources to strategic priorities.
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- MTEF as an initiative did not receive the required support and lacked ownership at sector level. Furthermore the framework itself was seen to be too complex as a budget system.
- MTEF paid little attention to the need to secure political support consequently, it had little influence on resource allocation or subsequent spending and encountered political resistance.
- MTEF like other initiatives was donor driven and therefore lacked home grown champion to drive the programme.
- Donor inflows were unpredictable mainly due to conditionalities.



THE BUDGET PROCESS

Pre Budget Meetings/ Consultations

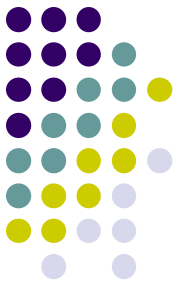
The Minister of Finance in conjunction with Ministry of Development Planning and Cooperation (MDPC) holds budget consultations with stakeholders, usually three months before budget presentation.



Budget Formulation

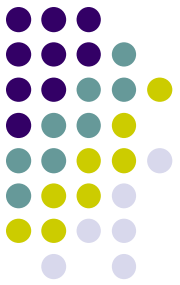
The budget formulation process involves the following dimensions:

- Setting up the fiscal target in terms of sources and application of funds based on intelligible economic assumptions
 - Formulating expenditure policies aimed at enhancing fiscal prudence, transparency and accountability within legal provisions.
 - Allocation of resources to competing needs within the legal provisions, policies, and fiscal targets



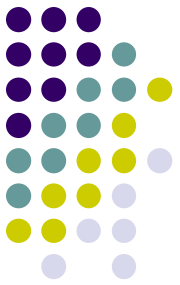
Resource Envelope

Resource envelope can be defined as the total monetary resources available to government for the implementation of its activities to achieve set goals and objectives.



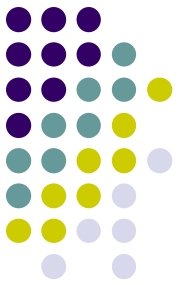
Determination of Ceilings

- Expenditure ceilings are the maximum amount of money that the government allocates in a given year to target sectors or expenditure categories.
- Expenditure ceilings are limited to the size of resource envelope which is not usually adequate to meet all the budgetary requests from spending agencies.
- The Ministry of Finance communicates the budget ceilings to spending agencies during the month of January.



Budget Circulars

- The budget circular sets out the budget preparation process. It is a routine event which provides deadlines for the submission of budget requests from ministries and other general recommendations. The budget circular states the fiscal targets and proposed policies in the year under deliberation.



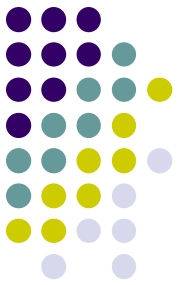
Budget Preparation

During budget preparation, trade-offs among on-going programs, appraisal of new programs, and prioritization of the same are made to ensure that the budget fits government policies and priorities.

Budget Discussion Meetings

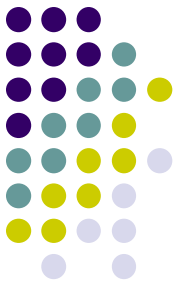


- The Ministry of Finance (MoF) invites ministries and departments to a round table to discuss the sector budgets.
- Discussions give both the MoF and the spending agencies an opportunity to scrutinize the budget in line with government policies.
- It also provides a forum for the spending agencies to inform MoF about likely pressure areas and the constraints the ceiling may impose on their activities.



Budget Consolidation

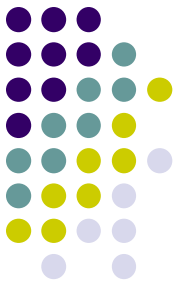
- Budget consolidation is the responsibility of the Budget Division in the Ministry of Finance.
- The consolidation process involves uploading of submissions into the budgeting system, verification for mathematical accuracy, and printing of estimates books.
- Two types of budgets are produced, the **Output Based Budget** and the **Detailed Budget** which supports execution of the budget.



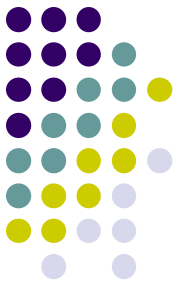
Budget Presentation

- In accordance with Section 175 (1) of the Constitution of the Republic, it is the responsibility of the Minister of Finance to present before the National Assembly a statement of the estimated receipts and the expenditure of the government in respect of each financial year.

Budget Speech

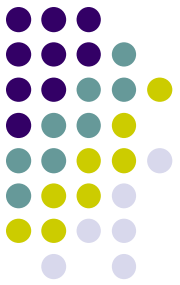


- The budget speech is read by the Minister of Finance to the Legislature before the beginning of a financial year. It provides the background to the deliberations in Parliament as it sets out the government development agenda..
- It is a summary document which emphasizes the broad policy objectives intended to be achieved in the coming fiscal year and the measures necessary to achieve them.



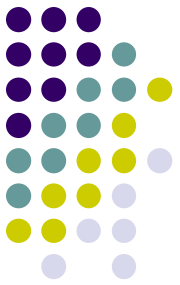
Budget Deliberations

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- During budget deliberations, the Legislature critically analyzes the provisions of expenditure by category and vote. It examines the budget in terms of content, quality, coverage, linkage to the Executive's agenda and potential deliverables both in the short and long term.
- The Constitution allows for 21 days of debate before voting commences.



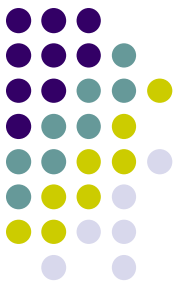
Budget Approval

- After exhaustive deliberations by Members of Parliament and conviction that the budget addresses the needs of the stakeholders, the Legislature votes to approve the Appropriation Bill. This approval grants power to the Minister of Finance to draw financial resources from the Consolidated Fund to finance the budget



The Appropriation Bill

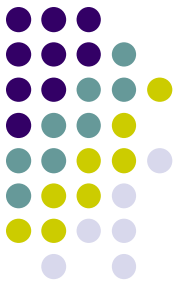
- An Appropriation Bill seeks to authorize the Minister of Finance to draw from the Consolidated Fund sums necessary to meet approved expenditures,
- There are some mandatory expenditures that are not voted in the National Assembly. Such expenditures include: The Presidency; Compensation, Refunds and Investments; Pensions and Gratuities and Public Debt Charges.



General Warrant, Provisional Warrant and Special Warrant

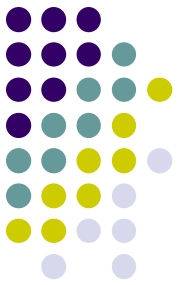
- Once parliamentary authority is obtained, the Minister of Finance authorizes the withdrawal from the Consolidated Fund through a general warrant. On the other hand a provisional warrant is issued by the Minister of Finance to cater for the period the Appropriation bill is passed and is in force. Usually, this is at the beginning of a financial year where no funds have been appropriated.
- Special warrant is issued in unforeseen circumstances such as natural disasters, war and epidemics. The special warrant is issued authorizing expenditures to specific responsible votes

EXECUTION OF THE BUDGET



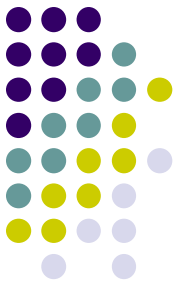
Cash Flows

- All line ministries are required to submit a cash flow to Ministry of Finance that reflects the level of activity implementation as an input into the master cash flow. The cash flows assist MoF to plan for funding and form the basis for performance evaluation.



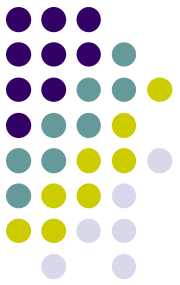
Funding

- Based on the cash flow, the Ministry of Finance releases monthly funding to spending agencies to undertake planned activities. Cash flows from spending agencies must be in line with available funds in that month



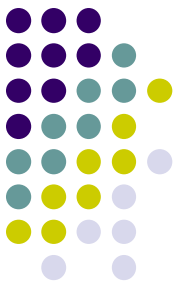
Commitment Planning and Control

- Ministries and spending agencies are not allowed to obtain goods or services on credit in order to avoid built up of arrears. Services are rendered or goods are delivered to ministries and departments upon full payment of the obligation. All planned expenditure must be committed.



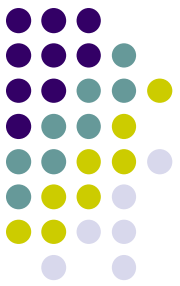
Expenditure Monitoring and Reporting

- Public expenditure monitoring and reporting is vital in overseeing the implementation of the budget and ensuring greater efficiency and effectiveness of Government financial resource utilization.
- Budget monitoring also requires line ministries and departments to report on the progress of budget implementation on both a monthly and quarterly basis.



Central Payment System (2005 to Date)

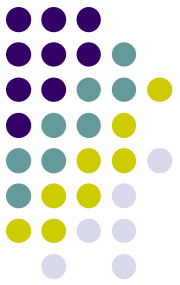
- Following the introduction of an **Integrated Financial Information System (IFMIS)** in November, 2005 all bank accounts in the commercial banks were closed and about 8 bank accounts were opened at the Reserve Bank of Malawi. Cheques were produced and continue to be produced centrally by the Accountant General's Department.



Accounting and Reporting (Cash Accounting) : Integrated Financial Management Information System (IFMIS)

- In May 2005, the Government decided to adopt and implement an EPICOR based IFMIS
- Live operations commenced on 1st November 2005 with five sites being online namely, Education, Agriculture, Health, Treasury and the Accountant General's Department. During the month of December 2005, one ministry was also connected to the central server in the Accountant General's Department. IFMIS has now been rolled out to all ministries and Departments except Region Offices and donor funded projects which are yet to be on line. IFMIS has enhance expenditure control as expenditure cannot be made outside the budget. In 2009, IFMIS was rolled out to District Councils

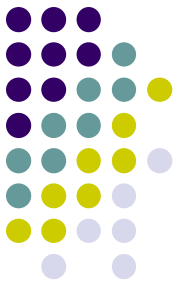
CONTROLS



Budgetary controls may be exercised at four levels;

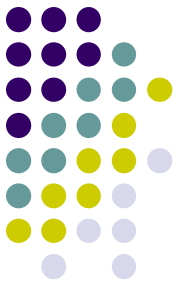
- The Presidential controls mainly by the Office of the President and Cabinet through policy direction
- Executive (Governmental) controls mainly by the Treasury (Ministry of Finance), the Auditor General.
- Parliamentary controls through various committees such as the Public Accounts Committee, and Committee on Finance and Budget.
- Citizen controls through civic lobbies, advocacy and whistle blowing by the Civil Society in the event of financial mismanagement by Government Offices.

THE ACCOUNTABILITY PROCESS



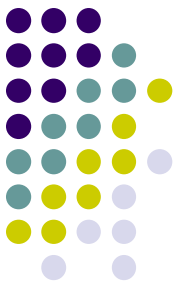
Before the Financial Year

- The accountability process begins before each financial year. The Government is required under the Constitution of the Republic of Malawi to present to Parliament its Draft Budget. This gives Members of Parliament the opportunity to raise questions and give comments on Government policies and programmes.



During the Financial Year

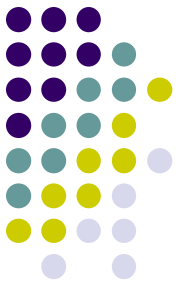
- In the course of the financial year, if the Government needs more funds, it has to go back to Parliament again, to seek its approval to increase the Budget or to levy new or higher taxes.



After the end of the financial year

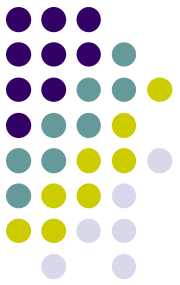
Auditing

Auditing refers to the independent examination and evaluation of financial and other records by an appointed auditor in pursuance of his or her appointment. The exercise enables the auditor to draw audit conclusions, and where appropriate express an opinion on the financial statements. The auditor's opinion enhances the credibility of the financial statements, although it does not guarantee future viability of an entity.



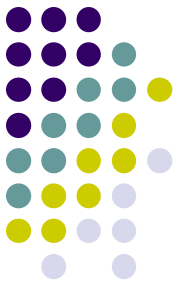
The National Audit Office

- The National Audit Office (NAO) is the Supreme Audit Institution in Malawi which is charged with the responsibility to audit and report on the public accounts of the Government of Malawi and the accounts of public authorities and bodies as may be prescribed by an Act of Parliament. Section 184 of the Constitution and the Public Audit Act constitute the legal framework upon which audit operations are undertaken by NAO.



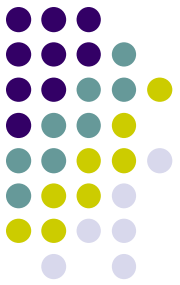
Types Of Audits

- The most common audits are **regularity** or **financial audits** and **performance audit**.



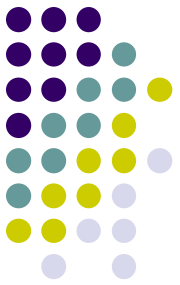
The Public Audit Act (2003)

- The purpose of the ACT is to promote accountability of the Government to the public through the National Assembly by making available such information as will enable the National Assembly to be informed of the scrutiny of public expenditure, revenues, assets, liabilities and the management of public money (Clause 3)



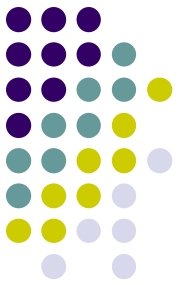
. The Auditor General

- **Appointment:** Clause 5 of the Act, consistent with Section 184 of the Constitution provides for the appointment of the Auditor General, and qualifications which the AG must have before being appointed to the office



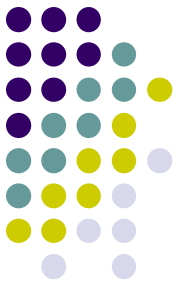
Tenure of Office

- The term of office is five years and that no appointment or reappointment can be made if the candidate is over the age of 65 years.



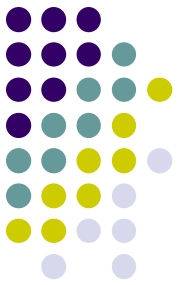
Removal

- A person holding the office of Auditor General shall be subject to removal by the President only by reason of that person being;
- Incompetent in the exercise of his/her duties
- Compromised in the exercise of his/her duties to the extent that his/ her financial probity is serious question
- Otherwise incapacitated
- Or over the retirement age



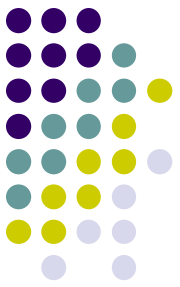
Auditor General's Report

- Once a year and every December, that is, 6 months after the end of the financial year (June 30th), the Auditor General submits his report to Parliament through the Minister of Finance. This is an anomaly which is being addressed. The Auditor General will in future submit the report direct to Parliament. The Auditor General is current with his reports and presently the report for the financial year 2010/11 is being compiled.

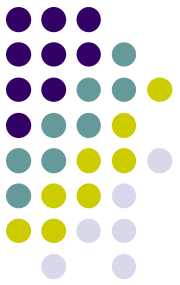


Public Accounts Committee

Public Accounts Committee is a Committee of Parliament. The main function of the Committee is to examine the accounting and financial matters raised in the Auditor General Reports. The Committee derives its mandate from Sections 18, 19 and 20 of the Public Audit Act and Standing Order 163. Specific functions include:



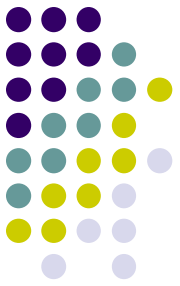
- Making available such information as will enable the National
- Assembly to be informed of the management of public expenditure, public money and public resources;
- Promoting the accountability of Ministers and Members of the National Assembly, where public expenditure, public money and public resources are concerned;
- Holding accountable ministries, agencies and other entities controlled by Government for the economy, efficiency and effectiveness in the use of public money and public resources;
- Promoting the accountability of statutory bodies and those other persons charged with the management of public money and public resources;



Powers of the Committee

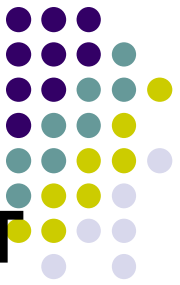
- In discharging its functions, the Committee has to satisfy itself that:
- the expenditure was confined to authority as provided for in the budget:
- the moneys shown in the accounts as having been disbursed were legally available for and applicable to the services or purposes to which they have been applied or charged.
- To call for documentary evidence and also to summon witnesses to appear before it.
- No member of the Committee shall have any civil liability for the act or omission done in good faith under the Act.

Reports of the Public Accounts Committee

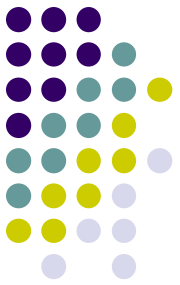


- Reports of the Public Accounts Committee are submitted and considered by the whole house. After they are adopted, the report is forwarded to the Chief Secretary to the Government for action. Issues that have not been resolved by the Public Accounts Committee and require further report are forwarded to the Secretary to the Treasury which are in turn referred to the Controlling Officer or the Principal Secretary for solutions or necessary action.

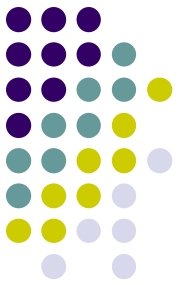
ACHIEVEMENTS IN FINANCIAL MANAGEMENT



- The Government of Malawi has been going through several structural adjustments and reforms. Through these initiatives some achievements have been registered in Financial Management which include:

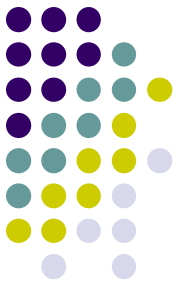


- IFMIS has been implemented and rolled out to Local Councils
- The Budget Module has been reactivated and integrated with the accounting system
- Virement is being respected since the IFMIS cannot process expenditure on any budget line if funds are exhausted.
- The Functional Review Report whose implementation will enable National Audit Office become independent hence enhancing governance and accountability was approved in January 2011.
- All payments are being executed through banks using the electronic media.
- Public Accounts Committee is considering current issues since the Auditor General is up to date with reports.
- Arrears have been reduced, and in some ministries they have been completely eliminated
- The Government has created a Directorate of Government Assets in the Ministry of Finance whose main mandate is to ensure that Assets are being properly recorded and managed
- From 2012/2013 Ministries and Departments will produce their financial statements. Currently, financials are being consolidated by the Accountant General



CHALLENGES

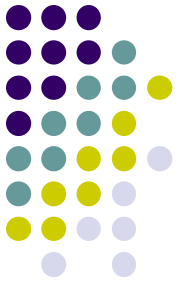
- IFMIS is not fully rolled out in some Departments and other Government Agencies due to connectivity challenges .
- The HRMS has not been fully interfaced with the IFMIS
- Implementation of the Functional Review Report in the National Audit Office will require massive injection of financial resources .
- Auditing tools have not yet been acquired by NAO hence IT systems are not being audited. Accountability and transparency are being compromised
- Determination of Budget Ceilings continue to be a concern for ministries, Departments, and Agencies
- Detailed budget documents not properly understood by most stakeholders
- Budgeting and Accounting Systems are on Cash Basis and there is need to adopt a Modified Cash System where some expenses shall be accrued, and assets recognized as a memorandum in the Government Balance Sheet. Adoption of the Accrual Accounting would be quite difficult at this stage



WAY FORWARD

- Government to continue with reforms so that IFMIS is fully implemented and rolled out, HRMS to interface with other systems including IFMIS.
- Adoption of International Public Sector Accounting Standards (IPSAS)
- National Audit Office to become independent
- Procurement of Auditing Tools and computerization of the National Audit Office imminent
- The Payment System to be strengthened.
- Capacity building which includes manpower development should be ongoing.

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THANK YOU